

08-22-2000

FORM PTO-1618A
Expires 06/30/99
OMB 0651-0027



U.S. Department of Commerce
Patent and Trademark Office
TRADEMARK

101438579

RECORDATION FORM COVER SHEET
TRADEMARKS ONLY

MCO 7-21-00

TO: The Commissioner of Patents and Trademarks: Please record the attached original document(s) or copy(ies).

Submission Type

- New
- Resubmission (Non-Recordation)
Document ID #
- Correction of PTO Error
Reel # Frame #
- Corrective Document
Reel # Frame #

Conveyance Type

- Assignment License
- Security Agreement Nunc Pro Tunc Assignment
- Merger Effective Date
Month Day Year
- Change of Name
- Other

Conveying Party

Mark if additional names of conveying parties attached Execution Date
Month Day Year

Name

Formerly

- Individual General Partnership Limited Partnership Corporation Association

Other

Citizenship/State of Incorporation/Organization

Receiving Party

Mark if additional names of receiving parties attached

Name

DBA/AK/A TA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)

- Individual General Partnership Limited Partnership If document to be recorded is an assignment and the receiving party is not domiciled in the United States, an appointment of a domestic representative should be attached. (Designation must be a separate document from Assignment.)
- Corporation Association
- Other

Citizenship/State of Incorporation/Organization

08/21/2000 DNGUYEN 00000295 2260300

FOR OFFICE USE ONLY

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Public burden reporting for this collection of information is estimated to average approximately 30 minutes per Cover Sheet to be recorded, including time for reviewing the document and gathering the data needed to complete the Cover Sheet. Send comments regarding this burden estimate to the U.S. Patent and Trademark Office, Chief Information Officer, Washington, D.C. 20231 and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Paperwork Reduction Project (0651-0027), Washington, D.C. 20503. See OMB Information Collection Budget Package 0651-0027, Patent and Trademark Assignment Practice. DO NOT SEND REQUESTS TO RECORD ASSIGNMENT DOCUMENTS TO THIS ADDRESS.

Mail documents to be recorded with required cover sheet(s) information to:
Commissioner of Patents and Trademarks, Box Assignments, Washington, D.C. 20231

TRADEMARK
REEL: 002124 FRAME: 0313

Domestic Representative Name and Address

Enter for the first Receiving Party only.

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

Correspondent Name and Address

Area Code and Telephone Number

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

Pages

Enter the total number of pages of the attached conveyance document including any attachments.

#

Trademark Application Number(s) or Registration Number(s)

Mark if additional numbers attached

Enter either the Trademark Application Number or the Registration Number (DO NOT ENTER BOTH numbers for the same property).

Trademark Application Number(s)

Registration Number(s)

Number of Properties

Enter the total number of properties involved.

#

Fee Amount

Fee Amount for Properties Listed (37 CFR 3.41):

\$

Method of Payment:

Enclosed

Deposit Account

Deposit Account

(Enter for payment by deposit account or if additional fees can be charged to the account.)

Deposit Account Number:

#

Authorization to charge additional fees:

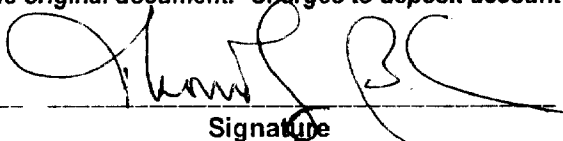
Yes

No

Statement and Signature

To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document. Charges to deposit account are authorized, as indicated herein.

Thomas L. Bohan
Name of Person Signing


Signature

July 17, 2000
Date Signed

THOMAS L. BOHAN & ASSOCIATES
PATENT AND TRADEMARK ATTORNEYS

371 Fore Street, Suite 202
Portland, Maine 04101
(207) 773-3132

FAX (207) 773-4585
info@bohanlaw.com
www.bohanlaw.com

Office Manager
Diane E. Tyler

July 17, 2000

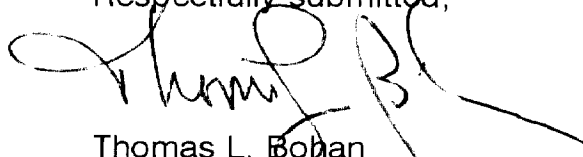
The Commissioner of Patents and Trademarks
Box ASSIGNMENTS
Washington, D.C. 20231

Dear Sir:

Enclosed for recordation please find: 1) a Recordation Cover Sheet (2 pages); 2) a true copy of the Purchase and Sale Agreement document conveying Trademark Registration No. 2,260,300 to Foto Fantasy Inc.; 3) a check for \$40.00 as payment of the recordation fee. A return postcard is also enclosed.

Thank you for your assistance in this matter.

Respectfully submitted,



Thomas L. Bohan
Thomas L. Bohan & Associates
371 Fore Street
Portland, ME 04101

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STOCK PURCHASE AND SALE AGREEMENT

For the Acquisition of

AMERICAN PHOTO BOOTHS, INC.

by

FOTO FANTASY, INC.

from

THE SELLING STOCKHOLDERS NAMED THEREIN

Effective February 19, 1999

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (this "Agreement") entered into effective as of the 19th day of February, 1999 by and among AMERICAN PHOTO BOOTHS, INC. d/b/a APBI, a Delaware corporation (the "Company"), FOTO FANTASY, INC. d/b/a FANTASY ENTERTAINMENT, a Delaware corporation (the "Buyer"), and the selling stockholders named on the signature pages hereto (each a "Seller" and collectively, the "Sellers").

WITNESSETH:

WHEREAS, the Sellers are the owners of all of the issued and outstanding shares of capital stock of every kind and description of the Company (said shares being herein referred to as the "Shares");

WHEREAS, the Sellers desire to sell the Shares and the Buyer desires to purchase the Shares upon the terms and conditions set forth herein;

WHEREAS, the Buyer and the Sellers desire to enter into certain other agreements for their mutual benefit.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby mutually acknowledged, intending to be legally bound the parties hereby agree as follows:

ARTICLE I. PURCHASE AND SALE OF THE SHARES

SECTION 1.01 Purchase and Sale of the Shares. On the basis of the representations, warranties and undertakings set forth in this Agreement, and on the terms and subject to the conditions set forth in this Agreement, the Sellers hereby sell, deliver and convey the Shares to the Buyer, and the Buyer hereby purchases such Shares from the Sellers, free and clear of all claims, charges, liens, contracts, rights, options, security interests, mortgages, encumbrances and restrictions of every kind and nature (together, "Claims").

SECTION 1.02 Purchase Price.

(a) In consideration of the transfer of the Shares, upon the terms and subject to the conditions set forth in this Agreement, the Buyer will pay an aggregate of Six Million Seven Hundred Fifty Thousand Dollars (\$6,750,000.00) in immediately available funds, subject to adjustment in accordance with Section 1.03, of which:

- (i) An aggregate of up to \$2,227,186 will be paid by delivery to Mintz, Levin, Cohn, Ferris, Glovsky and Popeo P.C. (the "Escrow Agent") of checks made payable to the creditors of the Company as will be set forth on Schedule 1.02(A) which will be delivered to the Buyer at or prior to the Closing, in each case in the amount shown opposite the name of each such creditor on said Schedule;
- (ii) An aggregate of \$1,612,803 will be paid by delivery to the Escrow Agent of checks made payable to the Sellers that own shares of Preferred Stock of the

Company as set forth on Schedule 1.02(B), in each case in the amount shown opposite the name of each such Seller on said Schedule;

- (iii) One Million Dollars (\$1,000,000) (together with any other amounts paid to the Escrow Agent pursuant to this Agreement, the "Escrowed Cash") will be delivered to Escrow Agent, to be held in an interest-bearing account (the "Escrow Account") pursuant to the terms of the Escrow Agreement to be entered into among the Escrow Agent, the Buyer, the Company and the Sellers simultaneously herewith (the "Escrow Agreement"), to secure the indemnification obligations of the Sellers to the Buyer pursuant to Section 4 hereof and certain other liabilities and obligations of the Sellers to the Buyer, and to facilitate the adjustments provided for in Section 1.03, in substantially the form of Exhibit 1.02 attached hereto; and
- (iv) The entire amount remaining after making the payments under clauses (i)-(iii) above will be paid by delivery to the Escrow Agent of checks made payable to the Sellers that own shares of Common Stock of the Company as set forth on Schedule 1.02(C), in each case in the amount obtained by multiplying such amount by the percentage shown opposite the name of each such Seller on said Schedule.

(b) The aggregate amount to be paid by Buyer under Clauses (i), (ii), (iii) and (iv) of Section 1.02(a) shall be referred to as the "Purchase Price." Notwithstanding the foregoing, the aggregate amount to be paid to the creditors of the Company under Clause (i) of Section 1.02(a) shall be deemed, for tax purposes, to constitute a capital contribution by Buyer to the Company and shall be referred to as the "Capital Contribution."

(c) As provided in the Escrow Agreement, as soon as possible following the Closing, the Escrow Agent shall cause each check delivered to it pursuant to clauses (i), (ii) and (iii) of Section 1.02(a) to be mailed to the payee thereof at the address shown for such payee on Schedule 1.02(A), 1.02(B) or 1.02(C), as the case may be.

SECTION 1.03 Post-Closing Adjustments.

- (i) In the event that as of the Closing, the number of complete, fully operational stickerstation® machines owned by the Company is less than 608 (the "Stickerstation® Target"), the Purchase Price shall be reduced no later than sixty (60) days following the Closing by an amount equal to Six Thousand Two Hundred and Fifty Dollars (\$6,250) multiplied by the difference between (x) the Stickerstation® Target, and (y) the actual number of such fully operational stickerstation® machines owned by the Company as of the Closing. In addition, in the event that as of the Closing, the number of complete, fully operational photo booths owned by the Company is less than 34 (the "Photo Booth Target"), the Purchase Price shall be reduced no later than sixty (60) days following the Closing by an amount equal to Nine Thousand Dollars (\$9,000) multiplied by the difference between (x) the Photo Booth Target and (y) the actual number of such fully operational photo booths owned by the Company as of the Closing.
- (ii) The Purchase Price shall be decreased on a dollar-for dollar basis no later than sixty (60) days following the Closing to the extent that any of the Company's total assets (excluding stickerstation® machines and photo

booth machines) valued at the Company's cost as of the Closing are in fact less than the amounts set forth on Schedule 1.03(A).

- (iii) The Purchase Price shall be increased or decreased on a dollar-for-dollar basis, as the case may be, by an amount equal to (x) all funds collected by the Company and/or the Buyer after the Closing, with respect to trade accounts receivable of the Company existing plus Permitted Liabilities as of the Closing (as hereinafter defined) plus all cash held by the Company as of the Closing (whether held in bank accounts, photo kiosk machines or otherwise) plus the existing Toys R Us Debt (as hereinafter defined), as of the Closing, minus (y) the sum of all operating expenses incurred by the Company prior to the Closing, including costs of collection (collectively, "Operating Expenses") and the Toys R Us Debt but excluding Excluded Liabilities, provided, however, that no operating expenses which were paid at or prior to Closing or which constitute Permitted Liabilities shall be subtracted from such account receivable revenues. Any adjustment required under this clause (iii) shall be made not later than 60 days after the Closing.
- (iv) In addition, the Purchase Price shall be decreased on a dollar-for-dollar basis by an amount equal to all liabilities of the Company arising from its failure to file certain state sales and use tax returns and to pay sales and use taxes owed by the Company with respect to periods prior to the Closing, together with such interest, late fees and penalties as may be assessed by various states in connection therewith, as determined by the Buyer and its independent accounting firm at any time during the escrow period set forth in the Escrow Agreement; provided, however, that this clause shall not apply to any sales and use taxes that will be deducted from trade accounts receivables or cash under clause (iii) of this Section 1.03 or to any such tax related liabilities which constitute Permitted Liabilities.
- (v) In the event that any creditors of the Company refund to the Company any amounts paid to such creditors by the Company prior to the Closing and/or by the Buyer at the Closing pursuant to Section 1.02(i), promptly after the Company receives the same, the Buyer shall cause the Company to pay to the Escrow Agent an amount equal to any such refunds, which amounts shall also be held by the Escrow Agent in accordance with the Escrow Agreement.
- (vi) All adjustments to the Purchase Price made in favor of the Buyer pursuant to this Section shall be paid out of the Escrowed Cash in accordance with the Escrow Agreement. All adjustments made in favor of the Sellers pursuant to this Section shall be paid into the Escrow Account by the Buyer.

