

10-25-2000

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



101496683  
**RECORDATION FORM COVER SHEET  
TRADEMARKS ONLY**

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

**Submission Type**

- New 10-10-00
- 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  
Effective Date  
Month Day Year \_\_\_\_\_
- Merger
- Change of Name
- Other \_\_\_\_\_

**Conveying Party**

Name Paper House Productions, Inc.

Mark if additional names of conveying parties attached

Execution Date  
Month Day Year  
10/5/00

Formerly \_\_\_\_\_

- Individual
- General Partnership
- Limited Partnership
- Corporation
- Association
- Other \_\_\_\_\_

Citizenship/State of Incorporation/Organization Delaware

**Receiving Party**

Name Summit Bank

Mark if additional names of receiving parties attached

DBA/AKA/TA \_\_\_\_\_

Composed of \_\_\_\_\_

Address (line 1) 210 Main Street

Address (line 2) \_\_\_\_\_

Address (line 3) Hackensack

City

New Jersey

State/Country

07601

Zip Code

- Individual
- General Partnership
- Limited Partnership

- Corporation
- Association

Other Banking Institution

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.)

Citizenship/State of Incorporation/Organization New Jersey

10/24/2000 NTHA11 00000113 75747794

FOR OFFICE USE ONLY

01 FU:481 40.00 OP  
02 FU:482 350.00 OP

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

**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)**

<input type="text" value="75,747,794"/>	<input type="text" value="75,705,694"/>	<input type="text" value="75,700,875"/>	<input type="text" value="2,093,976"/>	<input type="text" value="2,014,026"/>	<input type="text" value="1,818,466"/>
<input type="text" value="75,501,138"/>	<input type="text" value="75,574,442"/>	<input type="text"/>	<input type="text" value="2,235,809"/>	<input type="text" value="2,292,722"/>	<input type="text" value="2,298,073"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text" value="2,298,074"/>	<input type="text" value="2,345,364"/>	<input type="text" value="2,321,028"/>

**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

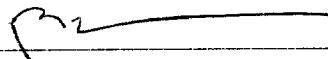
Deposit Account (Enter for payment by deposit account or if additional fees can be charged to the account.)  
Deposit Account Number: #

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.

Brian Richard Lenker  
Name of Person Signing

  
Signature

10/5/00  
Date Signed

**RECORDATION FORM COVER SHEET  
CONTINUATION  
TRADEMARKS ONLY**

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

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

**Conveying Party**

Enter Additional 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**

Enter Additional Receiving Party

Mark if additional names of receiving parties attached

Name

DBA/AKATA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)

City

State/Country

Zip Code

Individual  General Partnership  Limited Partnership

Corporation  Association

Other

Citizenship/State of Incorporation/Organization

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 the Assignment.)

**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)

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**LOAN AND SECURITY AGREEMENT**

by and between

**SUMMIT BANK**

and

**PAPER HOUSE PRODUCTIONS, INC.**

September 14, 2000

ODMA\PCDOCS\DOCSLIB\306931\8

**TRADEMARK**  
**REEL: 002160 FRAME: 0854**

## LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "Agreement") is dated as of September 14, 2000, and is by and between PAPER HOUSE PRODUCTIONS, INC., a Delaware corporation ("Obligor"), having an address of 1760 Glasco Turnpike, Woodstock, New York 12498; and SUMMIT BANK, a banking institution organized and existing under the laws of the State of New Jersey ("Lender"), having an office located at 210 Main Street, Hackensack, New Jersey 07601.

### W I T N E S S E T H :

**WHEREAS**, the Obligor has requested that Lender extend certain credit and make certain loans to the Obligor in an aggregate amount not to exceed the principal amount of Two Million Five Hundred Thousand and 00/100 (\$2,500,000.00) Dollars for the purposes of (i) general corporate purposes including financing general working capital and letters of credit of the Obligor; and (ii) partially financing the acquisition of: (i) certain assets of Jeff Milstein, Inc. doing business as Paper House Productions ("PHP") and (ii) certain assets of Jeffrey Milstein ("Milstein"); and

**WHEREAS**, Paper House Holdings, Inc., a Delaware corporation (the "Guarantor") has guaranteed the payment by the Obligor of its Obligations (as hereinafter defined) to Lender, under all of the Loan Documents (as hereinafter defined); and

**WHEREAS**, Lender is willing to extend such credit and make such loans upon the terms and conditions hereinafter set forth.

**NOW, THEREFORE**, in consideration of the premises and mutual agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

#### **I. DEFINITIONS**

1.1 Defined Terms. As used in this Agreement, the following words and terms shall have the following meanings:

(a) "Account Debtor" shall mean a Person obligated under or with respect to an Accounts Receivable.

