SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K 405

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
For the fiscal year ended December 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from ________ to ________

Commission File Number 0-20195

THE HOLSON BURNES GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

05-045-1969
(I.R.S. Employer Identification No.)

582 Great Road, North Smithfield, Rhode Island
(Address of principal executive offices)

02895
(Zip Code)

(401) 769-8000
(Registrant's telephone number, including area code)

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

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

Common Stock, par value $0.01 per share
Title of class

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

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

The aggregate market value of voting stock held by non-affiliates of the Registrant as of March 5, 1993 was $15,185,214.

On March 5, 1993, there were 6,001,835 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed on or before March 26, 1993 for the annual meeting to be held on April 29, 1993 are incorporated by reference in Part III and the Annual Report to Stockholders for the year ending December 31, 1992 are incorporated by reference in Part II.

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Exhibit Index on pages 13-14.

THE HOLSON BURNES GROUP, INC.

1992 FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

General

The Holson Burnes Group, Inc. (the "Company") is the largest designer, manufacturer and distributor of photo albums in the United States and the second largest designer and distributor of photo frames. The Company is the only supplier in the United States with a substantial market presence in both albums and frames and which serves all major retail distribution channels. The Company is a Delaware corporation and was organized in 1989 for the purpose of acquiring all of the outstanding shares of stock of The Holson Company and Charles D. Burnes Co., Inc. See Note 1 in the Consolidated Financial Statements for further discussion of the formation of the organization. Holson Burnes products are sold to mass merchants (such as Wal-Mart, Kmart, Costco, Target, Eckerd, Staples and Walgreen), department stores (including J. C. Penney, Federated Department Stores, May Department Stores, Dayton Hudson and Dillard's) and specialty stores (such as Michael's Stores, Moto Foto and Bed, Bath, and Beyond). Holson Burnes offers the broadest line of frames and albums in the industry. Each of the Company's well-established brands has its strength in a particular retail channel and is supported by the Company's large, experienced sales force and its reputation as a leader in design and innovation.

The Company has acquired and integrated three leading participants in the photo-storage and display business:

- Holson was founded in 1942 by Abraham Holson, an immigrant bookbinder who was an originator of the modern photo album. Holson is regarded as a product innovator, having introduced the magnetic page and pocket page to the photo album market.

- Burnes was founded in 1917 by Charles D. Burnes. Burnes' achievements have included the introduction of the clear acrylic photo cube and the collage frame (displaying several photographs in one frame with a multiple cut-out matte).

- Terragrafics is a design-driven supplier of fashion-oriented frames to specialty and department stores.

Holson Burnes consolidated the acquired businesses, eliminated redundant operations, improved efficiencies and built on the competitive strengths of each business. The consolidation has allowed the Company to pursue new marketing opportunities which the acquired businesses individually could not have capitalized on as effectively because of their smaller size, differing products and distribution channels. The Company has introduced new products, such as the Showbox photo viewer, a new product for which the Company has the exclusive United States and Canadian distribution rights and introduced Burnes albums to department and specialty stores in 1989 and Holson frames to mass merchants in late 1990 and 1991.

The table below illustrates the retail channels in which each of the Company's brand names is primarily marketed.

Channel	Frames	Albums	Showbox
Mass Merchants	Holson	Holson	-
Department Stores	Burnes/Terragrafics	Burnes	Burnes
Specialty Stores	Terragrafics/Burnes	Burnes	Burnes

Products

Holson Burnes offers the broadest line of frames and albums in the industry. The Company's frames and albums sell at retail prices between $.99 and $49.99 per unit, with a concentration of products in the $4.99 to $19.99 retail price range. The Company introduced a new product line, the Showbox photo viewer, in the Fall of 1992 which retails in the $14.99 to $19.99 price range.

Photo Frames

The Company designs and sells a broad line of photo frames under its Burnes, Terragrafics and Holson brands, and under private label. The Burnes and Holson brands are comprised of basic, fashion and promotional products and the Terragrafics brand frames are principally fashion products. Basic lines consist of photo frames which appeal to broad markets, have few design changes in each year, have predictable retail sales and have a relatively long product life. The Company's fashion frames change designs more frequently in line with current fashion trends and, as a result, have a shorter product life (one to three years) and sell at higher prices. These frames are often designed to coordinate with current home furnishing designs and consumer trends, such as Baby, Victorian, and America at Home. Burnes and Holson also sell promotional photo frames, which are those with the broadest market appeal sold at discounts or through other promotions.

The Burnes brand product line generally sells at retail prices between $2.00 and $40.00 per unit. Burnes frames are made of metal (brass or silverplate), wood, ceramic, polyresin or acrylic.

The Terragrafics brand product line generally sells at retail prices ranging from $9.99 to $49.99 per unit. The Terragrafics brand products are principally fashion frames which are sold into the department and specialty store channels. Terragrafics photo frames are made of wood, ceramic, acrylic, metal or polyresin.

The Holson brand product line, which was introduced in late 1990 and 1991, generally sells at retail prices between $.99 and $29.99 per unit. Photo frames previously sold under the Burnes and Terragrafics brands are sold under the Holson brand name to mass merchants with different packaging combined with minor design and material modifications which reduce costs.

The Company also designs and sells frames under private label that generally sell at retail prices between $4.00 and $25.00 per unit.

Photo Albums

The Company's photo album product line is comprised of both basic and fashion items and is sold under the Holson and Burnes brands and private label. Basic albums have traditional styles, colors and page types and, as a result, undergo few product changes each year. Basic albums also have a highly predictable level of demand and broad market appeal. Fashion photo albums are constructed with essentially the same materials used for basic products. The covers, however, are designed with current fashion looks. The Company has license agreements for many of these cover designs, including Walt Disney, various designers of wallpaper and fabrics, such as Schumacher and Sanderson, and others. Fashion photo albums have higher retail prices and a generally shorter product life (one to two years) than basic albums.

Holson has sold albums since 1942 and currently offers products that generally sell at retail prices between $1.49 and $19.99 per unit. Introduced in 1989, the Burnes photo album product line generally sells at retail prices between $4.99 and $19.99 per unit. Burnes' basic and fashion albums are typically considered more fashionable than are the Holson albums.

The Company also designs and sells albums under private label that generally sell at retail prices between $2.99 and $12.99 per unit.

Showbox Photo Viewer

The Company has contracted for the exclusive distribution rights from Showbox System AG, a Swiss company, to sell the Showbox photo viewer in the United States and Canada. Prior to the Company's introduction of the product in the United States, this product was only sold in Switzerland where it was introduced in 1987. The Company introduced the Showbox photo viewer at trade shows in 1991 and completed a national product launch in September 1992. The Showbox photo viewer is a highly engineered, sophisticated new system for photo storage and display. Each Showbox photo viewer displays a photo in a framed window, and stores up to 40 photo prints in a small drawer behind the window. The product's unique feature is its ability to cycle the photos displayed in the window automatically with the in-and-out movement of the drawer. In the United States and Canada, various aspects of the Showbox photo viewer are protected by patents.

Discontinued Operations

In addition to its primary industry segment of photo albums and photo frames, the Company has operated in two other separate lines of business: the marketing and distribution of clocks and gift items and the manufacturing, marketing and distribution of wedding albums for professional photographers. The Company had determined that these lines of business did not fit within its strategic plan and divested of these operations in 1992. No additional losses were incurred in excess of provisions made in the December 31, 1991 financial statements. See Note 3 to the Consolidated Financial Statements.

Sales and Marketing

The Company's sales and marketing efforts are organized to focus on each of its separate channels of distribution: mass merchants, department stores and specialty stores. Mass merchants order in large quantities and require less service and sales support due to their centralized purchasing and distribution. Department and specialty stores are typically sold and serviced by the Burnes sales representatives because of these retailers' similar needs: smaller orders, greater customer service and greater marketing support. In 1992, the Company's top ten customers accounted for less than 43% of gross revenues.

Mass Merchants

The Company employs a full-time sales staff which service and sell Holson albums and frames to approximately 150 mass merchants. The sales people are assigned to certain national accounts and are paid a salary and a bonus based on performance. The Company believes its innovative use of packaging, product design and promotional programs have contributed to its success with mass merchants. For example, the Company was the first supplier to introduce bulk packaging for albums, and as a result the Company believes, based upon discussions with its customers and other industry participants, that Holson is the leading supplier of these products to warehouse clubs.

Department and Specialty Stores

The Company sells its Burnes frames and albums and Terragrafics frames to department and specialty stores. The Company employs a full-time sales staff which are paid a salary and a bonus based on performance, as well as outside representatives who are compensated on an incentive basis. The Company's representatives track store inventories, check displays, take orders and work with the stores in setting up merchandising and marketing programs.

Showbox Photo Viewer

The Company introduced the Showbox photo viewer to department and specialty stores in the second half of 1992. The Company plans to modify the Showbox photo viewer's design, packaging and marketing support systems when it is introduced in the future to mass merchants through the Holson sales force.

Manufacturing and Sourcing

Photo Frames

The Company outsources approximately 75% of its photo frames and fabricates and assembles the balance in its Rhode Island facility. The Company maintains foreign production arrangements with over 35 suppliers located in Far Eastern countries including China, Taiwan, Thailand, Indonesia and Malaysia. The Company has significantly strengthened its relationships with these sources in recent years by establishing sourcing offices in both Taiwan and Hong Kong. These offices are staffed by full-time experienced expatriates and nationals who monitor production and quality and develop next-generation sources.

Photo Albums

The Company believes that it is one of the largest producers of photo albums in the world. Approximately 75% of the Company's photo albums are manufactured at its Claremont, New Hampshire manufacturing facility. The Company purchases the raw materials needed to produce the photo albums from a few selected suppliers in order to obtain better quality, pricing and delivery. The principal materials purchased are paper, film (polypropylene), glue, metal rings, printed papers, leather and vinyl. The Company is not dependent upon any one supplier or group of suppliers for its raw materials. In addition, as the largest United States manufacturer of photo albums, the Company believes that it is able to negotiate favorable terms for the purchase of raw materials.