SECTION 1.04 Permitted and Excluded Liabilities.

(a) The Company shall pay in full or otherwise settle and resolve, and the Sellers shall cause the Company to pay in full or otherwise settle and resolve, all Excluded Liabilities prior to or as of the Closing. In the event that the Buyer or the Company at any time after the Closing (i.e. excluding the payments made pursuant to clause (i) of Section 1.02(a)) becomes required to pay and pays all or any portion of one of the Excluded Liabilities (as hereafter defined), the Buyer shall be entitled to receive a payment equal to the full amount of such payment out of the

(b) For purposes of this Agreement, the following terms have the following meanings:

“Permitted Liabilities” means (i) the existing accounts payable of the Company incurred in the ordinary course of business prior to the Closing Date (excluding outstanding legal fees and expenses, outstanding accounting fees and expenses, including, without limitation, the fees and expenses of KPMG Peat Marwick and of The Shepherd Group), all as further described in Schedule 1.04(A), in an amount not exceeding One Million Five Hundred Thirty Five Thousand Dollars (\$1,535,000), (ii) amounts owing as of the Closing under the booth location contracts in effect as of the date hereof, provided such amounts have been incurred in the ordinary course of business and are not otherwise in arrears, (iii) the indebtedness of the Company owing to ToysRUs in an amount not exceeding One Million One Hundred Sixty One Thousand Eight Hundred Ninety Seven Dollars (\$1,161,897) as of the Closing Date (the “Toys R Us Debt”), and (iv) current sales and use tax liabilities of the Company which are not yet due and payable.

“Excluded Liabilities” means all debts, liabilities and obligations (excluding contractual obligations of the Company set forth in Schedule 2.23) of the Company accrued prior to the Closing Date (other than Permitted Liabilities), all as further described in Schedule 1.04B, including, without limitation, (i) any liabilities of the Company arising out of breaches or events of defaults arising out of breaches or defaults or events that occurred, under any contracts to which the Company is a party prior to the date hereof, (ii) any obligations and liabilities of the Company under any welfare/compensation, pension or benefit plan or agreement or under the Consolidated Omnibus Budget Reconciliation Act of 1985, (iii) any loan or liabilities to any stockholder, officer, director, or employee of the Company, including any indemnification liabilities, other than ordinary current salary and wages owing to employees arising out of employment preceding the date hereof, (iv) any outstanding commercial loan balances, excluding amounts owing to Toys R Us, (v) any investment banking, finders or brokerage fees or commissions incurred by the Company or the Sellers in connection with the transactions contemplated hereby, (vi) any costs of severance or retirement relating to the Company’s employees, including, without limitation, severance and/or termination pay owing to former employees and funded or unfunded pension liabilities, (vii) any note or other indebtedness of the Company or any Seller, including the outstanding notes issues in favor of any Sellers, excluding Toys R Us, and (viii) any outstanding obligations and liabilities of the Company to Samuel S. Attenberg or Richard Attenberg under their respective existing Employment Agreements (collectively, the “Employment Agreements”).

SECTION 1.05 Alexandria Office and Equipment Leases. Buyer intends to continue the Company’s occupancy of its offices located at 801 North Fairfax Street, Alexandria, Virginia (the “Alexandria Offices”) until March 31, 1999. Accordingly, all rent and other amounts owing under the lease for the Alexandria Offices (the “Alexandria Lease”) and the lease of certain office equipment (collectively, the “Equipment Lease”) relating to the use and occupancy of the Alexandria Offices (i) prior to the Closing shall be paid by the Company prior to the Closing, and (ii) from the Closing Date until the later of March 31, 1999 or such time as the Company shall have completely vacated the Alexandria Offices shall be paid by the Company or Buyer without any payment or reimbursement from the Escrowed Funds. The Buyer shall be entitled to receive out of the Escrowed Funds, however, amounts equal to any and all rent and other amounts paid by the Company or the Buyer on account of rent and other amounts owing under the Alexandria Lease and rent and other amounts owing under the Equipment Lease with respect to any period after the later

to occur of March 31, 1999 or such time as the Company shall have completely vacated the Alexandria Offices. After the Company has vacated the Alexandria Offices, the Sellers' Representatives shall be permitted to negotiate and enter into, on behalf of the Company, such arrangements with the landlord under the Alexandria Lease and/or other third parties (such as a termination of the lease or entering into a sublease) as they deem reasonably necessary or appropriate to minimize the total amount paid out of the Escrowed Funds under this Section 1.05, subject to the Buyer's approval thereof, which approval shall not be unreasonably withheld, and evidence satisfactory to the Buyer of the termination of the lease or entry into such sublease. The Buyer and the Company hereby agree to cooperate fully with such efforts by the Sellers' Representatives; provided, however, that in no event shall the Company or the Buyer be required to make any payments or to otherwise incur any liability or obligation to the landlord or other third parties in connection with such arrangements, unless the Company or Buyer, as the case may be, have been fully reimbursed from the Escrowed Cash simultaneously therewith for any such liability or obligation. The Company shall be entitled to be reimbursed out of the Escrowed Funds for any and all amounts paid to third parties in connection with any such lease-related arrangements agreed to by the Sellers' Representatives pursuant to this Section 1.05. In the event that the Company's potential liability of any kind or nature under the Alexandria Lease has not been terminated in full prior to the end of the fifteen month escrow period, an amount equal to such liability shall be retained by the Escrow Agent for distribution to the Buyer to satisfy any liabilities of the Company arising under said Lease for the remainder of the term thereof. The Buyer shall also be entitled to be reimbursed out of the Escrowed Funds for any amounts owed by the Company under the Equipment Lease after the later to occur of March 31, 1999 or such time as the Company shall have completely vacated the Alexandria Offices, unless the Company or the Buyer shall continue to use such equipment at another location or such Equipment Lease is sooner terminated without further liability by the Company or the Buyer.

SECTION 1.06 Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall occur simultaneously with the execution of this Agreement or as soon thereafter as the parties shall be able to make all the deliveries required under this Section 1.06 (the "Closing Date") and shall take place at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts, or at such other time and place as may be mutually agreed to by the parties.

At the Closing:

- A. The Sellers shall deliver or cause to be delivered to the Buyer the following:
- (i) Certificates for the Shares in the name of the Sellers duly endorsed to the Buyer for transfer, or accompanied by duly endorsed separate stock assignments;
 - (ii) A Certificate from the Secretary of the Company certifying as to the Certificate of Incorporation, By-laws and certain resolutions adopted by the directors of the Company authorizing the execution, delivery and performance of this Agreement and the transactions contemplated hereby and the acts of the officers and employees of the Company and each such Seller in carrying out the terms and provisions hereof;
 - (iii) The opinion of Patton Boggs LLP in substantially the form of Exhibit 1.06A(iii);

- (iv) Evidence satisfactory to the Buyer in its sole discretion of the termination by the Company of the Employment Agreements, together with a release by each of Samuel S. Attenberg and Richard Attenberg of the Company, the Buyer and their respective officers, directors, stockholders, successors and assigns from any claims, demands or other obligations under the Employment Agreements and a non-competition covenant from Richard Attenberg in form satisfactory to the Company in its sole discretion;
- (v) Non-Competition Agreement between the Company and Samuel S. Attenberg;
- (vi) The resignations of such officers and directors of the Company as the Buyer shall have requested;
- (vii) the Escrow Agreement;
- (viii) Evidence satisfactory to the Buyer in its sole discretion of the discharge of all Excluded Liabilities, and the discharge, release and termination of all liens upon the assets or securities of the Company other than the existing liens in favor of ToysRUs;
- (ix) Evidence satisfactory to the Buyer in its sole discretion of the receipt of such third party consents, waivers and approvals (including, without limitation, those of DreamWorks, L.L.C. and Mattel, Inc. and those required under any location contracts or building lease agreements to which the Company is a party) as shall be necessary to enable the Company and the Sellers to enter into this Agreement and the related documents and to consummate the transactions contemplated hereby, and all without the payment of any fees or charges by the Buyer;
- (x) Evidence satisfactory to the Buyer in its sole discretion of the filing with the United States Patent and Trademark Office of the assignment of the Patent (as hereinafter defined) from APBI Interactive Kiosk Systems, Inc. to the Company;
- (xi) A Certificate of Legal Existence and Good Standing from the Secretary of State of the State of Delaware and Certificates of Good Standing as a foreign corporation from each other state in which the Company is to the best of Sellers' knowledge, required to register as a foreign corporation; and
- (xii) Such Certificates of Tax Good Standing from the Secretary of State from each state in which the Company does business as the Company shall have been able to obtain prior to the Closing, together with such additional information regarding the status of the Company's tax filings as the Company shall have in its possession;

- (xiii) All of the books, data, documents, instruments and other records relating to the Company, including without limitation, the original incorporation documents, foreign qualifications, By-laws, minute book, stock record book, contracts and agreements, trademark, copyright and patent registrations and applications, licenses, permits and approvals and consents.

B. The Buyer shall deliver or cause to be delivered to the Sellers the following:

- (i) The Certificate of the Secretary of Buyer certifying as to the Certificate of Incorporation, and By-laws of the Buyer and certain resolutions of the directors of the Buyer authorizing the execution, delivery and performance of this Agreement and the transactions contemplated hereby and the acts of the officers and employees of the Buyer in carrying out the terms and provisions hereof;
- (ii) The opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. in substantially the form of Exhibit 1.06B(v); and
- (iii) a Certificate of Legal Existence and Good Standing from the Secretary of State of the State of Delaware and a Certificate of Good Standing as a foreign corporation from the State of Virginia.

C. Simultaneously herewith the Buyer shall deliver or cause to be delivered

to:

- (i) the Escrow Agent, all of the checks specified in Section 1.02(a) and the Escrowed Cash;
- (ii) the Company and the Sellers, the Escrow Agreement; and
- (iii) SGL Corp. ("SGL"), a Royalty Agreement in the form of Exhibit 1.06(c).

SECTION 1.07 Further Assurances. At any time and from time to time after the Closing, at the request of the Buyer and without further consideration, the Sellers shall execute and deliver such other instruments of sale, transfer, conveyance, assignment and confirmation as may be reasonably requested in order to more effectively transfer, convey and assign to the Buyer and to confirm the Buyer's title to the Shares.

ARTICLE II. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND SELLERS

As an inducement to the Buyer to enter into this Agreement and to consummate the transactions contemplated hereby, the Company and Sellers, severally (each in proportion to such Seller's respective ownership percentage of the issued and outstanding shares of Common Stock of the Company as set forth on Schedule 2.05, provided, however, that each Seller makes the

representations set forth in Sections 2.02, 2.03 and 2.05 only with respect to matters pertaining to the Company or to such Seller in particular and not with respect to any matter pertaining to any other Seller), hereby represent and warrant to and agree with the Buyer (except as otherwise may be disclosed in a written certificate delivered by the Company to the Buyer prior to the Closing) that:

SECTION 2.01 Due Organization and Good Standing. The Company is a duly organized and validly existing corporation in good standing under the laws of the State of Delaware. Except as set forth on Schedule 2.01, the Company is duly authorized, qualified and licensed under all applicable laws, regulations, ordinances and orders of public authorities to carry on its business in the places and in the manner as now conducted, except where the failure to be so authorized, qualified or licensed would not have a material adverse effect on the business, operations, assets, properties or condition, financial or otherwise, of the Company. Schedule 2.01 lists each jurisdiction where the Company is duly qualified as a foreign corporation. Schedule 2.01 sets forth each name, including any trade name, under which the Company conducts its business.