(b) "Accounts Receivable" shall mean, in addition to the definition of the term "accounts" contained in the Code, any and

all obligations of any kind at any time due and/or owing to the Obligor (including any such obligation that might be characterized or classified under the Code as accounts, contract rights, chattel paper or otherwise), and all rights of the Obligor to receive payment or any other consideration whether arising from goods sold or leased by the Obligor or services rendered or otherwise, whether or not such right has been earned by performance, whether secured or unsecured, including, without limitation, invoices, contract rights, accounts receivable, notes, drafts, acceptances, instruments, refunds, including tax refunds, and all other debts, obligations and liabilities in whatever form owing to the Obligor from any Person, firm, governmental authority, corporation or any other entity, all security and guaranties therefor, all of the Obligor's rights in, to and under all purchase orders heretofore, now or hereafter received by the Obligor for goods or services, and all of the Obligor's rights to goods sold (whether delivered, undelivered, in transit or returned), which may be represented thereby, including all of the Obligor's rights as an unpaid vendor or lienor, including stoppage in transit, replevin and reclamation, whether now existing or hereafter arising, and all books, records, ledger cards and other tangible and intangible property pertaining to same (including printed copies of all computerized data, electronic machine-readable media of such data, and software owned or licensed (to the extent it can be freely assigned) by the Obligor).

(c) "Affiliate" shall mean any Person (i) who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the Obligor; (ii) who beneficially owns or holds ten (10%) percent or more of any class of the voting stock of the Obligor; or (iii) ten (10%) percent of the voting stock (or in the case of a Person who is not a corporation, ten (10%) percent or more of the securities of such Person having any rights or interests similar to the voting stock of a corporation) of which is beneficially owned or held by the Obligor.

(d) "Agreement" shall mean this Loan and Security Agreement together with any and all exhibits, schedules, amendments, modifications or supplements hereto.

(e) "Asset Purchase Agreement" shall mean that certain Asset Purchase Agreement dated August 23, 2000 by and among PHP, Milstein and Obligor.

(f) "Base Rate" shall mean the rate of interest announced, from time to time, by the Lender as its "base rate" or "base

lending rate". This rate of interest is determined, from time to time, by the Lender as a means of pricing some loans to its customers and is neither tied to any external rate of interest or index nor does it necessarily reflect the lowest rate of interest actually charged by the Lender to any particular class or category of its customers.

(g) "Borrowing Base" shall mean at any time, an amount (in any event not less than zero) equal to the sum of: (i) eighty (80%) percent of Eligible Accounts Receivable; (ii) forty (40%) percent of Eligible Inventory, not to exceed Two Hundred Thousand (\$200,000.00) Dollars; and (iii) an amount, subject to the conditions set forth below, not to exceed: (A) One Hundred Seventy Five Thousand (\$175,000.00) Dollars, for the period beginning May 1, 2001 through December 31, 2001, (B) One Hundred Sixty Five Thousand (\$165,000.00) Dollars, for the period beginning May 1, 2002 through December 31, 2002, and (C) One Hundred Ten Thousand (\$110,000.00) Dollars, for the period beginning May 1, 2003 through December 31, 2003 (the "Overadvance"). Subject to the dollar thresholds set forth above, the Overadvance shall not exceed the sum of: (i) Post-Closing Sale Payments (as defined within the Asset Purchase Agreement) actually paid by the Obligor to PHP in accordance with the Asset Purchase Agreement in a given calendar year, and (ii) the cash income tax indemnity payments actually paid by the Obligor during the same given calendar year to PHP and/or Milstein pursuant to Section 4.3.4(b) of the Asset Purchase Agreement. The Overadvance shall only be permitted after the Lender is in receipt of all financial statements required to be submitted to the Lender in accordance with this Agreement and the calculation of the Post-Closing Sales Payment is certified by the President of the Obligor. There shall be no carry forward of the Overadvance calculation from one calendar year to the next calendar year.

(h) "Borrowing Base Certificate" shall mean a full and complete certificate in the form approved by the Lender, certified as true and correct by the Obligor's President or Director of Finance.

(i) "Business Day" shall mean any day other than a Saturday, Sunday or other day on which State or federally chartered Banks in the State of New Jersey or New York are authorized to close.

(j) "Code" shall mean the Uniform Commercial Code as in effect in any applicable jurisdiction.

(k) "Collateral" shall have the meaning ascribed to such term in Section 3.1 hereof.

(l) "Collateral Proceeds Account" shall mean that account maintained with the Lender as more fully described in Section 3.2(b) of this Agreement.

(m) "Contracts" shall mean all contracts, instruments, undertakings, documents or other agreements with respect to the Collateral in or under which the Obligor now has or hereafter may have any right, title or interest (to the extent same can be freely assigned).

(n) "Default" shall mean any of the events specified in Article VII hereof which, with the passage of time, or the giving of notice, or both, would constitute an Event of Default.