Showbox Photo Viewer

The manufacturer of the Showbox photo viewer has constructed an automated production facility in Switzerland to supply the Company. Current capacity is approximately 4 million units per year. At December 31, 1992, the Company had committed to purchase $11.7 million (17,200,000 Swiss Francs converted at the foreign currency exchange rate at December 31, 1992) of Showbox product prior to December 31, 1994, subject to certain maximum monthly orders. Thereafter, the Company is not committed to purchase any Showbox photo viewers, but it must meet minimum purchase and resale requirements in the United States and Canada in order to maintain its exclusive distribution rights in each country. The minimum annual purchase and resale requirements to maintain its exclusive distribution rights in the United States increase from 4.2 million units in the year ending December 31, 1995 to 15 million units in the year ending December 31, 2000 and each year thereafter. The minimum purchase and resale requirements to maintain its exclusive distribution rights in Canada increase from 500,000 units in the year 1993 to 1.2 million units in the year 2000 and thereafter.

Competition

The photo display industry is fragmented with numerous competitors, including domestic and foreign frame and album manufacturers, importers and distributors. Although most of the Company's competitors are smaller, some have greater assets and resources. Design, price, quality of product, service and breadth of product line are the principal competitive factors in the industry.

Frames

The Company's Burnes brand frames compete primarily in the department store markets, where they have the largest market share, and the specialty store segment. Principal competitors in these markets are Fetco, MTB Enterprises Inc. (Loui Michel), M.W. Carr and Malden International Designs. Terragrafics frames compete primarily in specialty stores against many of the same competitors faced by Burnes. Competitive factors in the department and specialty store markets include design, service and breadth of product line. Holson frames compete primarily in the mass merchant market, in which it began selling frames in 1990. Its primary competitors are Intercraft, Acme, Condecor (Decorel) and Magee Company. Competitive factors in the mass merchant market include price, service, design and breadth of line.

Albums

The Company's Holson albums compete primarily in the mass merchant market, where they enjoy the largest market share. Their principal competition in this market comes from Climax, Kleer-Vu, MBI, and Pioneer Photo Services. The Company's Burnes albums have the largest market share in department stores, where their main competitors are C. R. Gibson, Lavie International, and MBI. Design, quality, price, service and product line range are the principal competitive factors in these markets. Price is important in the mass merchant market, but design, service and product line range have increased in importance as these retailers have attempted to differentiate from one another.

Proprietary Rights

The Company's BURNES OF BOSTON®, HOLSON® and TERRAGRAFICS® trademarks and a number of its other significant trademarks are protected by federal registration. Certain of the Company's products are protected by copyright but others may not be protected either by patent law or copyright registrations. However, the Company does intend to apply for proprietary rights protection on any significant new patentable products expected to have a long product life. The Company has been provided with the exclusive rights to distribute the Showbox photo viewer, a patented photo display product, in the United States and Canada. The Company believes that the Showbox photo viewer distribution rights are of value, as are the Company's trademarks. The Company also licenses certain characters from Walt Disney for use on its products. In addition, the Company has licenses with various fabric and wallpaper suppliers to use certain designs for the Company's album covers. In the past, sales of these licensed products have not represented a significant portion of the Company's sales.

Research and Development

For the years ended December 31, 1992, 1991 and 1990, the Company spent approximately $1.2 million, $0.7 million and $0.7 million, respectively, on product development activities related primarily to the improvement of existing products and manufacturing processes. All of these product development activities were sponsored by the Company.

Employees

As of December 31, 1992, the Company had 588 employees, 131 salaried and 457 hourly. None of the Company's employees are represented by a labor union. The Company has not experienced any work stoppages and considers its relations with its employees to be good.

Executive Officers

The following table sets forth certain information concerning each of the Company's executive officers:

Name	Age	Position
Charles Gordon	51	Chairman, Chief Executive Officer and Director
Joshua Bekenstein	34	President, Director
Steven W. Barnes	32	Executive Vice President, Chief Financial Officer and Secretary
Robert Sangster	55	Senior Vice President - Operations
Deborah Carreau	35	Vice President/Controller
Ronald L. Cipolla	48	Vice President - Management Information Systems

Charles Gordon has served as Chairman and Chief Executive Officer of the Company since 1991 and a director since March 1992. From 1967 to 1991, Mr. Gordon served as President of Charles D. Burnes Co. and since 1991 he has been Chairman and Chief Executive Officer of the Company's principal operating subsidiary.

Joshua Bekenstein has served as a director of the Company since 1989 and of the Company's principal operating subsidiary since 1986. Since January 1993, he has been President of the Company. Mr. Bekenstein also serves on the Board of Directors of Specialty Retailers, Inc. He has been a partner of Bain Capital since August 1986.

Steven W. Barnes has served in his present capacities since January 1991. From August 1989 to January 1991, he was the Vice President-Finance and Chief Financial Officer of the Company. Mr. Barnes joined The Holson Company in August 1988 and served as its Vice President-Finance and Chief Financial Officer until 1991. Mr. Barnes held various positions with Price Waterhouse from 1982 to 1988.

Robert Sangster has served in his present capacity since January 1993. During 1992, Mr. Sangster served as Executive Vice President - Sales and Marketing. Prior to joining the Company in January 1992, he was the Chief Operating Officer of Kilmartin Industries, a maker of coins, tokens, medallions and other products, from 1990 until 1992 and of Tanury Industries, Inc., a gold electroplater, from 1987 to 1990. From 1959 to 1987, Mr. Sangster held various positions with Hallmark and Trifari, Krussman and Fishel, Inc., a subsidiary of Hallmark responsible for Hallmark's jewelry line.

Deborah Carreau has been with the Company since 1988 and has been its Vice President/Controller since 1991. She also served as the Company's Vice President-Finance and Management Information Systems until March 1992. From 1986 to 1988, Ms. Carreau was a manager at Price Waterhouse.

Ronald L. Cipolla became Vice President-Management Information Systems in March 1992. From 1991 through February 1992, he was the National Director, Channel Marketing for Imrex Computer Systems, a software supplier. He was the President of Ken Tech Systems, Inc., a technical consulting firm, from September 1989 to December 1990. Previously, he held various positions with Kendall, Inc., a manufacturer and distributor of health care products.

Environmental

The Company believes that its operations currently comply in all material respects with applicable Federal, state and local environmental laws and regulations. The Company does not anticipate any significant expenditures in order to continue to comply with such laws and regulations.

Item 2. Properties

Facilities

The following table provides certain information regarding the Company's principal facilities:

Location	Approximate Square Footage	Type of Interest	Description of Use
Claremont, New Hampshire	160,000	Owned	Manufacturing, Warehousing and Distribution
Claremont, New Hampshire	30,000	Owned	Warehousing and Distribution
Claremont, New Hampshire (1)	99,000	Leased	Warehousing and Distribution
North Smithfield, Rhode Island (2)	425,000	Leased	Corporate Headquarters, Warehousing, Distribution and Assembly
Cerritos, California (3)	30,000	Leased	Warehousing and Distribution

(1) Lease expires October 31, 1997
(2) Lease expires May 31, 2005
(3) Lease expires October 31, 1994

The Company believes that it has sufficient capacity to meet its current and projected manufacturing and distribution needs. All of the Company's interests in its owned properties, as well as the Company's leasehold interest in its North Smithfield, Rhode Island facility, are pledged as collateral pursuant to the Company's existing financing agreements.

Item 3. Legal Proceedings

The Company is currently a defendant in a purported class-action suit filed in the United States District Court for Rhode Island on November 17, 1992. The lawsuit's claim centers on alleged representations and omissions concerning the Showbox product in the Registration Statement for the Company's May 20, 1992 initial public offering. The plaintiffs seek monetary damages. The Company intends to vigorously defend the lawsuit, and the Company believes, after consulting with its counsel, that the lawsuit is substantially without merit.

There are various other legal proceedings and claims against the Company. While it is not possible to determine the ultimate outcome of these matters, it is the opinion of management, based on advice from counsel, that they will not have an aggregate material adverse effect on the Company's consolidated financial position.

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

There were no matters submitted during the fourth quarter of the year ended December 31, 1992.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The section entitled "Market for the Registrant's Common Equity and Related Stockholder Matters" appearing on the inside back cover of the Company's Annual Report to Stockholders for the year ended December 31, 1992 ("Annual Report") is incorporated herein by reference in response to the information required by Item 5.

Item 6. Selected Financial Data

The section entitled "Selected Financial Data" appearing on page 9 of the Company's Annual Report is incorporated herein by reference in response to the information required by Item 6.

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

The section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing on pages 10-12 of the Company's Annual Report is incorporated herein by reference in response to the information required by Item 7.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, together with the report thereon of Price Waterhouse dated March 8, 1993, appearing on pages 13-24 of the Company's Annual Report are incorporated herein by reference in response to the information required by Item 8.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The section entitled "Election of Directors" appearing on pages 2-4, inclusive, of the Company's proxy statement for the April 29, 1993 annual meeting of stockholders ("Proxy Statement") is herein incorporated by reference in response to information concerning directors required by Item 10.

The information concerning executive officers required by Item 10 is set forth in Part I, Item 1, of this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The section entitled "Security Ownership of Directors and Officers" appearing on page 10 of the Proxy Statement is herein incorporated by reference in response to information required by Item 12.

Item 13. Certain Relationships and Related Transactions

The section entitled "Certain Relationships" appearing on pages 15 and 16 of the Proxy Statement is herein incorporated by reference in response to information required by Item 13.

PART IV

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

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*Incorporated by reference from the indicated pages of the Company's Annual Report.

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Individual financial statements of the Registrant have been omitted because consolidated financial statements of the Registrant and all of its subsidiaries are furnished.