SECTION 2.02 Authorization; Binding Obligations. The Company has all requisite corporate power and authority to own and operate its properties and to carry on its business as now conducted, to enter into and perform this Agreement and all other documents and instruments to be delivered by the Company pursuant to this Agreement and to consummate the transactions contemplated hereunder. The execution and delivery of this Agreement and the Escrow Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary action on the part of the Company. This Agreement and the Escrow Agreement have been duly and validly executed and delivered by the Company and the Sellers, and constitute the legal, valid and binding obligation of each of them, enforceable against each of them in accordance with their respective terms, subject to (a) applicable bankruptcy, insolvency, moratorium or other similar laws affecting creditor's rights generally and (b) general principles of equity relating to the availability of equitable remedies.

SECTION 2.03 No Conflicts or Consents.

(a) The execution, delivery and performance of this Agreement and the Escrow Agreement and the consummation of the transactions contemplated hereunder do not and will not: (i) conflict with or result in any violation of, default or loss of a benefit under, or permit the acceleration of any obligation under any provision of (a) the Certificate of Incorporation or By-laws of the Company, (b) except as set forth on Schedule 2.03, conflict with or result in any violation of any contract, mortgage, indenture, lease or other agreement to which the Company or the Sellers are a party or by which the Company or the Sellers or any of their assets or properties are bound or to which the Company or the Sellers or any of the Company's or the Sellers' assets or properties are subject, (ii) violate any judgment, decree, order, statute, law, rule or regulation applicable to the Company or the Sellers or by which the Company or the Sellers or any of their assets or properties are bound or to which the Company or the Sellers or any of the Company's or the Sellers' assets or properties are subject, or (iii) result in the creation of, or give any party the right to create, any lien, charge, encumbrance or security interest upon the Shares or the property and assets of the Company or Sellers.

(b) Except as set forth in Schedule 2.03, no action, consent or approval by, or filing by the Company with, any federal, state, municipal, foreign or other court or governmental body or agency, or any other regulatory body, is required in connection with the execution, delivery or performance by the Company and the Sellers of this Agreement and all other documents and instruments to be delivered

pursuant to this Agreement or the consummation by the Company and the Sellers of the transactions contemplated hereunder, except where the failure to obtain will not have a material adverse effect on the business, operations, assets, properties or condition, financial or otherwise, of the Company.

SECTION 2.04 Capital Stock of the Company. The authorized, issued and outstanding capital stock of the Company consists on the date hereof, of 500,000 shares of Common Stock, \$.01 par value per share, of which 27,577 shares are issued and outstanding and owned by the Sellers and 15,000 shares of Preferred Stock, \$.01 par value per share, of which 1,758 shares are issued and outstanding, in each case with no personal liability attaching to the ownership thereof. All of such shares are duly authorized, validly issued, fully paid and non-assessable and were issued in full compliance with all federal, state and local rules, laws and regulations. The designations, powers, preferences, rights, qualifications, limitations and restrictions in respect of such authorized capital stock of the Company are as set forth in the Company's Certificate of Incorporation, a copy of which has been provided to the Buyer. Except for 160 shares of Common Stock repurchased from Hugh Bethell, there are no shares held in the corporate treasury of the Company and no shares reserved for issuance. Except as set forth on Schedule 2.04, as of the date hereof there are no outstanding subscriptions, options, warrants, rights, calls or convertible securities, stock appreciation rights (phantom or otherwise), joint venture, partnership or other commitments of any nature relating to shares of the capital stock of the Company. As of the date hereof, except as set forth in the Company's Certificate of Incorporation, there is no obligation (contingent or other) to purchase, redeem or otherwise acquire any of its equity securities or any interest therein or to pay any dividend or make any other distribution in respect thereof.

SECTION 2.05 Title to Shares. Each Seller owns the Shares shown opposite his, her or its name on Schedule 2.05 beneficially and of record, free and clear of all Claims. Except for certain restrictions contained in that certain Shareholders' Agreement dated June 27, 1997, between the Company and the Sellers (the "Shareholders' Agreement") waived herein, there is no restriction affecting the ability of the Sellers to transfer the legal and beneficial title and ownership of the Shares to the Buyer and, upon delivery thereof to the Buyer pursuant to the terms of this Agreement and upon payment of the Purchase Price at the Closing, the Buyer will acquire record and beneficial title to the Shares free and clear of all Claims. The Sellers and the Company hereby waive the obligation of the Sellers, in connection with the sale of the Shares contemplated by this Agreement, to comply with any of the restrictions or obligations affecting the transfer or transferability of the Shares contained in the Shareholders' Agreement.

SECTION 2.06 Subsidiaries. The Company does not (a) own of record or beneficially, directly or indirectly, (i) any shares of capital stock or securities convertible into capital stock of any other corporation or (ii) except as set forth in Schedule 2.06, any participating interest in any partnership, joint venture or other non-corporation business enterprise or (b) contain, directly or indirectly, any other entity.

SECTION 2.07 Financial Statements. The Company has previously furnished to the Buyer, and attached hereto as Schedule 2.07, are the audited balance sheets of the Company at December 31, 1997 and December 31, 1996 and the internally prepared balance sheet as at December 31, 1998 (the "Latest Balance Sheet") and the related statements of income for the fiscal years and the eleven-month period then ended. All such financial statements (the "Financial Statements") have been prepared in accordance with generally accepted accounting principles consistently applied (with the exception of the lack of notes thereto for the interim Financial Statements) and were prepared from the books and records of the Company, which books and records are complete and correct in all material respects and accurately reflect all transactions of the

business. The Financial Statements fairly present the financial position of the Company as of the dates thereof, and the results of their operations for the periods ended on the dates thereof and have been prepared in accordance with the methods of accounting consistently used historically by the Company and described in the accountant's reports, if any, attached to the Financial Statements. The Financial Statements reflect reserves appropriate and adequate for all known material liabilities and reasonably anticipated losses as required by generally accepted accounting principles. Since December 31, 1998, except as described on Schedule 2.07, (a) there has been no change in the assets, liabilities or financial condition of the assets of the Company from that reflected in the Latest Balance Sheet except for changes in the ordinary course of business consistent with past practice and which have not been materially adverse and (b) none of the business, prospects, financial condition, operations, property or affairs of the Company has been materially adversely affected by any occurrence or development, individually or in the aggregate, whether or not insured against. The Company has disclosed to the Buyer all material facts relating to the preparation of the Financial Statements. The Company has delivered to the Buyer complete and correct copies of all letters of representation from the Company delivered to the accountants in connection with the preparation of such Financial Statements, and all management letters from the accountants to the Company.

SECTION 2.08 Absence of Undisclosed Liabilities. Except as and to the extent of the amounts specifically reflected or reserved against in the Latest Balance Sheet or disclosed in Schedule 2.08 or another Schedule to this Agreement, the Company has no liabilities of any nature whatsoever, due or to become due, accrued, absolute, contingent or otherwise, except for liabilities and obligations incurred since the date of the Latest Balance Sheet in the ordinary course of business and consistent with past practice. The Sellers do not know of any basis for the assertion against the Company of any liability or obligation of the Company not fully reflected or reserved against in the Latest Balance Sheet or disclosed in Schedule 2.08 (or another Schedule attached hereto) incurred in the ordinary course of business and consistent with past practice since the date thereof. The Company and the Sellers have paid and satisfied all liabilities and obligations to Samuel Attenberg and Richard Attenberg under the Employment Agreements or otherwise.

SECTION 2.09 Absence of Adverse Change; Conduct of Business. Except as set forth on Schedule 2.09, since December 31, 1998, the Company has conducted its business only in the ordinary course of business consistent with past practice, there has been no material adverse change in the business of the Company and there is no known condition or development or contingency of any kind existing or which, so far as reasonably can be foreseen by the Sellers, may result in any such material adverse change. Without limiting the foregoing, except as set forth on Schedule 2.09, since December 31, 1998, there has not been, occurred or arisen:

- (i) any material adverse change in the working capital, operations, financial condition, assets, liabilities, business or prospects of the Company;
- (ii) any loan, advance, agreement, arrangement or transaction between the Company and any employees of the Company, or any business or entity in which the Company, its affiliates or an employee of either has any direct or indirect interest, except for compensation at rates not exceeding the rates of compensation in effect as of December 31, 1998 and advances made to employees of the Company for ordinary and customary business expenses in reasonable amounts in the ordinary course of business consistent with past practice;

- (iii) any sale, assignment, transfer or grant of any license or sublicense with respect to any patent, trademark, trade name, service mark, copyright, trade secret or other intangible asset used or useful in the business of the Company;
- (iv) any incurrence or payment of any material obligation or liability (absolute, accrued or contingent) other than current liabilities shown on the Financial Statements and current liabilities incurred since the date of the Financial Statements in the ordinary course of business consistent with past practice;
- (v) any mortgage or pledge of, or any lien placed on, any assets of the Company, tangible or intangible, except for (a) liens for current taxes not yet due and payable, (b) warehousemen's, mechanics', materialmen's, repairmen's or other like liens arising in the ordinary course of business consistent with past practice securing sums which are not overdue, (c) pledges or deposits to secure obligations under workmen's compensation laws or similar legislation, (d) deposits to secure public or statutory obligations of the Company or (e) deposits to secure surety, appeal or customs bonds in the ordinary course of business consistent with past practice (collectively, "Permitted Liens");
- (vi) any material transaction (which shall mean any transaction or series of transactions totaling \$25,000.00 or more), except in the ordinary course of business consistent with past practice;
- (vii) any execution, amendment or modification of any material contract, agreement, franchise, permit, or license;
- (viii) any declaration, setting aside or payment of any dividend or other distribution on or in respect of any shares of the Company's capital stock, or any issuance or direct or indirect redemption, retirement, purchase or other acquisition by the Company of any shares of its capital stock or other securities;
- (ix) any change by the Company in accounting methods, principles or practices or any change in depreciation or amortization policies or rates therefore adopted by it;
- (x) any material adverse change in, relating to, or affecting the condition, assets, personnel, properties, liabilities or business of the Company, including, without limitation, any material decline in sales volume from the prior year period, any material loss, through resignation, incapacity or otherwise, of the services of any key personnel, any loss of a material source of supply, or any material loss, damage or destruction to any assets of the Company;
- (xi) any change in the Certificate of Incorporation or By-laws of the Company;
- (xii) any waiver by the Company of any right or rights (alleged, contingent or otherwise), or of any payment, direct or indirect, of any liability of the Company in excess of \$5,000 in any single instance or \$25,000 in the aggregate (i) before the same became due in accordance with its terms and

- (ii) otherwise than in the ordinary and usual course of business consistent with past practice;
- (xiii) any payment or commitment entered into since December 31, 1998 by the Company to pay any bonus, severance, pension, termination or special compensation of any kind to any of its officers, directors, consultants, agents, or employees, any increase in the rate of compensation payable or to become payable to any of its officers, directors, consultants, agents or employees, except for increases in the ordinary course of business consistent with past practice, which increases with respect to employees subject to collective bargaining agreements, were in accordance with such agreements;
- (xiv) any purchase, sale, transfer, abandonment or other disposition of assets by the Company, other than purchases, sales, or leases of property in the ordinary course of business consistent with past practice;
- (xv) any merger or consolidation of or by the Company with any other corporation, or any acquisition by it of all or any part of the stock or the business or assets, other than inventory or equipment in the ordinary course of business consistent with past practice, of any other person, firm, association, corporation or business organization;
- (xvi) any material damage, destruction or loss (whether or not covered by insurance) to any properties or assets of the Company;
- (xvii) any charge-off of any bad debt by the Company, except in the ordinary course of business consistent with past practice and which was covered by reserves;
- (xviii) any increase in any bad debt reserve of the Company, except in the ordinary course of business consistent with past practice;
- (xix) any other event or condition materially and adversely affecting the properties, assets or business of the Company; or
- (xx) any understanding entered into since December 31, 1998, with respect to any commitment (contingent or otherwise) to do any of the foregoing.