(o) "EBITDA" shall mean, in respect of any period, the Operating Income of the Obligor for such period plus: (i) interest expense of the Obligor for such period, (ii) provisions for income taxes of the Obligor for such period, (iii) any adjustments arising from changes in carrying value of the Obligor's Inventory resulting from the application by Obligor of purchase accounting principles (A.P.B. 16 and other business combinations in accordance with GAAP) to value the Inventory purchased by the Obligor in connection with the transactions contemplated by the Asset Purchase Agreement, (iv) cost and expenses incurred by the Obligor in connection with closing the transactions contemplated by the Asset Purchase Agreement which are not otherwise capitalized and amortized over time in accordance with GAAP, and (v) depreciation and amortization expenses of the Obligor for such period, in each case to the extent deducted in computing Operating Income, all determined in accordance with GAAP for such period. "Operating Income" shall mean, for any period, the net operating income of the Obligor for such period but excluding: (i) extraordinary or non-recurring items, (ii) gains and losses from the sale or other disposition of assets other than in the ordinary course of business, (iii) income or losses from operations from acquisitions of or investments in business by the Obligor after the date of this Agreement, and (iv) the Consulting Fee paid by the Obligor during such period.

(p) "Eligible Accounts Receivable" shall mean an Accounts Receivable that meets all of the following requirements as of its date of invoice or other origination date and continues to meet the following requirements for all periods of time thereafter until collected:



(i) such Accounts Receivable represents a complete bona fide transaction which requires no further act on the part of the Obligor to make such Accounts Receivable payable by the Account Debtor;

(ii) except as set forth in Section 1.1(p)(iii) below, such Accounts Receivable shall not be unpaid more than ninety (90) days from its date of invoice or other origination date;

(iii) such amounts of Accounts Receivable from the Account Debtors referenced on Exhibit 1.1(p) attached hereto, not in excess of the lesser of: (A) twenty five (25%) percent of the aggregate total Eligible Accounts Receivable, or (B) one hundred fifty thousand (\$150,000.00) dollars, shall not be unpaid more than one hundred twenty (120) days from its date of invoice or other origination date; notwithstanding the foregoing, under no circumstances shall the Eligible Accounts Receivables determined pursuant to this Section 1.1(p)(iii), in excess of Seventy Five Thousand (\$75,000.00) Dollars, be more than sixty (60) days past due;

(iv) if applicable, the goods, the sale of which gave rise to such Accounts Receivable, were shipped or delivered to the Account Debtor on an absolute sale basis and not on a bill and hold sale basis, a consignment sale basis, a progress basis, a guaranteed sale basis, a sale or return basis, or on the basis of any other similar understanding, and no part of such goods has been returned or rejected; provided, however, that in the event any credit is granted by the Obligor, in the ordinary course of business, with respect to a portion of an Accounts Receivable, the amount of such Accounts Receivable which is not subject to such credit shall constitute an Eligible Accounts Receivable if the Accounts Receivable is otherwise an Eligible Accounts Receivable;

(v) such Accounts Receivable is not evidenced by chattel paper or an instrument of any kind;

(vi) the Account Debtor, with respect to such Accounts Receivable, is not, to the best of the Obligor's knowledge, insolvent or the subject of any bankruptcy or insolvency proceedings of any kind or of any other proceeding or action, which might foreseeably have a materially adverse effect on the business of such Account Debtor or is not, in the reasonable discretion of Lender, deemed ineligible for credit for any other reason;

(vii) if such Accounts Receivable arises from the performance of services, such services have been fully rendered and approved by the Account Debtor with respect thereto;

(viii) to the best of the Obligor's knowledge, such Accounts Receivable (or portion thereof determined under Section 1.1(p)(iv)) is a valid, legally enforceable obligation of the Account Debtor with respect thereto and is not subject to any present, or contingent, and no facts exist which are the basis for any future, offset or counterclaim or other defense on the part of such Account Debtor, including, without limitation, any account payable owing by the Obligor to such Account Debtor;

(ix) such Accounts Receivable shall be subject to a valid and perfected first priority security interest in favor of the Lender;

(x) such Accounts Receivable is evidenced by an invoice or other documentation in form and substance reasonably acceptable to the Lender;

(xi) such Accounts Receivable is not subject to any provision prohibiting its assignment or requiring notice of, or consent to, such assignment;

(xii) if applicable, the goods giving rise to such Accounts Receivable were not, at the time of the sale thereof, subject to any Lien, except Permitted Liens;

(xiii) if the Account Debtor with respect thereto is the United States or any department, agency or instrumentality thereof, such Accounts Receivable shall have been assigned to the Lender in full compliance with all applicable laws and regulations, including the Assignment of Claims Act of 1940, as amended;