(a) 3. Exhibits

*3.1	Certificate of Incorporation of the Company
*3.2	By-laws of the Company
*4.1	Form of certificate representing share of Common Stock of the Company
*10.1	Amended and Restated 1990 Key Employees Stock Option Plan
*10.2	Stock Option Agreement dated as of December 31, 1990, as amended, between the Company and Steven W. Barnes
*10.3	Stock Option Agreement dated as of December 31, 1990, as amended, between the Company and Steven W. Barnes
*10.4	Stock Option Agreement dated as of December 31, 1990, as amended, between the Company and Deborah Carreau
*10.5	Stock Option Agreement dated as of December 31, 1990, as amended, between the Company and Charles Gordon
*10.6	Stock Option Agreement dated as of December 31, 1990, as amended, between the Company and Thomas E. Hoffmeister
*10.7	Stock Option Agreement dated as of December 31, 1990, as amended, between the Company and Thomas E. Hoffmeister
*10.8	Stock Option Agreement dated as of February 28, 1992 as amended, between the Company and Robert D. Sangster
*10.9	Stock Option Agreement dated as of March 11, 1992, as amended, between the Company and Steven W. Barnes
*10.10	Stock Option Agreement dated as of March 11, 1992, as amended, between the Company and Thomas E. Hoffmeister
*10.11	Letter Agreement dated July 18, 1988 between the Company and Charles Gordon
*10.12	Stock Purchase Agreement dated as of December 31, 1990 between the Company and Charles Gordon
*10.13	Management Agreement dated as of August 12, 1988 among the Company, Bain and Charles Gordon
*10.14	Preferred Stock Purchase Agreement dated as of December 31, 1990 between the Company and Steven W. Barnes
*10.15	Preferred Stock Purchase Agreement dated as of December 31, 1990 between the Company and Thomas E. Hoffmeister
*10.16	$41,971.80 Demand Note Issued by Steven W. Barnes to the Company as of December 31, 1990
*10.17	Professional Services Agreement dated as of December 31, 1991 between the Company and Bain Capital Partners
*10.18	Distribution Agreement dated as of June 29, 1990 between the Company and Showbox System AG, as amended
*10.19	Canadian Distribution Agreement dated as of October 19, 1990 between the Company and Showbox System AG, as amended
*10.20	The Principal Financial Group Prototype Basic Savings Plan and Adoption Agreement, approved by the Company on May 7, 1990
10.21	Amended and Restated Revolving Credit Agreement, dated as of July 30, 1992, among the Company, The Holson Burnes Company, The First National Bank of Boston, Fleet Credit Corporation and FNBB, as Agent
10.22	Note Purchase Agreements, dated as of July 30, 1992, among the Company, The Holson Burnes Company and certain purchasers
10.23	First Amendment to Revolving Credit Agreement dated as of March 5, 1993
10.24	First Amendment to Note Agreements dated as of February 1, 1993

*10.25	Indenture of Lease as of June 1, 1980 between Sam-Man Realty Corp. and the Company
*10.26	Standard Industrial Lease – Multi-Tenant dated as of November 1, 1991 between TCW Realty Fund IV Holding Company and the Company
*10.27	Amended and Restated Registration Agreement dated as of March 24, 1992 between the Company and certain other parties thereto
*10.28	1992 Key Employees Stock Option Plan
*10.29	1992 Directors Stock Option Plan
10.30	Severance Agreement and General Release, dated as of January 19, 1993, between the Company, The Holson Burnes Company and Thomas E. Hoffmeister
13.1	Annual Report to Stockholders for the year ended December 31, 1992
22.1	Subsidiaries of the Company
24.1	Consent of Price Waterhouse

* Incorporated by reference to the respective exhibit to the Company's Registration Statement on Form S-1 (File No. 33-46679).

Signatures

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

THE HOLSON BURNES GROUP, INC.
(Registrant)

Date: March 26, 1993

By: ______________________
Charles Gordon, Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been duly signed below by the following persons on behalf of the Registrant and in the capacities and on the date set forth above.

Signature	Title
by: ______________________ Charles Gordon	Chairman, Chief Executive Officer and Director
by: ______________________ Joshua Bekenstein	President, Director
by: ______________________ Steven W. Barnes	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer)
by: ______________________ Deborah Carreau	Vice President/Controller (Principal Accounting Officer)
by: ______________________ Geoffrey S. Rehnert	Director
by: ______________________ Elliot Stone	Director
by: ______________________ Marc B. Wolpow	Director

Report of Independent Accountants on
Financial Statement Schedules

To the Board of Directors
of The Holson Burnes Group, Inc.

Our audits of the consolidated financial statements referred to in our report dated March 8, 1993 appearing on page 13 of the 1992 Annual Report to Shareholders of The Holson Burnes Group, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedules listed in Item 14(a) of this Form 10-K. In our opinion, these Financial Statement Schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

Price Waterhouse

Price Waterhouse

Providence, Rhode Island
March 8, 1993

SCHEDULE II AMOUNTS RECEIVABLE FROM RELATED PARTIES, UNDERWRITERS, PROMOTERS AND EMPLOYEES OTHER THAN RELATED PARTIES FOR THE THREE YEARS ENDED DECEMBER 31, 1992

Name of debtor	Balance at Beginning of Period	Additions(3)	Deductions Amounts Collected (3)	Deductions Amounts Written Off	Balance at End of Period (Current)
1992:					
J. Schriver, Sr. V.P. (1)	$167,000	$ -	$125,000	$ -	$ 42,000
T.Hoffmeister, Pres. (2)	113,882	44,707	158,589	-	-
	$280,882	$ 44,707	$283,589	$ -	$ 42,000
1991:					
J. Schriver, Sr. V.P. (1)	$ -	$167,000	$ -	$ -	$167,000
T.Hoffmeister, Pres. (2)	-	113,882	-	-	113,882
	$ -	$280,882	$ -	$ -	$280,882
1990:					
None					

(1) In connection with his relocation, the Company provided an advance to Mr. Schriver during 1991. During 1992, the Company repurchased stock from Mr. Schriver for cash and the forgiveness of $125,000 of his receivable balance. The note receivable bears interest at 1.5% over the prime rate and will be repaid through future bonuses to Mr. Schriver.

(2) Mr. Hoffmeister purchased from the Company certain promissory notes during 1991 and 1992. Mr. Hoffmeister paid for a portion of these notes by delivery of demand notes bearing interest at 14% per annum.

(3) Amounts include accrued interest.

SCHEDULE IV NONCURRENT INDEBTEDNESS OF AND TO RELATED PARTIES FOR THE THREE YEARS ENDED DECEMBER 31, 1992

	Indebtedness to			
Name of Person	Balance at Beginning of Period	Additions (1)	Deductions (1)	Balance at End of Period
1992:				
Bain Capital & Affiliates	$7,381,000	$ 3,118,000	$10,499,000	$ -
Officers	554,000	349,000	903,000	-
Other	53,000	24,000	77,000	-
Total	$7,988,000	$ 3,491,000	$11,479,000	$ -
1991:				
Bain Capital & Affiliates	$1,500,000	$10,957,000	$ 5,076,000	$7,381,000
Officers	-	554,000	-	554,000
Other	-	53,000	-	53,000
Total	$1,500,000	$11,564,000	$ 5,076,000	$7,988,000
1990:				
Bain Capital & Affiliates	$ -	$ 1,500,000	$ -	$1,500,000 (2)

NOTE: No nonconcurrent indebtedness of related parties existed during the three years ended December 31, 1992. Thus, no schedule has been provided.

(1) Amounts include accrued interest and represent receipts and payments of notes payable to stockholders and officers. Such proceeds were used in the operations of the Company.

(2) Current at year end December 31, 1990.

SCHEDULE VIII VALUATION AND QUALIFYING ACCOUNTS FOR THE THREE YEARS ENDED DECEMBER 31, 1992

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts, advertising costs reimbursable to customers, rebates and price adjustments				
1992	$3,881,000	$12,821,000 (1)	$9,618,000	$7,084,000
1991	1,816,000	7,325,000 (1)	5,260,000	3,881,000
1990	3,609,000	5,672,000 (1)	7,465,000	1,816,000
Allowance for inventory valuation reserves				
1992	$1,239,000	$ 4,476,000	$ 543,000	$5,172,000
1991	1,441,000	464,000	666,000	1,239,000
1990	1,866,000	410,000	835,000	1,441,000

(1) Costs and expenses include the following:

	1992	1991	1990
Returns and allowances	$ 6,914,000	$3,792,000	$2,877,000
Co-op advertising	4,231,000	2,463,000	1,706,000
Bad debts	980,000	830,000	1,012,000
Volume rebates	696,000	240,000	77,000
	$12,821,000	$7,325,000	$5,672,000

SCHEDULE IX SHORT-TERM BORROWINGS FOR THE THREE YEARS ENDED DECEMBER 31, 1992

Category of Aggregate Short-Term Borrowings	Balance at End of Period	Weighted Average Interest Rate	Maximum monthly Amount Outstanding During the Period	Average Amount Outstanding During the Period (1)	Weighted Average Interest Rate During the Period (2)
1992:					
None					
1991:					
Notes payable to bank	$ -	various (3)	$15,350,000	$10,504,000	9.64%
1990:					
Notes payable to bank	$7,500,000	various (3)	$12,500,000	$ 6,295,000	11.99%

(1) The average amount outstanding during the period was computed by dividing the sum of the month-end outstanding principal balances by 12.

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

(3) In May, 1989, the Company entered into two working capital loan agreements. The working capital loans bore interest at 1.00% to 1.50% over the bank's prime rate, or, at the option of the Company, 2.00% to 2.50% over the Eurodollar rate.

Effective October 25, 1991 the Company amended and restated its revolving credit loan agreements. The amended and restated revolving credit loan agreements replaced the working capital facilities with a reducing revolving credit facility.