SECTION 2.10 Inventories. Except as disclosed on Schedule 2.10, all of the Company's inventory, including all inventory reflected on the Latest Balance Sheet (excluding any inventory disposed of by the Company since the date thereof in the ordinary course of its business), consists of items of quality and quantity usable or merchantable in the ordinary course of the Company's business. Except as set forth on Schedule 2.10, the Company has good and marketable title to each such item of inventory free and clear of all Claims. No item of inventory reflected on the Latest Balance Sheet (excluding any inventory disposed of by the Company since the date thereof in the ordinary course of its business) or acquired by the Company after such date is, damaged and all items of inventory reflected on the Latest Balance Sheet now in existence are expected to be used in the ordinary course of business. Except as set forth on Schedule 2.10, the current level of inventories and supplies are generally at normal and adequate levels for the continuation of the business in the ordinary course and consistent with the Company's past practices. The inventories do not and will not consist of any goods held on consignment. Schedule 2.10 contains a complete

list of the addresses of all warehouses and other facilities in which the inventories and other assets of the Company are located and/or will be located as of the Closing Date.

SECTION 2.11 Taxes. Except as set forth on Schedule 2.11, the Company has filed on a timely basis all returns, declarations, reports, claims for refunds and information returns or statements relating to Taxes (which shall mean all taxes including, without limitation, any federal, state, local or foreign income, sales, use, license, payroll, employment, excise, severance, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not), including all schedules or attachments thereto, and including any amendment thereof ("Tax Returns") and tax reports required to be filed on or before the date hereof with the appropriate governmental agencies in all jurisdictions in which such returns and reports are required to be filed, and all such Tax Returns were correct and complete in all respects. Except as set forth on Schedule 2.11, all Taxes which have become due or payable or required to be collected by the Company or paid by the Company as reflected on the Tax Returns or as otherwise attributable to any periods ending on or before the date hereof and all interest and penalties thereon, whether disputed or not, have been paid or will be paid in full (whether or not shown on any Tax Return). Except as set forth on Schedule 2.11, the Company has established adequate reserves on its financial statements for all Taxes for all periods up to and including the Closing Date and the Sellers represent and warrant that such reserves are adequate to cover any Taxes incurred prior to the date hereof. Except as set forth on Schedule 2.11, the Company has obtained all appropriate sales or use tax exception certificates for all sales made without charging or remitting a sales or use tax, if applicable. The Company has withheld amounts from employees and others working in the Company's business, as required under applicable law, has created adequate reserves for, and has filed all of the Company's returns and has remitted or will remit to the appropriate authorities all such withheld amounts with respect to employee income tax withholding and social security and unemployment taxes in compliance with the tax withholding provisions of the Code and other applicable Federal, state and local laws.

The Company is not currently the beneficiary of any extension of time within which to file any Tax Return. Except as disclosed on Schedule 2.11, no claim has been made by an authority in a jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. There are no tax liens pending or, to the best of the Sellers' knowledge, threatened against the assets, properties or business of the Company. To the best of the Sellers' knowledge, the Company has not taken or failed to take any action which could create any tax lien on any of its assets.

There is no dispute or claim concerning any Tax Liability (which shall mean any liability, whether known or unknown, whether assessed or unassessed, whether accrued or unaccrued, and whether due or to become due) of the Company either (A) claimed or raised by any authority in writing or (B) as to which the Sellers and the directors and officers (and employees responsible for tax matters) of the Company have knowledge. Schedule 2.11 lists all federal, state, local and foreign income tax returns filed with respect to the Company for taxable periods ended on or after December 31, 1994, indicates those tax returns that have been audited, and indicates those tax returns that currently are the subject of audit. The Sellers have delivered to the Buyer correct and complete copies of all federal and state income tax returns, examination reports, and statements of deficiencies assessed against or agreed to by the Company since December 31, 1994. Schedule 2.11 lists all tax agreements which now exist or have existed within the past five years between the Company and any taxing jurisdiction. The Company has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a tax assessment or deficiency.

SECTION 2.12 Litigation. Except as set forth on Schedule 2.12, there is no (a) action, suit, claim, proceeding or investigation pending or, to the best of the Sellers' knowledge, threatened against or affecting the Company, at law or in equity, or before or by any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (b) arbitration proceeding relating to the Company or (c) governmental inquiry pending or, to the best of the Sellers' knowledge, threatened against, involving or affecting the Company. There are no outstanding orders, writs, judgments, injunctions or decrees of any court, governmental agency or arbitration tribunal against, involving or affecting the Company. The Company is not in default with respect to any order, writ, injunction or decree known to or served upon it from any court or of any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign. Except as set forth on Schedule 2.12, there is no action or suit by the Company pending or threatened against others.

SECTION 2.13 Certain Practices. To the best of the Sellers' knowledge, neither the Company nor any of its directors, officers or employees has, directly or indirectly, given or agreed to give any significant rebate, gift or similar benefit to any supplier, customer, governmental employee or other person who was, is or may be in a position to help or hinder such the Company (or assist in connection with any actual or proposed transaction) which (i) could subject the Company or the Buyer to any damage or penalty in any civil, criminal or governmental litigation or proceeding, or (ii) if not continued in the future, could have a material adverse effect on of the Company.

SECTION 2.14 Compliance with Law. The Company is not subject to any judgment, order, writ, injunction, or decree that materially adversely affects, individually or in the aggregate, the Company's businesses, operations, properties, assets or condition (financial or otherwise). The Company has complied in all material respects and is not in default under, any federal, state, local or foreign laws (whether statutory or otherwise), ordinances, legal requirements, rules, regulations, judgments, decrees and orders applicable to it, its operations, properties, assets, products and services. There is no existing law, rule, regulation or order, which prohibits the Company from conducting the business of the Company in any jurisdiction in which such business is now conducted.

SECTION 2.15 Licenses and Permits. Schedule 2.15 lists all licenses, permits, pending applications, consents, approvals and authorizations of or from any public or governmental agency, used in or otherwise necessary in the conduct of the business of the Company (collectively, the "Permits"), each of which will be in full force and effect as of the Closing Date immediately following execution and delivery of this Agreement and the consummation of the transactions contemplated hereby. A description of the Permits is set forth on Schedule 2.15. The Company has complied in all material respects with all conditions and requirements imposed by the Permits, and neither the Company nor the Sellers have received any notice of, and are not aware, that any appropriate authority intends to cancel or terminate any of the Permits or that valid grounds for such cancellation or termination exist. To the best of the Sellers' knowledge, no other permits, licenses or authorizations are necessary to operate the business of the Company. The Company owns or has the right to use the Permits in accordance with the terms thereof without, to the best of the Sellers' knowledge, any conflict or alleged conflict or infringement with the rights of others and subject to no Claim, and each Permit is valid and in full force and effect, and, to the best of the Sellers' knowledge, will not be terminated or adversely affected by the transactions contemplated hereby.

SECTION 2.16 Labor and Employee Relations. The Company is not a party to or bound by any collective bargaining agreement with any labor organization, group or association covering

any of its employees, and neither the Company nor any Seller has knowledge of any attempt to organize any of the employees of the Company by any person, unit or group seeking to act as their bargaining agent. There are no pending or, to the best of the Sellers' knowledge, threatened charges (by employees, their representatives or governmental authorities) of unfair labor practices or of employment discrimination or of any other wrongful action with respect to any aspect of employment of any person employed or formerly employed by the Company. To the best of the Sellers' knowledge, no union representation elections relating to employees of the Company have been scheduled by any governmental agency or authority, no organizational effort is being made with respect to any of such employees, and there is no investigation of the Company's employment policies or practices by any governmental agency or authority pending or, to the best of the Sellers' knowledge, threatened. The Company is not currently, and has not within the last three years been, involved in labor negotiations with any unit or group seeking to become the bargaining unit for any employees of the Companies. The Company has not experienced any work stoppages during the last three years, and to the best of the Sellers' knowledge, no work stoppage is planned.

SECTION 2.17 Certain Employees. Set forth on Schedule 2.17 is (i) a list of the names of employees and consultants of the Company, together with the title or job classification of each such person and the base annual and the total compensation paid to each such person in 1998, (ii) a list of any increase, effective after June 30, 1998, in the rate of compensation of any employees or incentive salespersons if such increase exceeds 5% of the previous annual salary of such employee or incentive salespersons; and (iii) a list of all substantial changes in job assignments of, or arrangements with, or promotion or appointment of, any employees or incentive salespersons whose compensation as of December 31, 1998 was in excess of \$35,000 per annum. Except as specifically described on Schedule 2.17, none of such persons has an employment agreement or understanding, whether oral or written, with the Company which is not terminable on notice by such Company without cost or other liability to such Company (other than to pay unpaid accrued salary, sick leave and vacation). Except as set forth on Schedule 2.17, no person listed on Schedule 2.17 has indicated that he or she intends to terminate his or her employment with the Company or seek a material change in his or her duties or status.

SECTION 2.18 Employee Benefits. Set forth on Schedule 2.18 is a list of all pension, profit sharing, retirement, deferred compensation, stock purchase, stock option, incentive, bonus, vacation, severance, disability, hospitalization, medical insurance, life insurance, fringe benefit, welfare and other employee benefit plans, programs or arrangements to which employees of the Company may be entitled.

Each employee plan which is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") conforms to, and its operation and administration are in compliance with, all applicable requirements of ERISA. There are no actions, suits or claims pending (other than routine claims for benefits) or to the best of the Sellers' knowledge, threatened against any employee plan or against the assets of any employee plan.

(a) **Employee Benefit Plans.** Schedule 2.18(a) contains a complete and correct list of each "employee benefit plan" (as defined in Section 3(3) of ERISA covering any present or former employee of the Company and each other plan or arrangement providing for severance benefits, deferred compensation, fringe benefits, insurance benefits or any similar type of benefit or compensation covering any present or former Corporation employee (an "Employee Plan"), whether or not such Employee Plan has been terminated. The Company has provided the Buyer with complete and correct copies of the documents comprising each Employee Plan and (where applicable) the summary plan description for each Employee Plan. Each Employee Plan which is subject to ERISA conforms to, and its operation and administration

are in all material respects in compliance with, all applicable requirements of ERISA including, without limitation, all funding, reporting, disclosure and fiduciary requirements. The Company has no Employee Plans which are maintained outside of the United States. There has been no prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code with respect to any Employee Plan. There are no actions, suits or claims pending (other than routine claims for benefits) or to the best of the Sellers' knowledge, threatened against any Employee Plan or against the assets of any Employee Plan.

(b) Qualified Plans. The Company has never maintained any Employee Plan which is intended to be qualified under Section 401(a) of the Internal Revenue Code ("Pension Plan") or as an "employee pension benefit plan" (as defined in Section 3(2) of ERISA).

(c) Welfare Plans. Schedule 2.18(c) identifies each Employee Plan which is an employee welfare benefit plan (as defined in Section 3(1) of ERISA) ("Welfare Plan"), none of such plans involve benefits to retired employees. Each Welfare Plan subject to the requirements of the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") has complied with all requirements for continuation coverage under group health benefit plans under COBRA, and there are no claims against the Company for a failure or alleged failure to comply with the COBRA continuation requirements.

SECTION 2.19 Tangible Properties. Schedule 2.19 contains a true and complete list of all tangible personal property owned by or leased to the Company, excluding any items that have an individual fair market value of less than \$5,000 (the "Tangible Personal Property"). Except as shown on Schedule 2.19, the Company has good and marketable title free and clear of all Claims to the Tangible Personal Property listed as owned by it. With respect to Tangible Personal Property leased by such the Company as lessee, all leases, conditional sale contracts, franchises or licenses pursuant to which such the Company may hold or use (or permit others to hold or use) such Tangible Personal Property are valid and in full force and effect, and to the best of the Sellers' knowledge, there is not under any of such instruments any existing material default or event of default or event which with notice or lapse of time or both would constitute such a default. The Company's possession and use of such property has not been disturbed, and no claim has been asserted against the Company adverse to its rights in such leasehold interests. Except as set forth on Schedule 2.19, all Tangible Personal Property is adequate and usable for the purposes for which it is currently used, and has been properly maintained and repaired and each item of Tangible Personal Property, whether owned or leased, is in good operating condition, normal wear and tear excepted, and has been properly maintained.