(xiv) the Account Debtor with respect thereto is domiciled within the United States of America or, if the Account Debtor with respect thereto is not domiciled within the United States of America, such Accounts Receivable is secured by credit insurance in form and substance satisfactory to the Lender in its sole and absolute discretion;

(xv) such Accounts Receivable does not arise out of any transaction with any Affiliate of the Obligor or any Person under common control of the Obligor;

(xvi) such Accounts Receivable is not due from an Account Debtor where more than fifty (50%) percent of the total Accounts Receivable from such Account Debtor are not Eligible Accounts Receivable;

(xvii) except as set forth in Section 1.1(p) (xviii) below, that portion of an otherwise Eligible Accounts Receivable that does not exceed twenty (20%) percent of the aggregate total Accounts Receivable from all Account Debtors;

(xviii) that portion of an otherwise Eligible Accounts Receivable from the Account Debtors referenced on Exhibit 1.1(p) attached hereto and made a part hereof, that does not exceed thirty (30%) percent of the aggregate total Accounts Receivable from all Account Debtors; and

(xix) such Accounts Receivable is otherwise satisfactory to the Lender in its sole and absolute reasonable discretion based upon the Lender's customary eligibility requirements.

(q) "Eligible Inventory" shall mean Inventory which is:

(i) owned by the Obligor and not purchased or acquired on a consignment, approval, or sale or return basis;

(ii) subject to a valid and perfected first priority security interest in favor of the Lender;

(iii) fully and adequately insured, with the Lender named as an additional insured and loss payee as provided herein;

(iv) not unsalable, damaged or obsolete as the Lender shall determine;

(v) located within the continental United States at a location with respect to which the Lender shall have obtained a duly executed landlord's waiver or other such similar documentation, all in form and substance satisfactory to the Lender;

(vi) subject to the provisions set forth in Section 1.1(q) (vii) below, not aged more than three hundred sixty (360) days from its purchase date; and

(vii) otherwise satisfactory to the Lender in its sole and absolute reasonable discretion based upon the Lender's

eligibility requirements established by the Lender from time to time which may include an adjustment to the aging periods set forth in Section 1.1(q)(vi) above.

(r) "Equipment" shall mean any "equipment", as such term is defined in the Code, now or hereafter owned by the Obligor and, in any event, including, without limitation, all machinery, equipment, furnishings, and equipment of any kind, nature and description whether affixed to real property or not, fixtures and office furniture and any and all additions to, substitutions of and replacements of or accessions to any of the foregoing, wherever located, together with all attachments, components, parts (including spare parts), equipment and accessories installed thereon or affixed thereto.

(s) "Event of Default" shall mean any of the events specified in Article VII hereof, provided that any requirement for notice or lapse of time or any other condition has been satisfied.

(t) "Excess Cash Flow" shall mean, in respect of any period, the net income (loss) of the Obligor for such period determined in accordance with GAAP plus (i) all non-cash charges of the Obligor for such period to the extent included in the computation of such net income (loss) minus (ii) the sum of (without duplication) (A) scheduled and mandatory cash principal payments on the Notes during such period and optional cash principal payments on the Notes during such period (but, in the case of the Revolving Note, only to the extent that the Revolving Loan Maximum is permanently reduced by the amount or such payments), and scheduled cash principal payments on other Indebtedness made by the Obligor during such period, to the extent such other Indebtedness is permitted herein and such payments are permitted herein to be made, (B) capital expenditures made by the Obligor during such period to the extent permitted herein and not financed by the Obligor, (C) the Post Closing Sale Payments (as defined pursuant to the Asset Purchase Agreement) made by the Obligor during such period, (D) the cash income tax indemnity payments made by the Obligor during such period to PHP and/or Milstein pursuant to Section 4.3.4(b) of the Asset Purchase Agreement, (E) accrued but unpaid interest due under the Subordinated Indebtedness, and (F) any other amounts paid by the Obligor during such period agreed to by the Lender in its sole discretion, plus (iii) any adjustments arising from changes in carrying value of the Obligor's Inventory resulting from the application by Obligor of purchase accounting principles (A.P.B. 16 and other business combinations in accordance with GAAP) to value the Inventory purchased by the

Obligor in connection with the transactions contemplated by the Asset Purchase Agreement.

(u) "Facility" shall mean both the Revolving Loan and Term Loan.

(v) "GAAP" shall mean generally accepted accounting principles in the United States of America as in effect from time to time.

(w) "General Intangibles" shall mean any "general intangibles" and "intangibles", as such terms are defined in the Code, now or hereafter owned by the Obligor and, in any event, including, without limitation, all customer lists, mailing lists, prospect lists, trade secrets, know-how, goodwill, Trademarks, Patents, rights in intellectual property, licenses, permits and copyrights now or hereafter owned by the Obligor.