SCHEDULE X SUPPLEMENTARY INCOME STATEMENT INFORMATION FOR THE THREE YEARS ENDED DECEMBER 31, 1992

Item	Charged to Costs and Expenses		
	1992	1991	1990
Advertising Costs	$4,320,000	$2,542,000	$1,746,000

Items which amount to less than 1% of net sales have not been listed.

EXHIBITS FOLLOW

Selected Financial Data

Statement of Operations Data:	1992	1991	1990 (1)	1989	1988
	Year Ended December 31, (In thousands, except per share data)				
Net sales	$127,364	$111,545	$88,316	$90,015	$75,084
Cost of sales	95,931	77,341	59,833	61,757	51,177
Gross profit	31,433	34,204	28,483	28,258	23,907
Variable selling expenses (2)	14,741	11,116	9,229	7,956	6,007
General, administrative and other selling expenses	19,833	17,259	14,251	11,871	13,172
Consolidation and restructuring costs (3)	750	529	1,000	-	
	35,324	28,904	24,480	19,827	19,179
Operating income (loss)	(3,891)	5,300	4,003	8,431	4,728
Interest expense	4,228	4,168	3,682	2,959	1,628
Income (loss) from continuing operations before taxes	(8,119)	1,132	321	5,472	3,100
Provision (credit) for income taxes	476	322	(292)	2,446	1,749
Income (loss) from continuing operations	(8,595)	810	613	3,026	1,351
Loss from discontinued operations and disposal, net of income tax benefit (4)		(4,656)	(756)	(603)	(1,239)
Extraordinary loss from early extinguishment of debt (5)	(3,758)	–	-		
Net income (loss)	$ (12,353)	$ (3,846)	$ (143)	$ 2,423	$ 112
Income (loss) from continuing operations per common share	$ (1.69)	$ 0.21	$ 0.16	$ 0.78	$ 0.35
Net income (loss) per common share	$ (2.43)	$ (0.98)	$ (0.04)	$ 0.63	$ 0.03

Balance Sheet Data:	1992	1991	1990	1989	1988
	December 31, (In thousands)				
Working capital	$ 51,684	$ 40,045	$24,239	$27,879	$12,450
Total assets	81,253	67,486	55,975	47,216	37,655
Long-term debt and capital lease obligations (excluding current portion)	42,338	46,934	23,572	23,170	8,860
Stockholders' equity	24,140	3,415	7,304	6,994	4,590

(1) Includes results of operations of Terragrafics from its acquisition in September 1990.

(2) Includes commissions, advertising, rebates, freight, displays and royalties.

(3) Such costs relate primarily to the transfer of Terragrafics' and Burnes' marketing and sales offices to the Company's Rhode Island headquarters, the closing of the Company's California distribution location and the downsizing of the corporate facility.

(4) See Note 3 in the Notes to Consolidated Financial Statements for discussion of discontinued operations.

(5) See Note 13 in the Notes to Consolidated Financial Statements for discussion of extraordinary loss.

Management's Discussion and Analysis of Financial Condition and Results of Operations

1992 Compared to 1991

Net sales increased from $111.5 million in 1991 to $127.4 million in 1992, or 14%, as a result of the introduction of the Showbox photo viewer, coupled with an increase in Burnes, Terragrafics and private label frame sales and Holson album sales, offset by a decrease in Burnes album sales. The growth in Burnes, Terragrafics and private label frame sales and Holson album sales was the result of greater market share, growth of the industry and growth of the Company's largest mass merchant customers. Although the sales for these products represented an increase over those for 1991, they were significantly below management's sales expectations, primarily in the fourth quarter of 1992. Management believes this was in part due to retailers attempting to maintain lower inventory levels than in previous years. The decrease in Burnes album sales from 1991 is primarily attributable to a shift to lower priced albums. These factors resulted in higher than planned inventory levels at December 31, 1992.

Gross profit decreased $2.8 million and as a percentage of net sales from 1991 due to actions taken by management to reduce higher than planned inventory levels, a shift in consumer purchasing patterns toward lower priced and lower margin products and increased pricing pressures. The actions taken by management, which negatively impacted the fourth quarter by $5.9 million, included (i) a provision for anticipated inventory losses and repackaging costs related to management's plans to reduce inventory levels, (ii) the termination of an album purchasing commitment and (iii) a significant reduction in planned manufacturing levels at the New Hampshire album manufacturing facility, primarily during the fourth quarter, resulting in higher than anticipated manufacturing costs. Management believes that its plans to reduce inventory levels and the termination of the purchase commitment are positive steps which will enable the Company to be better positioned for the future.

Variable selling expenses were higher as a percentage of sales in 1992 due to the introduction of Showbox. The Company, in order to promote retail sell-through of Showbox, increased advertising and promotional efforts, as well as increased services at retail. The remaining increase was attributable to increased frame and album sales.

General, administrative and other selling expenses increased by $2.6 million. The increase is due to (i) an increase in marketing expenses associated with Showbox, (ii) an increase in customer and promotional expenditures supporting the growth in sales and (iii) an increase in depreciation and amortization associated with the acquisition of a new computer system and other fixed assets.

Total interest expense remained relatively flat with the prior year. Bank interest decreased by $0.4 million due to lower interest rates and the reduction of debt pursuant to the initial public offering, offset by higher debt levels to meet working capital needs. Interest expense to stockholders and officers increased by $0.5 million because of increased borrowings on notes payable to stockholders and officers ("Promissory Notes"). Interest expense would have been approximately $1.6 million lower had the initial public offering occurred as of December 31, 1991 versus May 20, 1992.

The Company recorded an income tax provision of $0.5 million, primarily for state and Federal alternative minimum taxes. The Company is currently in a Federal net operating loss carryforward position. No tax benefit was recognized in 1992 for current year tax losses.

The Company recorded an extraordinary loss of $3.8 million in 1992 related to using the proceeds from the initial public offering to retire the Promissory Notes early, coupled with the refinancing of the credit facility. See Notes 6 and 13 in the Notes to Consolidated Financial Statements for further discussion of the bank refinancing and extraordinary loss, respectively.

1991 Compared to 1990

Net sales increased from $88.3 million in 1990 to $111.5 million in 1991, or 26%, as a result of a 19% increase in frame sales and a 42% increase in album sales. This increase more than offset a decrease of $1.6 million as the supply agreement which had been entered into in connection with the acquisition of Burnes was phased out. The growth in frame sales was the result of increased sales of Burnes frames due to greater market share and the inclusion of Terragrafics and Holson sales for the first full year. The growth in album sales is attributable to an 81% increase in sales of Burnes albums to department and specialty stores resulting from increased market share and a 28% increase in sales of Holson albums because of the growth of the Company's largest mass merchant customers, consolidation of suppliers by these retailers and an increase in the breadth of Holson's product line.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Gross profit increased by $5.7 million in 1991 as a result of the sales increase, but declined as a percentage of sales because of (i) a higher proportion of sales to mass merchants, (ii) a shift in consumer purchasing patterns towards lower priced and lower margin items in all retail channels as a result of the recession, (iii) $0.7 million of start-up costs associated with a manufacturing facility in California which was later converted to a distribution center and (iv) $0.5 million higher cost of sales as a result of the sale of Terragrafics inventory which was written up due to accounting requirements in connection with the 1990 acquisition. These factors were partially offset by lower album manufacturing costs resulting from longer production runs and increased automation.

Variable selling expenses were lower as a percentage of sales in 1991 because of the higher proportion of sales to mass merchants, partially offset by a $0.7 million increase in variable selling expenses from a full year of Terragrafics' results.

General, administrative and other selling expenses increased by $3.0 million, but decreased as a percentage of sales from 16.1% in 1990 to 15.5% in 1991 due to improved efficiencies from the Company's consolidation program and lower bad debt expense. This reduction as a percentage of sales was partially offset by an increase in Showbox photo viewer start-up expenses.

The $0.5 million of consolidation costs in 1991 primarily related to the planned transfer of Terragrafics' marketing and sales office to the Company's Rhode Island headquarters.

Interest expense increased by approximately $0.5 million in 1991 because of interest accrued on the Promissory Notes issued in September 1991 and the incurrence of additional debt to meet working capital needs associated with the sales increase. This was offset in part by lower interest rates under the credit agreement.

The Company's effective tax rates in 1991 and 1990 were favorably affected by the amortization of the deferred credit related to the Burnes acquisition which is not subject to Federal or state income tax. This benefit was partially offset in 1991 by state taxes and Federal alternative minimum tax. In addition, the Company benefited in 1990 from the utilization of net operating loss carryforwards.

Liquidity and Capital Resources

On May 28, 1992, the Company received approximately $27.0 million of proceeds from the initial public offering of 2,200,000 shares of common stock at $14.00 per share, after deduction of underwriting discounts and commissions of $2.2 million and expenses payable by the Company in connection with the offering of $1.7 million. Concurrent with the public offering, the Company received $6.1 million from the sale of an additional 466,667 shares of its common stock to certain members of management, other existing stockholders and the Company's Savings Plan for $13.02 per share (the public offering price of $14.00 per share less underwriting discounts and commissions of $0.98 per share). Additional proceeds of $0.8 million were received primarily through the exercise of warrants to purchase 433,631 shares of common stock at $1.84 per share issued to holders of Promissory Notes. The total net proceeds of these transactions of $33.9 million were used (i) to retire the Promissory Notes in the aggregate amount of $13.8 million, including accrued interest thereon and a prepayment penalty equal to 20% of the principal amount, (ii) to repurchase 75,132 shares of common stock for approximately $11.35 per share and (iii) to decrease outstanding bank debt under the credit facility.

On July 30, 1992, the Company completed a $22 million private placement of 9.59% Senior Notes and replaced its existing credit facility with a new facility providing for borrowings up to $40.0 million based upon eligible amounts of accounts receivable and inventory. At December 31, 1992, $29.6 million was available under the new credit facility, of which $18.9 million was outstanding. See Note 6 in the Notes to Consolidated Financial Statements for further discussion of these transactions.