SECTION 2.20 Leased Premises. Schedule 2.20 sets forth a true and complete list and description of each parcel of real property leased by the Company (the "Leased Parcels"). Each lease covering a Leased Parcel is in full force and effect (there existing, to the best of the Sellers' knowledge, no material default under any such lease or event which, with the lapse of time or notice or otherwise, would constitute such a default), conveys the leased real estate purported to be conveyed thereunder, and is enforceable by the Company in accordance with its terms. The Company has the right to use the Leased Parcels in accordance with the terms of such leases free and clear of all Claims or other interests or rights of third parties, except those which do not or would not have a material adverse effect on the Leased Parcels as used by the Company. The possession of such property by the Company has not been disturbed and no claim has been asserted against the Company adverse to its rights in such leasehold interests. To the best of the Sellers' knowledge, the current use of the Leased Parcels by the Company conforms to any and all

applicable federal, state and local laws, building, health and safety and other ordinances, laws, rules and regulations. No notice from any governmental body or other person has been served upon, or received by, the Company or any Seller claiming any violation of any ordinance, law, rule or regulation relating to the Leased Parcels, or requiring any substantial work, repairs, reclamation, construction, alterations or installation on or in connection with any Leased Parcel or any structure, improvement or fixture thereon which has not been complied with or that any right of access or other right enjoyed by the Company is being modified or terminated. To the best of the Sellers' knowledge, there is no violation of any covenant, restriction or other agreement or understanding, oral or written, affecting or relating to title or use of any Leased Parcel. To the best of the Sellers' knowledge, there are no pending or threatened condemnation or similar proceedings or assessments affecting any of the Leased Parcels, nor to the Sellers' best knowledge is any such condemnation or assessment contemplated by any governmental authority.

SECTION 2.21 Environmental Matters. To the best of the Sellers' knowledge, the Company and the Leased Parcels, are in compliance with all applicable laws, rules, regulations, orders, ordinances, judgments and decrees of all governmental authorities with respect to all environmental statutes, rules and regulations, and the Company and the Sellers are not aware of any such noncompliance with respect to the Leased Premises. The Company has not received notice of any past, present or future events, conditions, circumstances, activities, practices, incidents, actions or plans of the Company or the predecessors of the Company, either collectively, individually or severally, which may interfere with or prevent continued compliance with, or which may give rise to any common law or legal liability, or otherwise form the basis of any claim, action, suit, proceeding, hearing, or investigation, based on or related to the disposal, storage, handling, manufacture, processing, distribution, use, treatment, or transport, or the emission, discharge, release or threatened release into the environment, of any hazardous substances.

SECTION 2.22 Insurance. The Company is adequately insured up to the Closing with responsible insurers in respect of its properties, assets and businesses against risks normally insured against in similar lines of business under similar circumstances. Schedule 2.22 correctly describes (by type, carrier, policy number, limits, premium, and expiration date) the insurance coverage carried by the Company, which insurance will remain in full force and effect with respect to all events occurring prior to the Closing. The Company has not failed to give any notice or present any claim under any such policy or binder in due and timely fashion, and has not received notice of cancellation or non-renewal of any such policy or binder. The Company is not aware of any threatened or proposed cancellation or non-renewal of any such policy or binder, has not received notice of any insurance premiums which will be materially increased in the future, and is not aware of any insurance premiums which will be materially increased in the future. There are no outstanding claims under any such policy which have gone unpaid for more than 45 days, or as to which the insurer has disclaimed liability.

SECTION 2.23 Outstanding Commitments. Schedule 2.23 sets forth a description of all existing contracts, agreements, understandings, commitments, licenses and franchises (collectively "Agreements"), whether written or oral, relating to the Company. The Company has delivered or made available to the Buyer true, correct and complete copies of all of the Agreements specified on Schedule 2.23 which are in writing, and Schedule 2.23 contains an accurate and complete description of all Agreements which are not in writing. Except as set forth on Schedule 2.23, the Company has paid in full all amounts due as of the date hereof under each Agreement identified in Schedule 2.23. All of the Agreements described in Schedule 2.23 are in full force and effect, subject to the terms thereof. Except as set forth on Schedule 2.23, the Company and, to the best of the Sellers' knowledge, each other party thereto have performed all the obligations required to be performed by them to date, have received no notice of default and are not in default (with due notice or lapse of time or both) under any Agreement. The Company has no knowledge of any

breach or anticipated breach by the other party to any Agreement. None of such Agreements have been terminated. Except as set forth on Schedule 2.23, and except where the Agreements by their terms include a specific term or termination date, there exists no actual or, to the knowledge of the Company or the Sellers', threatened termination, cancellation or limitation of the business relationship of the Company with any party to any such Agreement.

SECTION 2.24 Intellectual Property. Schedule 2.24 sets forth a list of all patents (including, without limitation, Patent No. 5,623,581 (the "Patent")), inventions, know-how, show-how, designs, trade secrets, copyrights, trademarks, tradenames, servicemarks, trade secrets, technology or the like, and all applications for any of the foregoing, (collectively "Intellectual Property") owned, controlled or used by the Company, together in each case with a brief description of the nature of such right.

All patents and trademarks listed in Schedule 2.24 are valid and in full force and all applications listed therein as pending have been prosecuted in good faith as required by law and are in good standing. The Company has delivered or made available to the Buyer true and complete copies of all of such Intellectual Property rights to the extent embodied in any writing, including, without limitation, all applications, licenses, commitments and other agreements, including all amendments and supplements thereto and modifications thereof, and Schedule 2.24 includes a description of any such item that is not in writing. To the best of the Sellers' knowledge, there has been no infringement by the Company or its affiliates with respect to any Intellectual Property rights of others. To the best of the Sellers' knowledge, the Company owns or possesses adequate licenses or other rights to use all Intellectual Property necessary or desirable to conduct its business as conducted and as proposed to be conducted, none of which rights will be impaired by the consummation of the transactions contemplated by this Agreement. None of the Intellectual Property listed or described in Schedule 2.24 is involved in any interference or opposition proceeding, and there has been no written notice received by the Company or any of its affiliates or any other indication that any such proceeding will hereafter be commenced. The Company acknowledges that certain Settlement Agreement between the Buyer and the Company dated as of May 13, 1998 (the Settlement Agreement") and hereby confirms that this Purchase Agreement, upon execution thereof by the parties hereto, shall supersede any obligations of the Buyer under the Settlement Agreement. Except as set forth on Schedule 2.24, the Company and its affiliates have used reasonable efforts to protect their Intellectual Property against infringement by others and to preserve their trade secrets and confidential or proprietary information. Except as set forth on Schedule 2.24, the Company is not aware of any basis for provoking or initiating an interference or opposition proceeding with respect to any Intellectual Property held or used by others, and is not aware that any of the patents and trademarks listed in Schedule 2.24 is being infringed by others. Except as set forth in Schedule 2.24, all of the licenses, contracts and other agreements listed or described in Schedule 2.24 are legally valid and binding and in full force and effect, none of which rights will be impaired by the consummation of the transactions contemplated by this Agreement. The Company is not in material default under any such license, contract or other agreement and, to the best of the Sellers' knowledge, there are no defaults by any other party to any such license, contract or other agreement. Except as set forth on Schedule 2.24, none of the rights of the Company thereunder will be impaired by the consummation of the transactions contemplated hereby, and all of rights of the Company thereunder will be enforceable immediately after the Closing without the consent or agreement of any other party. Except as described in Schedule 2.24, the Company has not granted any person or entity any right to use any of the Intellectual Property for any purpose.

SECTION 2.25 Assumptions, Guaranties, Etc. of Indebtedness of Other Persons. To the best of the Sellers' knowledge, the Company has not assumed, guaranteed, endorsed or otherwise

become directly or contingently liable on any indebtedness of any other person (including, without limitation, liability by way of agreement, contingent or otherwise, to purchase, to provide funds for payment, to supply funds to or otherwise invest in the debtor, or otherwise to assure the creditor against loss).

SECTION 2.26 Transactions With Affiliates. Except as set forth on Schedule 2.26, no director, officer or employee of the Company, or member of the family of any such person, or any corporation, partnership, trust or other entity in which any such person, or any member of the family of any such person, has a substantial interest or is an officer, director, trustee, partner or holder of any equity interest, is a party to any transaction with the Company, including any contract, agreement or other arrangement providing for the employment of, furnishing of services by, rental of real or personal property from or otherwise requiring payments or involving other obligations to any such person or firm.

SECTION 2.27 Records. The minute books, stock certificate books and stock transfer ledgers of the Company are complete and correct in all material respects with respect to the matters set forth therein.

SECTION 2.28 Consents. Except as set forth on Schedule 2.28, the Company has received all requisite governmental approvals and consents of third parties required to be received to prevent any material license, permit or agreement relating to the business of the Company from terminating prior to its scheduled termination, or any indebtedness of any the Company from becoming due or being subject to becoming due as a result of the consummation of the transactions contemplated hereby. Copies of all such consents are attached hereto as Schedule 2.28.

SECTION 2.29 Disclosure. All documents, exhibits and schedules delivered or to be delivered by or on behalf of the Company or the Sellers to the Buyer in connection with this Agreement and the transactions contemplated hereby are true, correct and complete in all material respects, subject to Section 4.05. To the best of the Sellers' knowledge, neither this Agreement, nor any Schedule or Exhibit to this Agreement contains any untrue statement of a material fact or omits a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which made, not misleading.

ARTICLE III. REPRESENTATIONS AND WARRANTIES OF BUYER

As an inducement to the Sellers to enter into this Agreement and to consummate the transactions contemplated thereby, the Buyer represents and warrants to the Sellers and agrees with the Sellers as follows:

SECTION 3.01 Organization. The Buyer is duly incorporated, validly existing and in good standing under the laws of the State of Delaware and is duly qualified to transact business as a foreign corporation in each jurisdiction in which the failure to so qualify would have a material adverse impact on the Buyer's ability to purchase the Shares.

SECTION 3.02 Authorization and Enforceability. The Buyer has the corporate power and authority to execute, deliver and perform this Agreement and the other documents and instruments contemplated hereby. The execution, delivery and performance of this Agreement and the documents contemplated hereby and the consummation of the transactions contemplated hereby have been duly and validly authorized and approved by all necessary action on the part of the Buyer. This Agreement, and each of the other agreements, documents and instruments to be executed and delivered by the Buyer in connection herewith have been duly executed and delivered

by, and constitute the valid and binding obligations of the Buyer enforceable against the Buyer in accordance with their respective terms, subject to (a) applicable bankruptcy, insolvency, moratorium or other similar laws relating to creditor's rights generally and (b) general principles of equity relating to the availability of equitable remedies.

SECTION 3.03 No Conflicts or Consents. The execution, delivery and performance of this Agreement and all other agreements delivered in contemplation of or in connection with the transactions contemplated hereby by the Buyer and the consummation of the transactions contemplated hereunder do not and will not: (i) conflict with or result in any violation of default or loss of a benefit under, or permit the acceleration of any obligation under any provision of (a) the Certificate of Incorporation or By-laws of the Buyer, (b) any contract, mortgage, indenture, lease, or other agreement to which the Buyer is a party or by which the Buyer or any of the Buyer's assets or properties are bound or to which the Buyer or any of the Buyer's assets or properties are subject, or (ii) violate any judgment, decree, order, statute, law, rule or regulation applicable to the Buyer or by which the Buyer or its properties or assets may be bound, or (iii) result in the creation of, or give any party the right to create, any lien, charge, encumbrance or security interest upon the Shares or the property and assets of the Buyer.

(b) Except as set forth in Schedule 3.03, no action, consent or approval by, or filing by the Buyer with, any federal, state, municipal, foreign or other court or governmental body or agency, or any other regulatory body, is required in connection with the execution, delivery or performance by the Buyer of this Agreement and all other documents and instruments to be delivered pursuant to this Agreement or the consummation by the Buyer of the transactions contemplated hereunder or thereunder, except where the failure to obtain any of which will not have a material adverse effect on the business, operations, assets, properties or condition, financial or otherwise, of the Buyer.