(x) "Goods" shall mean any "goods", as such term is defined in the Code.

(y) "Guarantor" shall mean Paper House Holdings, Inc., a Delaware corporation.

(z) "Guaranty Agreement" shall mean the guaranty agreement substantially in the form attached hereto as Exhibit 1.1(z) and by this reference made a part hereof as fully as if set forth herein as such may be modified, renewed or affirmed from time to time.

(aa) "Indebtedness" shall mean: (i) all items (other than capital stock, capital surplus, retained earnings and general contingencies) which in accordance with GAAP would be included in determining total liabilities as shown on the liability side of a balance sheet as at the date on which Indebtedness is to be determined; and (ii) whether or not so reflected, all indebtedness, obligations and liabilities, whether unsecured or secured by any Lien, and all capitalized lease obligations, whether real or contingent.

(bb) "Inventory" shall mean "inventory", as such term is defined in the Code and shall include, without limitation, all goods and other personal property of the Obligor, whether now owned or hereafter acquired or in which the Obligor now has or hereafter may acquire any right, title or interest, and wherever located, whether in transit or otherwise, held for sale or lease, or furnished or to be furnished under contracts for service, sale or lease, including all goods returned or reclaimed from cus-

tomers, and all raw materials, work in process and materials owned by the Obligor and used or consumed or to be used or consumed in its business, or in the processing, packaging or shipping of the same, and all finished goods and all assets of a type classified as Inventory as reflected, in accordance with GAAP, on the financial statements of the Obligor.

(cc) "Lender" shall mean Summit Bank.

(dd) "Lender Costs" shall mean all taxes and insurance premiums of every kind and nature of the Obligor paid by the Lender; all filing, recording, publication, and search fees incurred in connection with and relating to the Obligor paid by the Lender; all reasonable out-of-pocket costs incurred and sums expended by the Lender, with or without suit, to correct any default, to make advances of principal and interest or payments to prior secured parties, to enforce any right or remedy of the Lender, or in connection with any other provision of any Loan Document, including, without limitation, any reasonable out-of-pocket costs incurred by the Lender with respect to any other lender in connection with the Loan Documents and the transactions contemplated thereby; all reasonable out-of-pocket costs incurred and sums expended in gaining possession of, inspection of, maintaining, handling, preserving, repairing, renovating, storing, shipping, finishing, selling, preparing for sale, and advertising to sell the Collateral, whether or not a sale is consummated; reasonable out-of-pocket costs of using, operating, controlling and managing the Collateral including but not limited to rental and licensing costs; reasonable out-of-pocket costs of collecting and receiving rent, income, revenue, earnings, issues and profits of the Collateral; reasonable out-of-pocket costs of suit incurred by the Lender in enforcing or defending this Agreement or any other Loan Document or any portion thereof; all reasonable out-of-pocket costs and expenses including appraisal, accounting, consulting and reasonable attorneys' fees and expenses incurred by the Lender in preparing, reviewing, enforcing, amending, modifying, administering, defending or otherwise concerning this Agreement or any other Loan Document or any portion hereof or thereof; and whether or not suit is brought, all reasonable out-of-pocket costs of arbitration and insolvency proceedings.

(ee) "Letter of Credit and Security Agreement" shall mean that certain Continuing Commercial Letter of Credit and Security Agreement or other form prescribed by the Lender from time to time to customers of the Lender, dated the date of each request for a Letter of Credit executed by the Obligor and the Lender.

(ff) "Letters of Credit" shall mean a collective reference to all documentary letters of credit and standby letters of credit issued by the Lender on the account of the Obligor under the Revolving Loan and pursuant to a duly executed Letter of Credit and Security Agreement.

(gg) "Lien" shall mean (i) any lien, judicial lien (including, without limitation, any judgment by any court, arbitrator or governmental authority), assignment, charge, conditional sale or other title retention agreement, lease constituting a capital lease, hypothecation, mortgage, pledge, or other security interest, encumbrance or title retention agreement of any kind, whether legal or equitable, in respect of any property of a Person, or upon the income, rents or profits therefrom; (ii) any arrangement, express or implied, under which any property of a Person is transferred, sequestered or otherwise identified for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to the payment of the general unsecured creditors of such Person; (iii) any Indebtedness for wages or Indebtedness arising for any other reason which is unpaid more than thirty (30) days after the same shall have become due and payable and which, if unpaid, might, by Section 507 of the bankruptcy Code or any other law (whether or not the events or conditions (other than the existence of such Indebtedness or the initiation of legal proceedings available generally to unsecured creditors) set forth in such law have occurred or been satisfied), be given any priority whatsoever over general unsecured creditors of such Person; and (iv) the filing of, or any agreement to give, any financing statement under the Code or its equivalent of any jurisdiction to evidence any of the foregoing.