As of December 31, 1992 the Company was in default of certain financial covenants of its 9.59% Senior Notes and its credit facility. These defaults were waived and, on February 1, 1993 and March 5, 1993, respectively, the Company amended its 9.59% Senior Notes and credit facility. These amendments changed certain financial covenants to provide increased flexibility, and increased the interest rates by ½% under the credit facility and to 9.84% under the Senior Notes. Additionally, the Company is now required to pay quarterly a commitment fee equal to ½% per annum on the average unused portion of the credit facility.

Net cash used in operations was $1.6 million, $5.5 million and $17.0 million in 1990, 1991 and 1992, respectively. The primary use of cash in operations was the net change in accounts receivable, inventories and refundable income taxes which

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

increased by $1.1 million, $7.3 million and $10.5 million in 1990, 1991 and 1992, respectively. An additional use of cash in 1992 was the $8.6 million loss from continuing operations. Net cash (used in) provided by investing activities was $(4.9) million, $(4.0) million and $3.4 million in 1990, 1991 and 1992, respectively. Investing activities during this period related to purchases of fixed assets, amounts received from the sale of the assets of NCC Liquidating Corp. and the former Professional album division, which have been reported as discontinued operations, and the $2.5 million acquisition of Terragrafics in 1990. Net cash provided by financing activities was $7.8 million, $9.9 million and $13.2 million in 1990, 1991 and 1992, respectively. Financing activities during this period were primarily comprised of net borrowings (repayments) under the revolving credit facility and working capital loans which amounted to $7.2 million, $8.7 million and $(21.0) million in 1990, 1991 and 1992, respectively. Also, net borrowings (repayments) from stockholders and officers of $1.5 million, $6.0 million and $(9.8) million occurred during 1990, 1991 and 1992, respectively. Additionally during 1992, the Company raised a net $33.9 million from its initial public offering and issued $22 million of 9.59% Senior Notes.

Seasonality

The Company's business is seasonal because more products are shipped in the latter part of the year for the holiday season. As a result, the Company's working capital requirements are typically highest in September, October and November. The Company expects that this seasonal pattern will continue in 1993 and thereafter.

Backlog

As of February 26, 1993, the Company's backlog was approximately $6.8 million, as compared to approximately $8.8 million as of February 21, 1992. In accordance with industry standards, orders are cancelable.

Impact of Inflation and Foreign Currency Exchange

The results of operations of the Company for the periods discussed have not been significantly affected by inflation or foreign currency fluctuation. With the exception of the Showbox photo viewer orders from its Swiss supplier, the Company negotiates substantially all of its purchase orders with its foreign manufacturers in United States dollars. However, to hedge a portion of total commitments of approximately 17,200,000 Swiss Francs outstanding at December 31, 1992 to purchase and distribute the Showbox photo viewer, the Company entered into foreign currency option agreements with a financial institution. Notwithstanding any fluctuation in foreign currencies, the Company's cost for any purchase order is generally not subject to change after the time the order is placed. However, the weakening of the United States dollar against local currencies could lead certain manufacturers to increase their United States dollar prices for products. The Company believes it would be able to compensate for any such price increase since many of the Company's competitors import products from the same countries.

Accounting for Income Taxes

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109), which will supersede FAS 96. The Standard has a required adoption date of no later than January 1, 1993 and will result in a change in accounting from that of FAS 96, particularly with respect to the recognition of the tax benefit of deductible timing differences and tax credits and loss carryforwards to be utilized in future years for income tax purposes. Under FAS 109, deferred tax assets are recognized, net of any valuation allowance, for deductible temporary differences and loss carryforwards. The Company is in the process of reviewing the impact and implementation approach to this Statement and has determined it will not have an adverse effect on the Company's financial position or results of operations.

Report of Independent Accountants

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Providence, RI 02903

Telephone 401 421 0501

Price Waterhouse

To the Board of Directors and Stockholders of
The Holson Burnes Group, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of The Holson Burnes Group, Inc. and its subsidiaries at December 31, 1992 and 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1992, 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

Price Waterhouse

March 8, 1993

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Consolidated Balance Sheet

	December 31, 1992	December 31, 1991
Assets		
Current assets:		
Cash and cash equivalents	$ 1,196,000	$ 1,725,000
Accounts receivable	17,635,000	19,910,000
Inventories	41,295,000	28,114,000
Refundable and deferred income taxes	1,137,000	1,500,000
Other current assets	1,623,000	1,535,000
Total current assets	62,886,000	52,784,000
Fixed assets	16,430,000	12,526,000
Deferred debt issuance costs	1,302,000	1,195,000
Other assets	635,000	981,000
	$81,253,000	$67,486,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ -	$ 3,340,000
Current portion of obligations under capital leases	450,000	137,000
Accounts payable	4,755,000	4,571,000
Accrued expenses (including $450,000 due to principal stockholder in 1991)	4,540,000	1,753,000
Accrued compensation and employee benefits	1,457,000	2,718,000
Net liabilities of discontinued operations	-	220,000
Total current liabilities	11,202,000	12,739,000
Long-term debt	40,906,000	38,497,000
Obligations under capital leases	1,432,000	449,000
Notes payable to stockholders and officers (including accrued interest of $488,000 in 1991)	-	7,988,000
Total liabilities	53,540,000	59,673,000
Deferred credit	3,573,000	4,398,000
Stockholders' equity:		
Common stock, $.01 par value - 13,000,000 shares authorized; 6,261,141 and 3,144,192 shares issued in 1992 and 1991, respectively	63,000	31,000
Additional paid-in capital	37,514,000	3,834,000
Retained earnings (deficit)	(11,552,000)	801,000
	26,025,000	4,666,000
Less: Deferred compensation	(297,000)	(713,000)
Notes receivable from stockholders	–	(126,000)
Cost of common stock in treasury: 259,306 and 142,891 shares in 1992 and 1991, respectively	(1,588,000)	(412,000)
Total stockholders' equity	24,140,000	3,415,000
Commitments and contingencies (Note 12)		
	$81,253,000	$67,486,000

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

Consolidated Statement of Operations

	Year Ended December 31, 1992	1991	1990
Net sales	$127,364,000	$111,545,000	$ 88,316,000
Costs and expenses:			
Cost of sales	95,931,000	77,341,000	59,833,000
Variable selling	14,741,000	11,116,000	9,229,000
General, administrative and other selling	19,833,000	17,259,000	13,801,000
Management and financial advisory fees to principal stockholders	-	-	450,000
Consolidation and restructuring costs	750,000	529,000	1,000,000
	131,255,000	106,245,000	84,313,000
Operating income (loss)	(3,891,000)	5,300,000	4,003,000
Interest expense	3,237,000	3,639,000	3,615,000
Interest expense on notes payable to stockholders and officers	991,000	529,000	67,000
	4,228,000	4,168,000	3,682,000
Income (loss) from continuing operations before provision (credit) for income taxes	(8,119,000)	1,132,000	321,000
Provision (credit) for income taxes	476,000	322,000	(292,000)
Income (loss) from continuing operations	(8,595,000)	810,000	613,000
Discontinued operations:			
Loss from discontinued operations (net of applicable income tax benefit of $194,000 and $101,000 in 1991 and 1990, respectively)	–	(609,000)	(756,000)
Loss on disposal of discontinued operations, including provision of $865,000 for operating losses during phase-out period (net of applicable income tax benefit of $1,292,000)	–	(4,047,000)	-
Loss before extraordinary item	(8,595,000)	(3,846,000)	(143,000)
Extraordinary loss from early extinguishment of debt	(3,758,000)	-	-
Net loss	$(12,353,000)	$ (3,846,000)	$ (143,000)
Income (loss) per share from continuing operations	$ (1.69)	$ .21	$ .16
Loss per share from discontinued operations	–	(1.19)	(.20)
Loss per share before extraordinary item	(1.69)	(.98)	(.04)
Loss per share from extraordinary loss	(.74)	-	-
Net loss per share	$ (2.43)	$ (.98)	$ (.04)
Weighted average shares outstanding	5,085,544	3,928,965	3,843,717

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Consolidated Statement of Stockholders' Equity for the Three Years Ended December 31, 1992

	Common Stock Number Of Shares	Common Stock Par Value	Additional Paid In Capital	Retained Earnings (Deficit)	Deferred Compensation	Notes Receivable From Stockholders	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1989	3,200,560	$32,000	$ 3,118,000	$ 4,790,000	$(849,000)	$ -	$ -	$ 7,091,000
Repurchase of 107,271 shares of common stock, reissuance of 37,890 shares of common stock, issuance of 13,013 shares of common stock and retirement of 69,381 shares of common stock	(56,368)	(1,000)	261,000		(299,000)	(126,000)		(165,000)
Deferred compensation related to common stock options granted			267,000		(267,000)			
Compensation expense related to stock purchase and option plans			89,000		432,000			521,000
Net loss				(143,000)				(143,000)
Balance, December 31, 1990	3,144,192	31,000	3,735,000	4,647,000	(983,000)	(126,000)	-	7,304,000
Repurchase of 142,891 shares of common stock							(412,000)	(412,000)
Compensation expense related to stock purchase and option plans			99,000		270,000			369,000
Net loss				(3,846,000)				(3,846,000)
Balance, December 31, 1991	3,144,192	31,000	3,834,000	801,000	(713,000)	(126,000)	(412,000)	3,415,000
Sale of 2,200,000 shares of common stock in public offering	2,200,000	22,000	30,778,000					30,800,000
Underwriter fees and other stock issuance costs in connection with public offering			(3,785,000)					(3,785,000)
Sale of 466,667 shares to existing stockholders and management concurrent with the public offering	466,667	5,000	6,071,000					6,076,000
Exercise of warrants for 450,282 shares of common stock	450,282	5,000	795,000					800,000
Repurchase of 116,415 shares of common stock			(94,000)		94,000		(1,176,000)	(1,176,000)
Compensation expense related to stock purchase and option plans			41,000		212,000			253,000
Cancellation of stock options			(126,000)		110,000			(16,000)
Reduction in notes receivable						126,000		126,000
Net loss				(12,353,000)				(12,353,000)
Balance, December 31, 1992	6,261,141	$63,000	$37,514,000	$(11,552,000)	$(297,000)	$ -	$(1,588,000)	$24,140,000