IV. INDEMNIFICATION

SECTION 4.01 Indemnification by Buyer. The Buyer hereby agrees to indemnify, defend and hold harmless the Sellers and their respective officers, directors, employees, stockholders and agents and their successors and assigns from, against and with respect to any claim, liability, obligation, loss, damage, assessment, judgment, cost and expense (including, without limitation, reasonable attorneys' and accountants' fees and costs and expenses reasonably incurred in investigating, preparing, defending against or prosecuting any litigation or claim, action, suit, proceeding or demand) of any kind or character (hereinafter collectively referred to as "Damages") arising out of or in any manner incident, relating or attributable to:

(a) Any inaccuracy in any representation or breach of warranty of the Buyer contained in this Agreement or in any certificate, instrument of transfer or other document or agreement executed by the Buyer in connection with this Agreement or otherwise made or given in connection with this Agreement; and

(b) Any failure by the Buyer to perform or observe, or to have performed or observed, in full, any covenant, agreement or condition to be performed or observed by it under this Agreement or under any certificates or other documents or agreements executed by the Buyer in connection with this Agreement.

SECTION 4.02 Indemnification by the Sellers. Subject to the limitations set forth in Section 4.04 and 4.05, each of the Sellers agrees severally (each in proportion to his, her or its respective ownership percentage of the issued and outstanding shares of Common Stock of the Company, as set forth on Schedule 2.05), to indemnify, defend and hold harmless the Buyer and its Affiliates (as such term is defined under Rule 405 of the Rules and Regulations of the Securities Act of 1933, as amended) and the respective officers, directors, employees, shareholders and agents of the foregoing, and their successors and assigns from, against and with respect to any and all Damages arising out of or in any manner incident, relating or attributable to:

(a) Any inaccuracy in any representation or breach of warranty of any of the Sellers or the Company contained in this Agreement, the Schedules, or in any certificate, affidavit or instrument of transfer executed by the Sellers or the Company in connection with this Agreement; provided, however, that in the case of any inaccuracy or breach of any representation or warranty set forth in Sections 2.02, 2.03 or 2.05 with respect to matters pertaining to a particular Seller, that Seller and only that Seller shall be obligated, to indemnify in full the Buyer in accordance with the provisions of this Section 4.02:

(b) Any failure by any of the Sellers or the Company to perform or observe, or to have performed or observed, in full, any covenant, agreement or condition to be performed or observed by any of them under this Agreement or under any certificates or instruments of transfer executed by any of the Sellers or the Company in connection with this Agreement;

(c) The Excluded Liabilities; and

(d) Any unit relocation costs and unit "down time" costs and other reasonable out-of-pocket costs incurred by the Buyer in the event of the cancellation by *The Limited Too* of its existing contracts with the Company either prior to the Closing Date or alternatively, within ninety (90) days after the Closing Date; provided, however, that in no event shall the indemnity obligations of the Sellers solely pursuant to this Section 4.02(d) exceed in the aggregate Seventy-Five Thousand Dollars (\$75,000).

SECTION 4.03 Claims for Indemnification. In the event of the occurrence of any event which any party asserts is an indemnifiable event pursuant to this Article IV, the party claiming indemnification (the "Indemnified Party") shall provide prompt notice to the party required to provide indemnification (the "Indemnifying Party"), specifying in detail the facts and circumstances with respect to such claim and the basis for which indemnification is available hereunder, provided, however, that the failure to provide such notice shall only release the applicable Indemnifying Party from any of its obligations under this Article IV to the extent such Indemnifying Party is prejudiced by such failure. If such event involves the claim of any third party and if the Indemnifying Party acknowledges in writing its obligation to indemnify the Indemnified Party hereunder against any Damages that may result from such third party claim, the Indemnifying Party shall have the right to control the defense or settlement of such claim; provided, however, that (a) the Indemnified Party shall be entitled to participate in the defense of such claim at its own expense, (b) the Indemnifying Party shall obtain the prior written approval of the Indemnified Party (which approval shall not be unreasonably withheld or delayed) before entering

into any settlement of such claim if, pursuant to or as a result of such settlement, injunctive or other non-monetary relief would be imposed against the Indemnified Party, (c) the Indemnifying Party shall not be entitled to control (but shall be entitled to participate at its own expense in the defense of), and the Indemnified Party shall be entitled to have sole control over, and shall assume all expense with respect to the defense or settlement of any claim to the extent such claim seeks an order, injunction or other equitable relief against the Indemnified Party which, if successful, could materially interfere with the business, operations, assets, condition (financial or otherwise) or prospects of the Indemnified Party, provided that the Indemnified Party shall provide written notice to the Indemnifying Party of its election to assume control over the defense of such claim pursuant to this Section 4.03(c), (d) if there exists or is reasonably likely to exist a conflict of interest that would make it inappropriate in the reasonable judgment of the Indemnified Party for the same counsel to represent both the Indemnified Party and the Indemnifying Party, then the Indemnified Party shall be entitled to retain its own counsel, in each jurisdiction for which the Indemnified Party determines counsel is required, at the expense of the Indemnifying Party; provided, however, that in no event shall the Indemnifying Party be liable for the expenses of more than one counsel in addition to local counsel and (e) if the Indemnifying Party is entitled but fails to assume control over the defense of a claim as provided in this Section 4.03, provided that the Damages associated with such claim are covered by the indemnity provisions of Section 4.01 or 4.02, the Indemnified Party shall have the right to defend such claim, provided, further, that the Indemnified Party shall obtain the prior written approval of the Indemnifying Party (which approval shall not be unreasonably withheld or delayed) before entering into any settlement of such claim if, pursuant to or as a result of such settlement, injunctive or other non-monetary relief would be imposed against the Indemnifying Party.

In the event that the Indemnifying Party shall be obligated to indemnify the Indemnified Party pursuant to this Article IV, the Indemnifying Party shall, upon payment of such indemnity in full, be subrogated to all rights of the Indemnified Party with respect to the claim to which such indemnification relates. Upon request by the Indemnifying Party following its payment of such indemnity in full in any instance, the Indemnified Party shall execute and deliver to the Indemnifying Party such documents as may be reasonably necessary to establish by way of subrogation the ability of the Indemnifying Party to assert such rights

SECTION 4.04 Survival. All representations and warranties in this Agreement, or in any instrument or document furnished in connection with this Agreement or the transactions contemplated hereby, shall survive the closing of the transactions contemplated hereby and any investigation at any time made by or on behalf of any party and continue for a period of fifteen (15) months after the Closing Date and until finally resolved and satisfied in full if asserted on or prior to the expiration on such fifteen (15) month period; provided, however, that the representations and warranties contained in Sections 2.05, 2.11, 2.19 (solely with respect to the Company having good and marketable title free and clear of all claims to the tangible personal property) and Section 2.21, shall survive the Closing of the transactions contemplated hereby and any investigation at any time made by or on behalf of any party and continue for the full period of the applicable statute of limitations, and until finally resolved and satisfied in full if asserted on or prior to the expiration of the applicable statute of limitations.

SECTION 4.05 Sole Remedy. Except as set forth below in this Section 4.05, the indemnification rights and remedies set forth in this Article IV shall be the sole and exclusive rights and remedies of the parties hereto with respect to any Damages incurred by any party for which indemnification is provided and the Buyer's sole recourse in the event it suffers any Damages shall be against the Escrowed Cash pursuant to the Escrow Agreement. Notwithstanding anything contained herein to the contrary, in no event shall any of the Sellers be directly and personally liable to indemnify the Buyer against or in respect of any Damages under this Agreement, except to the extent of their respective interests in the Escrowed Funds, provided that in no event shall the foregoing limitation apply in cases of fraud or knowing or intentional breach by one or more Sellers of any representation, warranty, covenant or agreement set forth herein or in the Schedules, or in any affidavit, certificate or instrument or transfer delivered to the Buyer by such Seller(s) (collectively, a "Fraud Claim"). In the event that any Fraud Claim against any Seller(s) arises after the Closing, the Buyer shall assert a claim with respect thereto first against the Escrowed Cash, and only in the event that such Escrowed Cash is insufficient to satisfy such claim shall the Buyer pursue any Fraud Claims against such Seller, individually.

ARTICLE V. MISCELLANEOUS

SECTION 5.01 Notices. All notices, requests, consents and other communications hereunder shall be in writing, shall be addressed to the receiving party's address set forth below or to such other address as a party may designate by notice hereunder, and shall be either (i) delivered by hand, (ii) made by telex, telecopy or facsimile transmission, (iii) sent by recognized overnight courier, or (iv) sent by registered or certified mail, return receipt requested, postage prepaid.

If to the Buyer:

Foto Fantasy, Inc.
63 Range Road, Suite 3000
Windham, NH 03087
Attn: Kyle Nagel

With a copy to:

Mintz, Levin, Cohn, Ferris,
Glovsky and Popeo, P.C.
One Financial Center
Boston, MA 02111
Attn: Steven P. Rosenthal, Esquire

If to the Sellers and/or Sellers' Representatives:

Samuel S. Attenberg

Hugh Bethell

Don McCullough

With a copy to:

Patton Boggs, LLP
2550 M Street, NW
Washington, D.C. 20037
Attn: James R. Stuart, III, Esquire

All notices, requests, consents and other communications hereunder shall be deemed to have been (i) if by hand, at the time of the delivery thereof to the receiving party at the address of such party set forth above, (ii) if made by telex, telecopy or facsimile transmission, at the time that receipt thereof has been acknowledged by electronic confirmation or otherwise, (iii) if sent by overnight courier, on the next business day following the day such notice is delivered to the courier service, or (iv) if sent by registered or certified mail, on the 5th business day following the day such mailing is made.

SECTION 5.02 Entire Agreement. This Agreement together with the Exhibits and Schedules hereto and the other documents executed in connection herewith (together, the "Documents") embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior oral or written agreements and understandings relating to the subject matter hereof. No statement, representation, warranty, covenant or agreement of any kind not expressly set forth in the Documents shall affect, or be used to interpret, change or restrict, the express terms and provisions of this Agreement.

SECTION 5.03 Modifications and Amendments. The terms and provisions of this Agreement may be modified or amended only by written agreement executed by all parties hereto.

SECTION 5.04 Waivers and Consents. No failure or delay by a party hereto in exercising any right, power or remedy under this Agreement, and no course of dealing between the parties hereto, shall operate as a waiver of any such right, power or remedy of the party. No single or partial exercise of any right, power or remedy under this Agreement by a party hereto, nor any abandonment or discontinuance of steps to enforce any such right, power or remedy, shall preclude such party from any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. The election of any remedy by a party hereto shall not constitute a waiver of the right of such party to pursue other available remedies. No notice to or demand on a party not expressly required under this Agreement shall entitle the party receiving such notice or demand to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the party giving such notice or demand to any other or further action in any circumstances without such notice or demand. The terms and provisions of this Agreement may be waived, or consent for the departure therefrom granted, only by written document executed by the party entitled to the benefits of such terms or provisions. No such waiver or consent shall be deemed to be or shall constitute a waiver or consent with respect to any other terms or provisions of this Agreement, whether or not similar. Each such waiver or consent shall be effective only in the specific instance and for the purpose for which it was given, and shall not constitute a continuing waiver or consent.

SECTION 5.05 Assignment. Neither this Agreement, nor any right hereunder, may be assigned by any of the parties hereto without the prior written consent of the other party, except that the Buyer may assign all or part of its rights and obligations under this Agreement to a financial

institution lending funds to the Buyer or to one or more direct or indirect subsidiaries or affiliates, provided that no such assignment shall relieve the Buyer of its obligations under this Agreement to the Sellers.

SECTION 5.06 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and their permitted assigns, and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement. Nothing in this Agreement shall be construed to create any rights or obligations except among the parties hereto, and no person or entity shall be regarded as a third-party beneficiary of this Agreement.

SECTION 5.07 Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the internal laws of the State of Delaware, without giving effect to the conflict of law principles thereof.