(hh) "Line of Credit Borrowing" or "Line of Credit Borrowings" shall mean any advance(s) of Revolving Loan proceeds in the form of Own Note Borrowings and/or Letters of Credit by the Lender to the Obligor, pursuant to and in accordance with the terms and conditions of the Loan Documents.

(ii) "Loan Documents" shall collectively mean this Agreement, the Revolving Note, the Term Note, the UCC-1 financing statements, the Guaranty Agreement, the Stock Pledge (as defined in Article III hereof) and all other agreements, documents, instruments and certificates executed and delivered to the Lender in connection therewith, as such may be modified or renewed from time to time.

(jj) "Notes" shall mean together the Revolving Note and Term Note.

(kk) "Obligations" shall mean (i) any and all Indebtedness, obligations, letters of credit, including, liabilities and agreements of every kind and nature of the Obligor to or with the Lender, or arising from any derivative transaction(s), or with any affiliates of the Lender, or of any guarantor of the Obligor's Indebtedness, obligations, letters of credit, liabilities and agreements to or with the Lender, or to or with any Affiliates of the Lender now existing or hereafter arising, and now or hereafter contemplated, pursuant to the Loan Documents, whether in the form of refinancing, loans, guarantees, bankers' acceptances, foreign exchange contracts, options and letters of credit, interest, charges, expenses, fees (including, without limitation attorneys' fees) or otherwise, direct or indirect, (including, without limitation, any participation or interest of the Lender in any obligation of the Obligor to others) acquired outright, conditionally or as collateral security from another, absolute or contingent, joint and/or several, liquidated or unliquidated, due or not due, contractual or tortious, secured or unsecured, arising by operation of law or otherwise, including, but without limiting the generality of the foregoing, indebtedness, obligations or liabilities to the Lender by the Obligor as a member of any limited liability company, partnership, syndicate, association or other group, and whether incurred by the Obligor as principal, surety, endorser, guarantor, accommodation party or otherwise, together with any extensions, renewals or modifications thereof; (ii) all obligations of the Obligor for any future advances made by the Lender to the Obligor pursuant to the Loan Documents whether or not evidenced by a promissory note and all obligations under any renewals, extensions or changes in form of, or substitutions for, any of said indebtedness, obligations or liabilities; (iii) all sums and charges to be paid to the Lender pursuant to the Loan Documents including, but not limited to the Lender Costs; (iv) all interest and late charges on any of the foregoing; and (v) all obligations of the Obligor now or hereafter existing under the Loan Documents.

(ll) "Own Note Borrowing(s)" shall mean any direct borrowing by the Obligor which shall not exceed the Revolving Loan Maximum in the aggregate at any one time outstanding and shall be evidenced by the Revolving Note.

(mm) "Patents" shall mean all patents of the United States or any other country and all applications for patents of the United States or any other country and all reissues, continuations-in-part or extensions thereof, whether now or



hereafter owned by the Obligor including the patent referenced on Exhibit 1.1(mm) attached hereto and made a part hereof.

(nn) "Permitted Indebtedness" shall mean:

(i) Indebtedness owing to the Lender;

(ii) Indebtedness incurred in favor of trade creditors in the ordinary course of business;

(iii) Indebtedness in respect of taxes, assessments, governmental charges, worker's compensation, levies and claims for labor, materials, supplies and rentals to the extent otherwise permitted under this Agreement to remain unpaid and undischarged;

(iv) Indebtedness incurred in the ordinary course of business with respect to the purchase or lease of machinery or equipment (including capitalized lease obligations associated with the acquisition of any such assets), as well as trucks and vehicles of every description, provided that the amount of any such Indebtedness does not exceed the purchase price of the asset acquired;

(v) Subordinated Indebtedness;

(vi) Customary indemnifications and purchase price obligations under the Asset Purchase Agreement; and

(vii) The refinancing or replacement of other Permitted Indebtedness.

(oo) "Permitted Liens" shall mean:

(i) any Lien in favor of the Lender;

(ii) Liens for taxes, assessments or governmental charges or levies not yet due or which are delinquent and which are being contested in good faith and by appropriate proceedings, promptly initiated and diligently conducted, for which reserves have been established in accordance with GAAP with respect thereto and as to which foreclosure, distraint, sale or other similar proceedings shall not have been commenced; provided, however, that any such Liens shall not be Permitted Liens if such Liens can in any way become superior in priority to the Lien in favor of the Lender under this Agreement, any of the other Loan Documents, or any other loan agreement between the Obligor or any Affiliate of the Obligor, and the Lender;

(iii) carriers', warehousemen's, mechanics', material-men's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue or which are being contested in good faith and by appropriate proceedings, promptly initiated and diligently conducted, for which reserves have been established in accordance with GAAP with respect thereto and as to which foreclosure, distraint, sale or other similar proceedings shall not have been commenced;