Consolidated Statement of Cash Flows

	1992	1991	1990
		Year Ended December 31,	
Cash flows from operating activities:			
Net loss	$(12,353,000)	$ (3,846,000)	$ (143,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of deferred credit	(825,000)	(825,000)	(825,000)
Amortization of deferred compensation	253,000	369,000	521,000
Depreciation and other amortization	2,157,000	1,739,000	1,176,000
Deferred income taxes	–	(652,000)	633,000
Estimated loss on disposal of discontinued operations	–	5,339,000	-
Extraordinary loss on early extinguishment of debt	3,758,000	–	-
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	2,275,000	(3,931,000)	(926,000)
(Increase) decrease in inventories	(13,181,000)	(4,267,000)	1,326,000
(Increase) decrease in refundable income taxes	363,000	944,000	(1,452,000)
(Increase) decrease in other assets, net of noncash items	96,000	(510,000)	(685,000)
Increase in accounts payable	184,000	937,000	279,000
Increase (decrease) in accrued compensation and employee benefits	(1,261,000)	717,000	(827,000)
Increase (decrease) in accrued expenses, net of noncash items	2,913,000	(1,815,000)	(947,000)
Increase (decrease) in accrued interest on borrowings from stockholders and officers	(488,000)	488,000	-
Net assets (liabilities) of discontinued operations, net of depreciation and amortization	(926,000)	(194,000)	231,000
Net cash used in operations	(17,035,000)	(5,507,000)	(1,639,000)
Cash flows from investing activities:			
Purchases of fixed assets	(4,115,000)	(3,988,000)	(2,316,000)
Cash paid for net assets of Terragrafics, Inc.	-	-	(2,500,000)
Net investing activities of discontinued operations	7,471,000	(32,000)	(41,000)
Net cash provided by (used in) investing activities	3,356,000	(4,020,000)	(4,857,000)
Cash flows from financing activities:			
Borrowings under revolving credit and working capital loans	59,735,000	84,171,000	33,595,000
Repayments under revolving credit and working capital loans	(80,697,000)	(75,503,000)	(26,440,000)
Proceeds from sales of common stock	36,876,000	-	
Proceeds from exercise of warrants for common stock	800,000		
Payment for stock issuance costs	(3,785,000)	-	
Borrowings from stockholders and officers	2,500,000	9,400,000	1,500,000
Repayments of borrowings from stockholders and officers	(10,000,000)	(3,400,000)	-
Payment of debt prepayment penalties to stockholders and officers	(2,296,000)	-	-
Repurchase of stock	(977,000)	(412,000)	
Repayments of other borrowings	(2,402,000)	(26,000)	(19,000)
Payments for debt issuance costs	(1,839,000)	(402,000)	(98,000)
Proceeds from private placement of 9.59% Senior Notes	22,000,000	–	-
Net financing activities of discontinued operations	(6,765,000)	(3,962,000)	(732,000)
Net cash provided by financing activities	13,150,000	9,866,000	7,806,000
Net increase (decrease) in cash and cash equivalents	(529,000)	339,000	1,310,000
Cash and cash equivalents, beginning of year	1,725,000	1,386,000	76,000
Cash and cash equivalents, end of year	$ 1,196,000	$ 1,725,000	$ 1,386,000
Supplementary information:			
Interest paid	$ 4,213,000	$ 3,640,000	$ 3,675,000
Income taxes paid	$ 15,000	$ 28,000	$ 740,000

Notes to Consolidated Financial Statements

1. Nature of business and organization

The Holson Burnes Group, Inc. (the "Company"), a Delaware corporation, was organized on May 1, 1989 for the purpose of holding all of the outstanding shares of preferred and common stock of The Holson Company ("Holson") and Charles D. Burnes Co., Inc. ("Burnes"), both of which are principally engaged in the manufacturing, assembly, marketing and distribution of picture frames, photo albums and other photo storage devices.

Effective July 28, 1989, pursuant to a stock exchange agreement among the Company and the stockholders of Burnes and Holson, newly authorized preferred stock and common stock of the Company were exchanged for all the outstanding shares of preferred and common stock of Holson and Burnes. Subsequently, on October 25, 1991, Burnes merged with and into Holson, which was concurrently renamed The Holson Burnes Company ("HB") and now exists as a wholly-owned subsidiary of the Company.

On May 28, 1992, the Company closed an initial public offering and sold 2,200,000 shares of its common stock at $14.00 per share.

2. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash equivalents

The Company invests excess cash in highly liquid debt instruments which mature within three months of the initial investment. The investments are subject to minimal credit and market risk and, for purposes of the statement of cash flows, are considered to be cash equivalents.

Revenue recognition, accounts receivable and concentration of credit risk

The Company sells its products primarily to retailers. Concentration of credit risk with respect to accounts receivable is limited due to the large number of customers comprising the Company's customer base. Ongoing credit evaluations of customers' financial condition are performed, and collateral is generally not required. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

Revenue from the sale of products is recognized upon shipment. Accounts receivable are presented net of estimated allowances for doubtful accounts, advertising costs reimbursable to customers and price adjustments of approximately $7,084,000 and $3,881,000 in the aggregate at December 31, 1992 and 1991, respectively.

Inventories

Inventories are stated at the lower of cost or market, cost being determined by the first-in, first-out ("FIFO") method.

Fixed assets

Fixed assets, which are stated at cost, are depreciated or amortized on a straight-line basis over their estimated useful lives or related lease terms, as appropriate. Additions and improvements, unless of relatively minor amounts, are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Deferred debt issuance costs

Deferred debt issuance costs primarily include bank and legal fees related to long-term debt and are amortized over their related terms of approximately 3 and 7 years.

Deferred credit

The deferred credit represents the unamortized balance of excess fair value of net assets acquired over the purchase price of Burnes (after reducing Burnes' fixed assets to no value) determined at May 15, 1987, the date Burnes was acquired. The original amount of the deferred credit is being amortized using the straight-line method over ten years.

Income taxes

The Company utilizes the liability method of accounting for income taxes, as set forth in Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" ("FAS 96"). Under the liability method, deferred taxes are determined based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Deferred tax expense represents the change in the deferred tax asset and liability balances.

Notes to Consolidated Financial Statements (continued)

Consolidation and restructuring costs

Consolidation and restructuring costs include provisions for estimated expenses resulting from the consolidation of facilities and salary and benefit payments related to workforce reductions.

Variable selling expenses

Variable selling expenses are comprised of sales commissions, freight out, royalties, advertising, rebates and displays.

Per share data

Income (loss) per share from continuing operations, loss per share from discontinued operations, loss per share from extraordinary loss and net loss per share are calculated based on the weighted average number of common shares and common share equivalents outstanding during the period. Common share equivalents consist of common stock which may be issuable upon exercise of outstanding options using the treasury stock method. Although common share equivalents are anti-dilutive in years in which the Company has incurred a net loss and, therefore, have not been included for the year ended December 31, 1992, they have been included in the calculation of net loss per share for the years ended December 31, 1991 and 1990 since they are dilutive in the calculation of income per share from continuing operations.

As a result of the initial public offering in May 1992, the number of shares outstanding changed significantly at the end of each quarter during 1992. Accordingly, per share calculations for the year do not equal the sum of the per share calculations for the four quarters.

Reclassifications

Certain reclassifications have been made to prior years' consolidated financial statements to conform to the 1992 presentation.

3. *Discontinued operations*

The Company has operated principally in three industry segments – the manufacturing, marketing and distribution of photo albums and picture frames by HB, the marketing and distribution of clocks and gift items by a wholly-owned subsidiary of HB, NCC Liquidating Corp. (formerly known as Cuckoo Clock Mfg. Co., Inc.) and the manufacturing, marketing and distribution of wedding albums to professional photographers by the Company's Professional album division.

On June 19, 1992, NCC Liquidating Corp. sold substantially all of its assets, consisting primarily of inventories and accounts receivable, net of certain liabilities assumed, for approximately $5,500,000 in cash.

On July 1, 1992, the Company sold substantially all of the assets of the Professional album division, consisting primarily of inventories and accounts receivable, for a promissory note in the amount of $750,000 due June 30, 1993. The promissory note bears interest at 10%, which is also payable on June 30, 1993. The promissory note is secured by substantially all assets sold.

On July 29, 1992, the Company sold a warehouse located in South Carolina which contained its former Professional album division for approximately $2,800,000 in cash. Proceeds from the sale of the building were used to retire borrowings under the existing credit facility.

No additional losses related to these discontinued operations were incurred in excess of provisions recorded at December 31, 1991.

4. *Inventories*

Inventories consist of:

	December 31, 1992	December 31, 1991
Raw materials	$ 5,907,000	$ 5,598,000
Work-in-progress	201,000	881,000
Finished goods	35,187,000	21,635,000
	$41,295,000	$28,114,000

5. *Fixed assets*

Fixed assets consist of:

	Estimated useful lives (years)	December 31, 1992	December 31, 1991
Land	-	$ 160,000	$ 235,000
Buildings and building improvements	30	5,928,000	5,896,000
Machinery and equipment	10	14,317,000	14,731,000
Furniture, fixtures and computer equipment	5 - 10	3,362,000	2,050,000
Leasehold improvements	Lease term	3,755,000	1,775,000
Equipment held under capital leases	Lease term	2,100,000	586,000
Construction in progress	-	723,000	178,000
		30,345,000	25,451,000
Less - Accumulated depreciation and amortization		13,915,000	12,925,000
		$16,430,000	$12,526,000

Notes to Consolidated Financial Statements (continued)

Depreciation and amortization expense for the years ended December 31, 1992, 1991 and 1990 was $1,725,000, $1,358,000 and $898,000, respectively.