SECTION 5.08 Severability. In the event that any court of competent jurisdiction shall finally determine that any provision, or any portion thereof, contained in this Agreement shall be void or unenforceable in any respect, then such provision shall be deemed limited to the extent that such court determines it enforceable, and as so limited shall remain in full force and effect. In the event that such court shall determine any such provision, or portion thereof, wholly unenforceable, the remaining provisions of this Agreement shall nevertheless remain in full force and effect.

SECTION 5.09 Interpretation. The parties hereto acknowledge and agree that: (i) each party and its counsel reviewed and negotiated the terms and provisions of this Agreement (except with respect to the disclosure schedules regarding the Business which are the sole responsibility of the Sellers) and have contributed to its revision; (ii) the rule of construction to the effect that any ambiguities are resolved against the drafting party shall not be employed in the interpretation of this Agreement; and (iii) the terms and provisions of this Agreement shall be construed fairly as to all parties hereto and not in favor of or against any party, regardless of which party was generally responsible for the preparation of this Agreement.

SECTION 5.10 Headings and Captions. The headings and captions of the various subdivisions of this Agreement are for convenience of reference only and shall in no way modify, or affect, or be considered in construing or interpreting the meaning or construction of any of the terms or provisions hereof.

SECTION 5.11 Enforcement. Each of the parties hereto acknowledges and agrees that the rights acquired by each party hereunder are unique and that irreparable damage would occur in the event that any of the provisions of this Agreement to be performed by the other party were not performed in accordance with their specific terms or were otherwise breached. Accordingly, in addition to any other remedy to which the parties hereto are entitled at law or in equity, each party hereto shall be entitled to an injunction or injunctions to prevent breaches of this Agreement by the other party and to enforce specifically the terms and provisions hereof in any federal or state court to which the parties have agreed hereunder to submit to jurisdiction.

SECTION 5.12 Reliance. The parties hereto agree that, notwithstanding any right of any party to this Agreement to investigate the affairs of any other party to this Agreement, the party having such right to investigate shall have the right to rely fully upon the representations and warranties of the other party expressly contained in this Agreement and on the accuracy of any schedule or other document attached hereto or referred to herein or delivered by such other party or pursuant to this Agreement.

or incurred by the Company and the Sellers in connection with this Agreement and the transactions contemplated hereby shall be paid out of the proceeds of the Purchase Price in accordance with Section 1.02.

SECTION 5.14 No Broker or Finder. Each of the parties hereto represents and warrants to the other that other than VMI Equity Partners, no broker, finder or other financial consultant has acted on its behalf in connection with this Agreement or the transactions contemplated hereby in such a way as to create any liability on the other. Each of the parties hereto agrees to indemnify and save the other harmless from any claim or demand for commission or other compensation by any broker, finder, financial consultant or similar agent claiming to have been employed by or on behalf of such party and to bear the cost of legal expenses incurred in defending against any such claim.

SECTION 5.15 Publicity. No party shall issue any press release or otherwise make any public statement with respect to the execution of, or the transactions contemplated by, this Agreement without the prior written consent of the other party, except as may be required by law.

SECTION 5.16 Confidentiality. Each party acknowledges and agrees that any information or data it has acquired from the other party, not otherwise properly in the public domain, was received in confidence. Each party hereto agrees not to divulge, communicate or disclose, except as may be required by law or for the performance of this Agreement (including obtaining financing and conducting due diligence), or use to the detriment of the disclosing party or for the benefit of any other person or persons, or misuse in any way, any confidential information of the disclosing party concerning the subject matter hereof, including any trade or business secrets of the disclosing party and any technical or business materials that are treated by the disclosing party as confidential or proprietary, including without limitation information (whether in written, oral or machine-readable form) concerning: general business operations; methods of doing business, servicing clients, client relations, and of pricing and making charge for services and products; financial information, including costs, profits and sales; marketing strategies; business forms developed by or for the disclosing party; names of suppliers, personnel, customers, clients and potential clients; negotiations or other business contacts with suppliers, personnel, customers, clients and potential clients; form and content of bids, proposals and contracts; the disclosing party's internal reporting methods; technical and business data, documentation and drawings; software programs, however embodied; manufacturing processes; inventions; diagnostic techniques; and information obtained by or given to the disclosing party about or belonging to third parties.

SECTION 5.17 Counterparts. This Agreement may be executed in one or more counterparts, and by different parties hereto on separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 5.18 Sellers' Representatives.

(a) The Sellers hereby agree that Samuel Attenberg, Hugh Bethell and Don McCullough shall act as the representatives of the Sellers (the "Sellers' Representatives") after the Closing in connection with matters relating to this Agreement and the Escrow Agreement. The Sellers' Representatives shall be authorized, for and on behalf of the Sellers, to take the actions and make the decisions expressly assigned to them in this Agreement or in the Escrow Agreement. In all matters, any action taken by Sellers' Representatives shall require their prior majority agreement.

(b) The Sellers' Representatives shall not be liable to anyone for any Damages incurred as a result of any act or omission on their part, unless such Damages are caused by the Sellers' Representatives' willful misconduct or gross negligence. Additional or replacement persons may be appointed to serve as Sellers' Representatives, and any Sellers' Representative may be removed from that position, in each such case by a written agreement signed by Sellers that own immediately prior to the Closing more than 50% of the issued and outstanding shares of the Company's common stock, provided that written notice of each such addition, replacement or removal of a Sellers' Representative shall have been provided to the Buyer.

SECTION 5.19 Hugh Bethell Incentive Compensation. In consideration of Hugh Bethell's services as one of the Sellers' Representatives, the Sellers hereby agree that Hugh Bethell shall be entitled to be paid 10% of the amount, if any, by which the total amount paid under this Agreement to the Sellers in respect of the Company's Common Stock exceeds Two Million Five Hundred and Fifty Six Thousand Four Hundred and Sixty-Two Dollars (\$2,556,462) (as determined by the Sellers' Representatives after giving effect to all closing adjustments and liabilities of the Sellers hereunder and under the Escrow Agreement), such amount to be paid to Mr. Bethell out of the Escrowed Funds at such time as the Sellers are entitled to receive distributions of the Escrowed Funds, pursuant to the terms of the Escrow Agreement. In connection with the foregoing, the Sellers' Representatives shall provide written notice to the Buyer and the Escrow Agent requesting any such distribution to Mr. Bethell, and the Buyer and the Escrow Agent shall be entitled to rely on such notice, without liability to the Sellers resulting therefrom and the Sellers hereby waive any objections or claims against the Buyer and the Escrow Agent for any distributions made to Mr. Bethell pursuant to this Section.

SECTION 5.20 Don McCullough Compensation. In consideration of Don McCullough's services as one of the Sellers' Representatives, the Sellers hereby agree that Don McCullough shall be paid a one-time fee of Five Thousand Dollars (\$5,000), which amount shall be paid at the Closing pursuant to Section 1.02(a)(i).

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

FOTO FANTASY, INC.

By: _____
Title: CFP

AMERICAN PHOTO BOOTHS, INC.

By: _____
Title: _____

SELLING STOCKHOLDERS:

SGL CORPORATION

By: _____
Samuel S. Attenberg
President

SHEPHERD VENTURE FUND I, LIMITED
PARTNERSHIP

By: The Shepherd Group LLC
its General Partner

By: _____
T. Nathanael Shepherd
President

THE SHEPHERD GROUP LLC

By: _____
T. Nathanael Shepherd
President

ORION CAPITAL HOLDINGS, L.P.

By: Orion Capital Partners, L.P.
its General Partner

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

FOTO FANTASY, INC.

By: _____
Title: _____

AMERICAN PHOTO BOOTHS, INC.

By: Samuel S. Attenberg
Title: President

SELLING STOCKHOLDERS:

SGL CORPORATION

By: _____
Samuel S. Attenberg
President

SHEPHERD VENTURE FUND I, LIMITED
PARTNERSHIP

By: The Shepherd Group LLC
its General Partner

By: _____
T. Nathanael Shepherd
President

THE SHEPHERD GROUP LLC

By: _____
T. Nathanael Shepherd
President

ORION CAPITAL HOLDINGS, L.P.

By: Orion Capital Partners, L.P.
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FOTO FANTASY, INC.

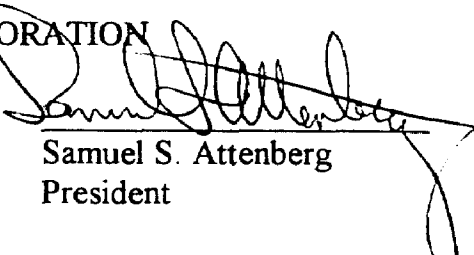
By: _____
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AMERICAN PHOTO BOOTHS, INC.

By: _____
Title: _____

SELLING STOCKHOLDERS:

SGL CORPORATION

By: 
Samuel S. Attenberg
President

SHEPHERD VENTURE FUND I, LIMITED
PARTNERSHIP

By: The Shepherd Group LLC
its General Partner

By: _____
T. Nathanael Shepherd
President

THE SHEPHERD GROUP LLC

By: _____
T. Nathanael Shepherd
President

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By: Orion Capital Partners, L.P.
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AMERICAN PHOTO BOOTHS, INC.

By: _____
Title: _____

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Samuel S. Attenberg
President

SHEPHERD VENTURE FUND I, LIMITED PARTNERSHIP

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its General Partner
By: _____
T. Nathanael Shepherd
President

THE SHEPHERD GROUP LLC

By: _____
T. Nathanael Shepherd
President

ORION CAPITAL HOLDINGS, L.P.

By: Orion Capital Partners, L.P.
its General Partner

By: Eagle Capital Management Limited Partners

By: Eagle Capital Holdings, Inc.,
Its General Partner

By: Steven A. Kandarian
Steven A. Kandarian
President

M-K I PARTNERSHIP, L.P.

By: Orion Capital Partners, L.P.
Its General Partner

By: Eagle Capital Management Limited
Partnership, General Partner

By: Eagle Capital Holdings, Inc.,
Its General Partner

By: Steven A. Kandarian
Steven A. Kandarian
President

W. Harrison Wellford

Jean Moore

Thomas Moore

William Martin

Kelli Martin

Edwin L. Russell

Fredric H. Margolis

Robert H. Walker

By: Eagle Capital Holdings, Inc.,
General Partner

By: _____
Steven A. Kandarian

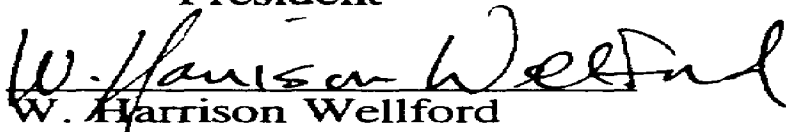
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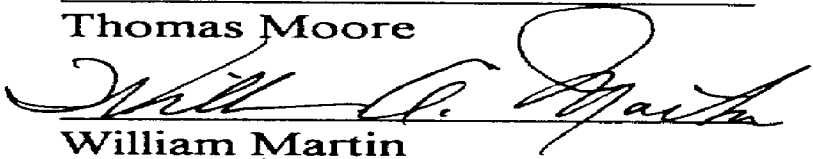
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Steven A. Kandarian
President

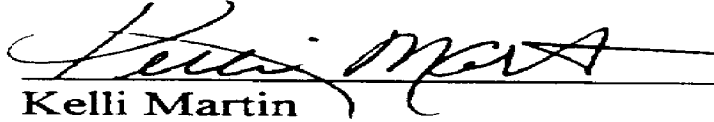
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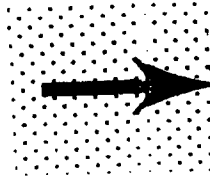
Edwin L. Russell

Fredric H. Margolis



Robert H. Walker

**SIGN
HERE**



C. Bowdoin Train
C. Bowdoin Train

Marguerite H. McConihe

Elsie Y. Hull

Lynn E. Caruthers

Jeanne B. Caruthers

**FREDRIC H. MARGOLIS DEFINED
BENEFIT PLAN**

By: _____

Abby S. Moffat

Diana D. Spencer

Kermit Roosevelt, Jr.

William E. Watts

Jerry D. Horn

John Joseph Cassidy

Herbert J. Miller, Jr.