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

(v) deposits to secure the performance of bids, trade contracts (other than for borrowed money), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business; provided, however, that such Liens shall only be Permitted Liens upon the prior consent to the incurrence thereof by the Lender;

(vi) Liens created by or existing from any litigation or legal proceeding; provided that the execution or other enforcement of such Liens is effectively stayed, the claims secured thereby are being actively contested in good faith by appropriate proceedings, adequate book reserves have been established in accordance with GAAP with respect thereto and no Default or Event of Default arises or is created as a result thereof;

(vii) Liens arising in connection with the Indebtedness described in Section 1.1(nn)(iv), provided each such Lien only encumbers the asset so purchased with the proceeds of such Permitted Indebtedness;

(viii) Liens arising under statute or common law for banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository institution;

(ix) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of Goods;

(x) Liens relating to licenses of patents, trademarks and other intellectual property rights granted by Obligor in the ordinary course of business;

(xi) Replacement, extension or renewal of Liens in connection with extension or renewal of Indebtedness secured thereby; and

(xii) Liens arising in connection with the Subordinated Indebtedness.

(pp) "Person" shall mean any individual, corporation, limited liability company, partnership, association, joint stock company, trust, unincorporated organization, joint venture, court or government or political subdivision or agency thereof.

(qq) "Premises" shall mean and refer to all of the lands, premises and improvements located at the addresses set forth on Exhibit 4.15 attached hereto, and such other premises as are approved by the Lender after receipt of a landlord waiver or other such similar documentation (all in form and substance satisfactory to the Lender) as may be required by the Lender in its sole and absolute discretion.

(rr) "Proceeds" and "Products" shall have the meaning ascribed to such terms in the Code, including in any event without limitation (i) whatever is received upon any collection, exchange, sale or other disposition or refinancing of any of the Collateral and any property into which any of the Collateral is converted, whether cash or non-cash proceeds; (ii) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to the Obligor from time to time with respect to any of the Collateral; (iii) any and all payments (in any form whatsoever) made or due and payable to the Obligor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any governmental body, authority, bureau or agency (or any Person acting under color of governmental authority); and (iv) any and all other amounts, from time to time, paid or payable under or in connection with any of the Collateral.

(ss) "Revolving Loan" shall mean the loan described in Section 2.1 of this Agreement.

(tt) "Revolving Loan Maximum" shall mean One Million (\$1,000,000.00) Dollars.

(uu) "Revolving Loan Termination Date" shall mean December 31, 2004.

(vv) "Revolving Note" shall mean the promissory note substantially in form of Exhibit 1.1(vv) attached hereto and by this reference made a part hereof as fully as if set forth herein, and any promissory note in renewal thereof or substitution or replacement therefore.

(ww) "Subordinated Indebtedness" shall mean all Indebtedness incurred by the Obligor to First New England Capital Limited Partnership and First New England Capital 2, L.P. (collectively, "FNEC") in connection with a Two Million Five Hundred Thousand (\$2,500,000.00) loan from FNEC to Obligor, the repayment of which is subordinated to the Obligations to the Lender pursuant to a intercreditor and subordination agreement in form and substance satisfactory to the Lender in its sole and absolute discretion.

(xx) "Term Loan" shall mean the loan described in Section 2.4 of this Agreement.

(yy) "Term Note" shall mean the promissory note substantially in form of Exhibit 1.1(yy) attached hereto and by this reference made a part hereof as fully as if set forth herein, and any promissory note in renewal thereof or substitution or replacement therefore.

(zz) "Trademarks" shall mean all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos, other source of business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and General Intangibles of like nature that are owned by the Obligor, including the trademark registrations and applications referenced on Exhibit 1.1(mm) attached hereto, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof and all reissues, extensions or renewals thereof, whether now owned or hereafter acquired.

1.2 Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined herein shall have the meaning customarily given thereto in accordance with GAAP.

1.3 Other Terms. Terms such as "accounts", "contract rights", "advices", "confirmations", "instruments", "chattel paper", "documents of title", and the like, shall, unless otherwise specifically defined herein, have the meanings applicable to them for the purposes of Article 9 (Secured Transactions) of the Uniform Commercial Code in force and effect in the State of New Jersey on the date of this Agreement.

1.4 Entire Agreement. The words "hereof", "herein", and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, subsection, schedule and exhibit references are to this Agreement, unless otherwise specified.