Accumulated depreciation and amortization at December 31, 1992 includes $249,000 related to equipment held under capital leases. In 1991, leased equipment was placed in service at year end; accordingly, no amortization was recorded.

6. *Borrowings*

On July 30, 1992, HB completed a $22,000,000 private placement of 9.59% Senior Notes. Interest on the Senior Notes is payable semiannually on January 30 and July 30, commencing on January 30, 1993. Principal is due in five equal annual installments of $4,400,000 beginning on July 30, 1995. The Senior Notes are secured by a pledge of substantially all of the fixed assets of HB and the Company. Obligations under the Senior Notes are also guaranteed by the Company. The Senior Notes are redeemable at the option of HB in whole or in part from time to time, at the principal amount plus accrued interest plus a premium. If the Senior Notes are redeemed, the premium would be computed as the difference (if positive) between the discounted present value of the principal and interest payments on the Senior Notes being repaid and the outstanding principal balance of such Senior Notes. In connection with the placement of the Senior Notes, HB paid a closing fee of $550,000 to an investment banking institution and also approximately $177,000 in legal and other closing fees. All such debt issuance costs have been deferred and are being amortized over the term of the Senior Notes.

Additionally on July 30, 1992, concurrent with the placement of the Senior Notes, HB replaced its borrowings under the existing letter of credit commitment and revolving credit loan agreement with a new credit facility with equal participation of two banks, the previous lender and another bank. The new credit facility provides for borrowings up to $40,000,000 through July 30, 1995, based upon eligible amounts of accounts receivable and inventories. Under the terms of this new credit facility, the amount available under revolving credit loans is reduced by outstanding letters of credit, and the maximum amount available for letters of credit is $10,000,000. At December 31, 1992, $29,608,000 was available under the new credit facility and $18,906,000 was outstanding.

Outstanding borrowings under the new credit facility bear interest at the agent bank's base rate plus ½% (6.5% at December 31, 1992) or, at the option of HB, the Eurodollar rate plus 1¾% (5.0% at December 31, 1992). Also under the terms of the new credit facility, HB is required to pay quarterly a commitment fee equal to ⅜% per annum on the average unused portion of the credit facility, an annual agency fee of $50,000 and an annual administrative fee of $25,000. In connection with this new credit facility, HB paid a closing fee of $400,000 (1% of the total credit facility) and additional closing costs of $310,000. These debt issuance costs have been deferred and are being amortized over the term of the credit facility.

Borrowings under the new credit facility are secured by all accounts receivable and inventory, and certain intangible assets, primarily patents and licenses, of HB. Obligations under this agreement are also secured by a guarantee from the Company which is, in turn, secured by a pledge of all the stock of HB.

Proceeds from the Senior Notes and the new credit facility were used to repay the principal and interest outstanding on the mortgage on the Claremont, New Hampshire facility in the amount of $1,976,000 as of July 30, 1992 and to redeem borrowings and letters of credit outstanding under the former credit facility.

Under the terms of both the Senior Note agreements and the new credit facility, HB is required to comply with certain covenants, the more restrictive of which require that HB maintain minimum amounts of debt service coverage levels, operating cash flow levels and tangible net worth. Other restrictive covenants limit leverage levels, indebtedness, liens, investments, dividends, distributions to stockholders and mergers and acquisitions. At December 31, 1992, HB was not in compliance with certain of these covenants. However, these events of noncompliance were waived by both the holders of the Senior Notes and the banks.

Effective February 1, 1993 and March 5, 1993, HB amended its Senior Notes and credit facility agreements, respectively. Certain covenants have been amended to provide increased flexibility, and the Senior Notes now bear interest at 9.84%, while outstanding borrowings under the credit facility bear interest at the agent bank's base rate plus 1% or, at the option of HB, the Eurodollar rate plus 2½%. Additionally, HB is now required to pay quarterly a commitment fee equal to ½% per annum on the average unused portion of the credit facility.

Notes to Consolidated Financial Statements *(continued)*

Long-term debt is summarized as follows:

	December 31, 1992	December 31, 1991
Revolving credit loans with banks	$18,906,000	$39,867,000
9.59% Senior Notes	22,000,000	–
Mortgage payable to bank bearing interest at 1.5% above the bank's prime rate (8% at December 31, 1991); principal and interest due in monthly installments of $21,000 through July 1, 2012; secured by the manufacturing and warehousing facilities in New Hampshire	–	1,970,000
	40,906,000	41,837,000
Less - Current portion	–	3,340,000
	$40,906,000	$38,497,000

At December 31, 1992, aggregate principal maturities of long-term debt are as follows:

1993	$ –
1994	–
1995	23,306,000
1996	4,400,000
1997	4,400,000
Thereafter	8,800,000
	$40,906,000

7. *Related party transactions*

Notes payable to stockholders and officers

In 1991, the principal stockholder and its affiliates loaned $3,400,000 at 12% interest per annum to the Company under two demand loan agreements. Effective September 30, 1991, the $3,400,000 demand loans and other working capital loans made by the principal stockholder plus accrued interest on that date, in the aggregate amount of $5,076,000, were paid with the proceeds from the issuance of notes to the principal stockholder, its affiliates and certain officers allowing for borrowings up to $10,000,000, of which $7,500,000 was issued at September 30, 1991. Under the terms of these agreements, interest was compounded quarterly at 26% per annum. Accordingly, accrued interest of $488,000 is included in notes payable to stockholders and officers on the accompanying consolidated balance sheet at December 31, 1991. In addition, the Company became subject to prepayment penalties equal to a percentage of the principal and accrued interest amount being repaid, beginning at 20% and declining thereafter to par at September 30, 1995. In March 1992, the Company received an additional $2,500,000 in proceeds from the issuance of the remaining notes under this agreement.

In connection with the above note purchase agreement, the holders of the notes were issued warrants to purchase up to 325,227 shares of common stock at approximately $1.84 per share, the estimated fair value per share of the Company's common stock at the date of issuance, subject to anti-dilution adjustments in certain circumstances. In connection with the issuance of the additional notes in March 1992, warrants to purchase 108,409 shares of common stock at approximately $1.84 per share were issued.

Pursuant to the initial public offering in May 1992, the Company repaid all note payable balances plus accrued interest in the amount of $11,479,000. A 20% prepayment penalty of $2,296,000 was also paid. Additionally, all warrants were exercised.

Accrued management and financial advisory fees

Pursuant to an arrangement between the Company and its principal stockholder, the Company was charged fees for management and financial advisory services, such as assistance in facilitating certain debt financing and the disposition of discontinued operations. Fees charged to the Company were $450,000 for the year ended December 31, 1992, and $550,000 for each of the years ended December 31, 1991 and 1990. Included in accrued expenses at December 31, 1991 is $450,000 of the balance due to the principal stockholder for 1991 services. This fee was paid during 1992.

8. *Stockholders' equity*

The authorized capital of the Company consists of 13,000,000 shares of common stock, $.01 par value, 2,400,000 shares of Class B common stock, $.01 par value, and 1,000,000 shares of several series of preferred stock, $1.00 par value, at December 31, 1992. Issued and outstanding shares of the preferred stock and Class B common stock were automatically converted to common stock concurrent with the initial public offering ("IPO") and no additional shares have been issued by the Company. The Board of Directors has approved a proposed amendment to the Company's Certificate of Incorporation

Notes to Consolidated Financial Statements (continued)

which, if approved by the stockholders, would reduce the authorized capital of the Company to 13,000,000 shares of common stock, par value $.01, and 982,700 shares of a single series of preferred stock, par value $1.00.

Preferred stock may be issued at the discretion of the Board of Directors of the Company with such designations, rights and preferences as the Board may determine from time to time.

On May 28, 1992, the Company closed an initial public offering and sold 2,200,000 shares of its common stock at $14.00 per share. Concurrent with the IPO, the Company also sold approximately 467,000 shares of its common stock to certain members of management, other existing stockholders and the Company's Savings Plan for $13.02 per share (the public offering price of $14.00 per share less underwriting discounts and commissions of $0.98 per share). Additional proceeds were raised through the exercise of warrants to purchase approximately 434,000 shares of common stock at $1.84 per share issued to note holders and through the exercise of warrants to purchase approximately 17,000 shares of common stock at approximately $0.01 per share issued to a bank in connection with a March 1992 amendment to a loan agreement.

Total net proceeds from the public offering, sales of stock to management and existing stockholders and exercise of warrants were approximately $33,891,000 (after deducting underwriter discounts and commissions approximating $2,156,000 and approximately $1,629,000 of legal, accounting and other fees related to the public offering). Such proceeds were used to redeem notes payable to stockholders and officers, reduce bank debt and repurchase certain shares of common stock from a former employee.

The consolidated financial statements issued in 1991 retroactively reflected the results of the IPO using an estimated IPO per share price of $15.00 and an effective date of May 15, 1992. As discussed above, the IPO closed on May 28, 1992 at a per share price of $14.00. The difference of 2,147 common stock and 215 treasury stock shares resulting from the estimated and actual conversion of preferred and common stock at December 31, 1991 has been reflected in the accompanying consolidated statement of stockholders' equity.

The Company's common stock trades on The Nasdaq Stock Market under the symbol HBGI.