Dr. Thomas P. Nigra

NANCY SNOWDON PHELAN TRUST U/A

C. Bowdoin Train

Marguerite H. McConihe

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Elsie Y. Hull

Lynn E. Caruthers

Jeanne B. Caruthers

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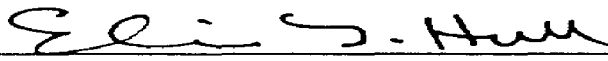
Herbert J. Miller, Jr.

Dr. Thomas P. Nigra

NANCY SNOWDON PHELAN TRUST U/A

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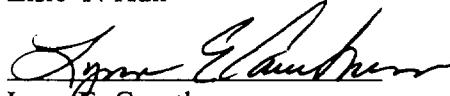
Dr. Thomas P. Nigra

NANCY SNOWDON PHELAN TRUST U/A

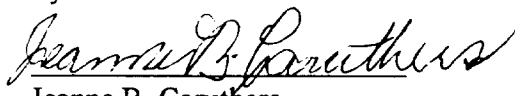
C. Bowdoin Train

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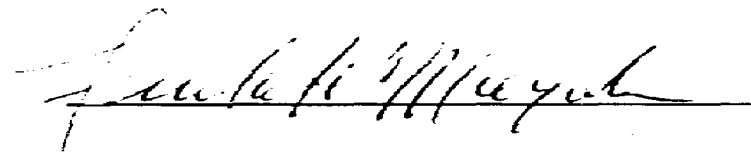
Elsie Y. Hull

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FREDRIC H. MARGOLIS DEFINED
BENEFIT PLAN

Kathryn O'Brien
KATHLEEN C. KUNE
NOTARY PUBLIC STATE OF MARYLAND
My Commission Expires December 1, 1999

By: _____
Abby S. Moffat
Abby S. Moffat

Diana D. Spencer

Kermit Roosevelt, Jr.

William E. Watts

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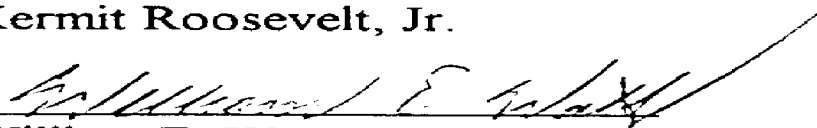
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NANCY SNOWDON PHELAN TRUST U/A

DATED AUGUST 31, 1998

By: Nancy S Phelan
Nancy Snowdon Phelan,
Trustee

By: Patricia Gross Hoffman
Patricia Gross, Trustee
Hoffman

John S. Hoff

Edwin J. Kozlowski

Adlumia S. Hagner

HOLLADAY FINANCIAL, INC.

By: _____

INTERSTATE/JOHNSON LANE,
CUSTODIAN FBO DAVID JONES

By: _____

Aileen B. Train

Anne Howell Gray

Emil W. Henry, Jr.

THE NANCY C. ROSENBERG
REVOCABLE TRUST DATED
OCTOBER 16, 1992

By: _____

Richard Verville

DATED AUGUST 31, 1998

By: _____
Nancy Snowdon Phelan,
Trustee

By: _____
Patricia Gross, Trustee



John S. Hoff

Edwin J. Kozlowski

Adlunia S. Hagner

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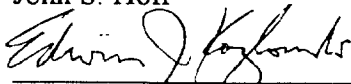
By: _____

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By: *William Holladay*

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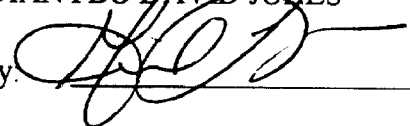
Edwin J. Kozlowski

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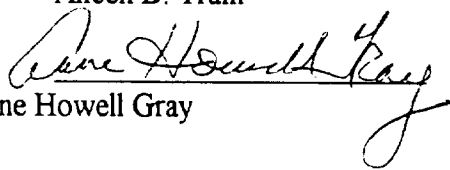
HOLLADAY FINANCIAL, INC.

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OCTOBER 16, 1992

By: Nancy Rosenberg

Richard Verville

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Trustee

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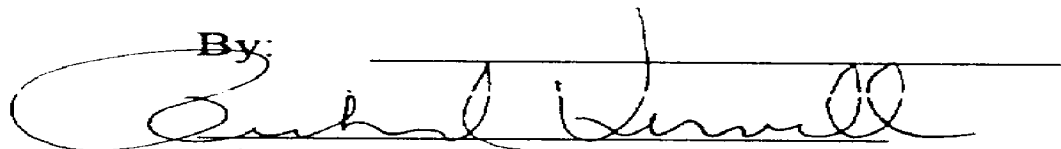
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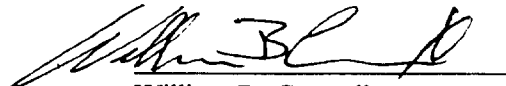
Aileen B. Train

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Emil W. Henry, Jr.

THE NANCY C. ROSENBERG
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OCTOBER 16, 1992

By: _____

Richard Verville



William B. Connell

Charles A. Lieppe

Steven A. Kandarian

Robert J. Byrne

T. Nathanael Shepherd

Jean Ann Staudt

KR & ASSOCIATES/KR & ASSOCIATES
PROFIT-SHARING PLAN

By: _____

R. David Nurme

Charles L. Doherty

Clifton C. Smith

Alan Ritchie

William H. Maxfield

H. David Henken

Joel P. Mellis

William B. Connell

Charles A. Lieppe

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Robert J. Byrne

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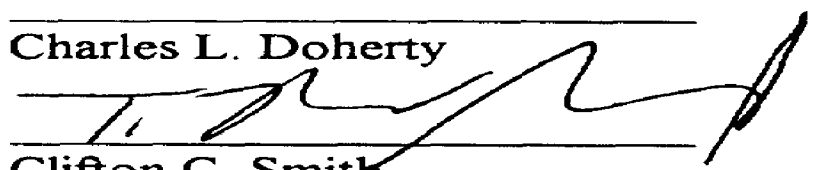
Jean Ann Staudt

**KR & ASSOCIATES/KR & ASSOCIATES
PROFIT-SHARING PLAN**

By: _____

R. David Nurme

Charles L. Doherty



Clifton C. Smith
*Pursuant to Power of Attorney
dated 1/20/99, T. Nathanael Shepherd*

Alan Ritchie

William H. Maxfield

H. David Henken

Joel P. Meliis

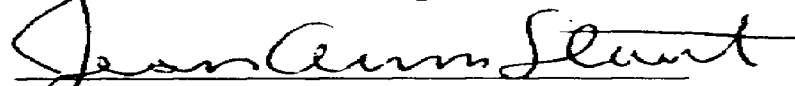
William B. Connell

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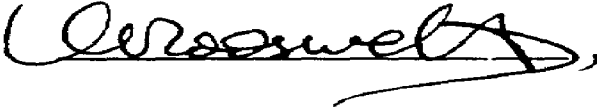
Steven A. Kandarian

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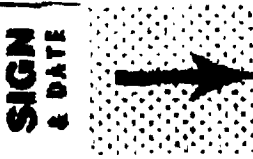
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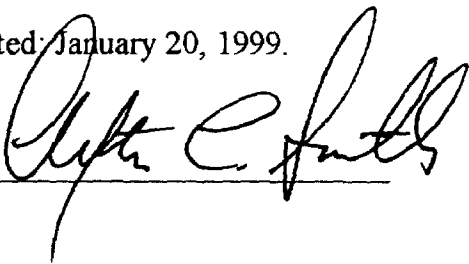
POWER OF ATTORNEY

I, Clifton C. Smith, of 109 West Acton Road, Stow, Massachusetts, hereby appoint individually Thomas Shepherd, T. Nathaniel Shepherd and Sean Marsh of The Shepherd Group, LLC, Stow, MA as my attorney in fact to act in my capacity to do any and all of the following:

Sell my equity holdings in American Photo Booths, Inc. and take all other actions attendant thereto including but not limited to affixing my signature to a Purchase and Sale Agreement and affixing my signature to a stock power form to allow for transfer of stock ownership.

The rights, powers, and authority of my attorney in fact to exercise any and all of the rights and powers herein granted shall commence and be in full force and effect on January 20, 1999, and shall remain in full force and effect until February 25, 1999 or unless specifically extended or rescinded earlier by either party.

Dated: January 20, 1999.

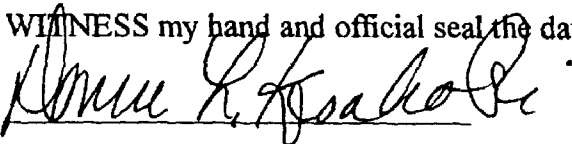


STATE OF MASSACHUSETTS

COUNTY OF MIDDLESEX

BEFORE ME, the undersigned authority, on this 20th day of January, 1999, personally appeared Clifton C. Smith to me well known to be the person described in and who signed the foregoing, and acknowledged to me that he executed the same freely and voluntarily for the uses and purposes therein expressed.

WITNESS my hand and official seal the date aforesaid.



NOTARY PUBLIC

My Commission Expires: 10/1/2004

William B. Connell

Charles A. Lieppe

Steven A. Kandarian

Robert J. Byrne

T. Nathanael Shepherd

Jean Ann Staudt

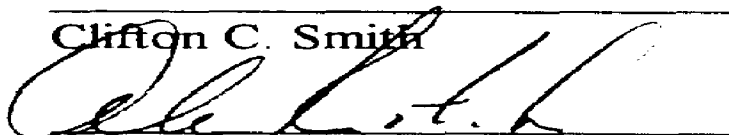
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Joel P. Mellis

Alian N. Stewart

Alian N. Stewart 1/22/88

James Sprague

Joe Mitchell

Richard Perkins

David Gleason

Ron Rossetti, Jr.

Scott Schoen

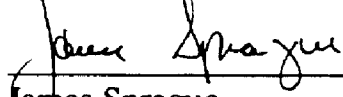
David Lucas

Donald McCullough

Thomas Shepherd

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Allan N. Stewart


James Sprague

Joe Mitchell

Richard Perkins

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Ron Rossetti, Jr.

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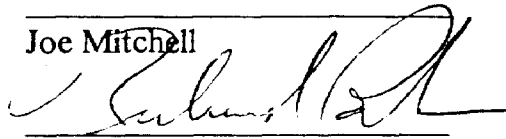
Thomas Shepherd

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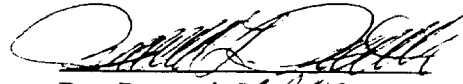
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Richard Perkins

David Gleason



Ron Rossetti, *R. Rossetti*

Scott Schoen

David Lucas

Donald McCullough

Thomas Shepherd

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Allan N. Stewart

James Sprague

Joe Mitchell

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David Gleason

Ron Rossetti, Jr.



Scott Schoen

David Lucas

Donald McCullough

Thomas Shepherd

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Allan N. Stewart

James Sprague

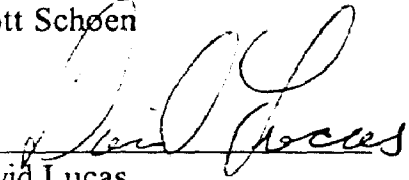
Joe Mitchell

Richard Perkins

David Gleason

Ron Rossetti, Jr.

Scott Schoen



David Lucas

Donald McCullough

Thomas Shepherd

TRADOCs: 1163695.6 (_xvv06!.doc)

Allan N. Stewart

James Sprague

Joe Mitchell

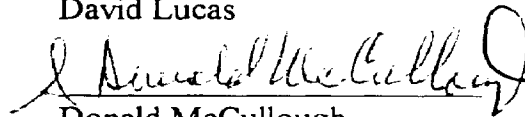
Richard Perkins

David Gleason

Ron Rossetti, Jr.

Scott Schoen

David Lucas



Donald McCullough

Thomas Shepherd

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Allan N. Stewart

James Sprague

Joe Mitchell

Richard Perkins

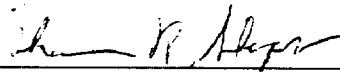
David Gleason

Ron Rossetti, Jr.

Scott Schoen

David Lucas

Donald McCullough



Thomas Shepherd

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