9. *Income taxes*

The provision (credit) for income taxes for continuing operations consists of the following:

	Year ended December 31, 1992	1991	1990
Current:			
Federal	$ (825,000)	$ (8,000)	$ (302,000)
State	11,000	10,000	-
	(814,000)	2,000	(302,000)
Deferred:			
Federal	1,028,000	197,000	10,000
State	262,000	123,000	-
	1,290,000	320,000	10,000
	$ 476,000	$ 322,000	$ (292,000)

The provision (credit) for income taxes differs from an amount computed by applying the statutory Federal income tax rate to pretax income from continuing operations as follows:

	Year ended December 31, 1992	1991	1990
Tax (benefit) at statutory rate	$(2,760,000)	$385,000	$ 109,000
Increase (decrease) due to:			
State income taxes (net of Federal benefit)	180,000	88,000	-
Deductions without current tax benefit	3,108,000	-	-
Utilization of operating loss carryforward			(153,000)
Amortization of deferred credit	(281,000)	(281,000)	(281,000)
Alternative minimum tax	101,000	118,000	-
Other	128,000	12,000	33,000
	$ 476,000	$322,000	$(292,000)

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. The principal items making up the deferred tax provision for 1992 include amounts related to provisions for discontinued operations, depreciation and asset valuation reserves.

At December 31, 1992, the Company has operating loss carryforwards of $14,800,000 available to offset future income for financial reporting purposes. For tax reporting purposes, the Company has Federal operating loss carryforwards of $8,223,000,

Notes to Consolidated Financial Statements (continued)

of which $2,432,000 can only be utilized to offset the future Federal taxable income of HB. These operating loss carryforwards expire in the years 2002 through 2007.

Under the provisions of the Internal Revenue Code, certain substantial changes in the Company's ownership could result in an annual limitation on the amount of net operating loss carryforwards which could be utilized.

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," which supersedes FAS 96. Adoption of the Standard is required no later than January 1, 1993 and will change many of the requirements of FAS 96, particularly with respect to the recognition of the tax benefits of deductible temporary differences, tax credits and loss carryforwards to be utilized in future years for income tax purposes. The Company is in the process of reviewing the impact and implementation approach to this Statement and has determined it will not have an adverse effect on the Company's financial position or results of operations.

10. Retirement plans

Effective January 1, 1992, Holson and Burnes merged their separate retirement plans established under Section 401(k) of the Internal Revenue Code to create one consolidated plan. Contributions to the plan(s) are at the discretion of the Board of Directors. The Company provided $362,000, $238,000 and $283,000 in the aggregate for contributions to the plan(s) for the years ended December 31, 1992, 1991 and 1990, respectively.

The Company does not offer any other postretirement benefits.

11. Executive compensation arrangements

Restricted stock

During 1990, the Company sold to certain individuals common stock which vests over a designated period and is subject to restrictions on transferability. The Company recorded deferred compensation based on the difference, if any, between the fair value of the shares issued, as determined by the Board of Directors, and the prices paid by the employees on the date of issuance. The value of unvested shares is included in deferred compensation and is being amortized over the vesting period of the related shares.

Stock option plans

During 1990, the Board of Directors and stockholders of the Company adopted the 1990 Key Employees Stock Option Plan ("the Plan") authorizing the granting of incentive and nonqualified stock options to key employees. The Plan allows for the issuance of options to purchase up to 360,000 shares of common stock through December 2002. The Board of Directors determines the option term, option price, number of shares for which each option is granted and the rate at which each option is exercisable.

Transactions involving the Plan for the three years ended December 31, 1992 are summarized as follows:

	Shares	Option price per share
Outstanding at December 31, 1989	150,530	less than $.01 $.12
Granted	182,560	$.12 - $28.83
Exercised		-
Canceled or expired	-	
Outstanding at December 31, 1990	333,090	less than $.01 - $28.83
Granted	1,735	$5.77
Exercised	–	-
Canceled or expired		-
Outstanding at December 31, 1991	334,825	less than $.01 - $28.83
Granted	25,454	$1.84 $14.00
Exercised	–	
Canceled or expired	(72,649)	less than $.01 - $14.00
Outstanding at December 31, 1992	287,630	less than $.01 - $28.83

	December 31, 1992	1991	1990
Shares exercisable	109,604	66,986	11,793

No additional options will be granted from the Plan.

Options to purchase 47,680 shares of common stock granted to an officer of the Company were canceled in 1992 in connection with that officer's resignation. Such options have been included in the total shares canceled or expired during 1992 in the above table. As a result of the cancellation of these options, previously recorded deferred compensation of $51,000 was reversed in 1992.

In 1992, the Board of Directors and stockholders of the Company adopted the 1992 Key Employees Stock Option Plan ("the 1992 Plan"). The 1992 Plan allows for the issuance of options to purchase up to 300,000 shares of common stock through March 2002. In February 1993, options to purchase approximately 115,000 shares of common stock at the then market rate were granted to certain employees of the Company.

Notes to Consolidated Financial Statements (continued)

Also in 1992, the Board of Directors and stockholders of the Company adopted the 1992 Directors Stock Option Plan ("the Directors Plan"). The Directors Plan provides for the issuance of options to purchase up to 75,000 shares of common stock to non-management directors through April 1997. During 1992, options to purchase an aggregate 15,000 shares of common stock at $15.00 per share were issued to three directors, and options to purchase an aggregate 5,000 shares of common stock at $15.88 per share were issued to a newly appointed director. Accordingly, at December 31, 1992, options to purchase 20,000 shares were outstanding and 55,000 shares were available for future grant. No outstanding shares were exercisable at December 31, 1992. In January 1993, options to purchase an additional aggregate 15,000 shares of common stock at the then market rate were granted to three of the four directors of the Company.

The Company records deferred compensation expense based on the difference between the fair value of stock and the exercise price set forth in the option agreement. Deferred compensation related to these options is amortized over the vesting periods of the related options.

12. Commitments and contingencies

Leases

The Company leases certain facilities and equipment under noncancelable operating lease agreements and certain equipment under capital lease agreements. Future minimum rental payments under all noncancelable leases as of December 31, 1992 are as follows:

	Operating leases	Capital leases
1993	$ 1,730,000	$ 597,000
1994	1,537,000	645,000
1995	1,239,000	361,000
1996	1,157,000	353,000
1997	751,000	287,000
Thereafter	5,501,000	37,000
	$11,915,000	2,280,000
Less – Amount representing interest		398,000
Present value of minimum lease payments, including current portion of $450,000		$1,882,000

Rent expense of $1,791,000, $1,430,000 and $1,387,000 was charged to operations during the years ended December 31, 1992, 1991 and 1990, respectively.

Distribution agreements

Effective June 29, 1990, the Company entered into an agreement to become the exclusive distributor of a new photo display product ("Showbox") produced by a Swiss company. At December 31, 1992, the Company had commitments of approximately 17,200,000 Swiss Francs (approximately $11,700,000 using the foreign currency exchange rate at that date) to purchase this product. At December 31, 1992, the Company had hedged a portion of these commitments and deferred any gain or loss which will be included in the Showbox inventory cost when realized.

Effective June 1, 1991, the Company entered into an agreement to be the exclusive buyer of various photo albums. At December 31, 1991, the Company had commitments of approximately $17,800,000 to purchase these albums through November 30, 1993. In December 1992, this agreement was terminated.

Letters of credit

At December 31, 1992 and 1991, the Company had outstanding letters of credit totaling $3,300,000 and $3,500,000, respectively.

Litigation

There are various legal proceedings and claims pending against the Company. While it is not possible to determine the ultimate outcome of these matters, it is the opinion of management, based on advice from counsel, that they will not result in an aggregate material adverse effect on the Company's financial position or results of operations.

13. Extraordinary loss

During 1992, the Company realized a $3,758,000 extraordinary loss related to the early extinguishment of debt. The extraordinary loss consisted of a $2,296,000 prepayment penalty associated with notes payable to stockholders and officers and the write-off of unamortized deferred debt issuance costs of $1,462,000.

Corporate Information

Board of Directors

Charles Gordon
Chairman and Chief Executive Officer
The Holson Burnes Group, Inc.

Joshua Bekenstein
President
The Holson Burnes Group, Inc.
Partner, Bain Capital

Geoffrey Rehnert
Partner, Bain Capital

Marc Wolpow
Partner, Bain Capital

Elliot Stone
Independent Management Consultant

Executive Officers

Charles Gordon
Chairman and Chief Executive Officer

Joshua Bekenstein
President

Steven Barnes
Executive Vice President,
Chief Financial Officer and Secretary

Robert Sangster
Senior Vice President – Operations

Deborah Carreau
Vice President – Controller

Ronald Cipolla
Vice President – Management Information Systems

Shareholder Information

Transfer Agent
The First National Bank of Boston
Shareholder Services Division
P.O. Box 644
Boston, Massachusetts 02102

Shareholder Information (continued)

Independent Accountants
Price Waterhouse
50 Kennedy Plaza
Providence, Rhode Island 02903

Legal Counsel
Kirkland & Ellis
200 East Randolph Drive
Chicago, Illinois 60601

Common Stock
The Company's common stock trades on The Nasdaq Stock Market under the symbol HBGI.

Annual Meeting
Shareholders are invited to attend the Annual Meeting which will be held on Thursday, April 29, 1993 at 10:00 AM at our Executive Offices.

Executive Offices
The Holson Burnes Group, Inc.
582 Great Road
North Smithfield, Rhode Island 02895

Market for the Registrant's Common Equity and Related Stockholder Matters

The high and low sales prices for the Company's shares of common stock are set forth below.

1992	High	Low
Second Quarter (from May 20, 1992)	14½	12¾
Third quarter	19	13¼
Fourth quarter	18½	4¼

On March 5, 1993, the Company had 83 stockholders of record of its common stock. The Company believes that there are approximately 1,800 beneficial owners of such stock.

The Company did not declare or pay any cash dividends during 1992 and has no intention to declare or pay cash dividends in the foreseeable future. Further, the Company's ability to pay dividends is restricted by the terms of its Senior Notes and revolving credit facility.

The Holson Burnes Group, Inc.
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