## II. FACILITY

2.1 Revolving Loan From time to time, during the period from the date hereof until the Revolving Loan Termination Date, provided no Default and/or Event of Default shall have occurred (in which event the Lender shall have no obligation to make Line of Credit Borrowings in accordance with the terms and provisions hereof) and be continuing, in the manner hereinafter set forth, the Obligor may borrow, repay and reborrow from the Lender and, upon request of the Obligor and upon the terms and conditions contained herein, the Lender agrees to make Line of Credit Borrowings to the Obligor in such amounts which, when added to the then outstanding principal amount of the Line of Credit Borrowings theretofore made pursuant to this Agreement, will not exceed in the aggregate, at any time, the lesser of: (i) the Revolving Loan Maximum; or (ii) the Borrowing Base. The proceeds of each Line of Credit Borrowing hereunder shall only be used by the Obligor for the purposes set forth in the first recital of this Agreement; provided, however, that the Obligor shall not be permitted to request Letters of Credit if the aggregate undrawn amount of all Letters of Credit outstanding shall exceed Two Hundred Fifty Thousand (\$250,000.00) Dollars.

2.2 Procedure for Making Line of Credit Borrowings. The Obligor may request advances for Own Note Borrowings and Letters of Credit from the Lender. The Obligor shall confirm the proposed request for a Line of Credit Borrowing by telephone request by an authorized agent of the Obligor (a list of such authorized agents is set forth on Exhibit 2.2 attached hereto and by this reference made a part hereof) to the Lender no later than 11:00 a.m. on the proposed date of the funding of the Line of Credit Borrowing (the

"Borrowing Request"). The Borrowing Request shall include (i) the principal amount of the Line of Credit Borrowing, (ii) the requested borrowing date, (iii) the type of the particular Line of Credit Borrowing, i.e., Own Note Borrowing or Letter of Credit, (iv) in the case of Letters of Credit, a completed and fully executed Letter of Credit and Security Agreement, and (v) fulfillment of the conditions precedent set forth in Article VI hereof. Provided all of the terms, conditions and provisions of this Agreement and the other Loan Documents are satisfied by the Obligor on the borrowing date and no Default or Event of Default has occurred and is continuing, the Lender shall make the requested Line of Credit Borrowing to the Obligor, in the case of Own Note Borrowings, in immediately available funds, by wiring or transferring said funds to the Obligor's demand deposit account maintained with the Lender. If received after 11:00 a.m., the Lender, in its sole and absolute reasonable discretion, may make such Line of Credit Borrowing on that same day or the next succeeding Business Day.

2.3 The Revolving Note. The obligation of the Obligor to repay all monies advanced by the Lender to the Obligor in connection with the Revolving Loan shall be evidenced by the Revolving Note. The Revolving Note shall be dated as of the date hereof, signed by the Obligor and delivered to the Lender.

2.4 Term Loan. On this date, the Obligor shall borrow from the Lender, and the Lender shall lend a sum to the Obligor in the original principal amount of One Million Five Hundred Thousand (\$1,500,000.00) Dollars. The Term Loan shall be evidenced by the Term Note made payable to the order of the Lender, dated the date hereof, signed by the Obligor and delivered to the Lender. The Term Loan shall be repaid by the Obligor in accordance with the terms and conditions set forth in the Term Note.

2.5 Interest Rates. The Revolving Note shall bear interest from the date hereof on the outstanding daily principal amount thereof, which interest shall be payable on September 30, 2000 and on the last day of each month thereafter and upon payment of the Revolving Note in full, at a fluctuating rate per annum equal to the Base Rate plus three-eighths of one percent (0.375%) per annum. The Term Note shall bear interest from the date hereof on the outstanding daily principal amount thereof, which interest shall be payable on September 30, 2000 and on the last day of each month thereafter and upon payment of the Term Note in full, at a fluctuating rate per annum equal to the Base Rate plus three-eighths of one percent (0.375%) per annum. Interest shall be calculated on the basis of a 360-day year for the actual number of

days elapsed. The rate of interest on the Notes shall be adjusted automatically as of the opening of business on each day on which any change in the Base Rate is announced by the Lender at its principal office.

2.6 Optional Prepayment of Term Note. The Obligor shall have the right to prepay, in whole or in part, the Term Note at any time provided that such prepayment shall be in aggregate multiples of Twenty Five Thousand (\$25,000.00) Dollars. Any prepayment shall be accompanied by a payment of all accrued and unpaid interest on the principal so prepaid. Prepayments of principal under the Term Note shall be applied in the inverse order of maturity.

2.7 Mandatory Prepayments.

(a) If at any time and for whatever reason the sum of the aggregate outstanding principal amount of Line of Credit Borrowings hereunder exceeds either the Revolving Loan Maximum or the Borrowing Base, then such excess, together with accrued interest thereon, shall be immediately due and payable and applied as a prepayment under the Revolving Note.

(b) The Obligor shall be required to deliver to the Lender, for immediate application to the outstanding principal balance of either of the Notes (in Lender's discretion), (i) one hundred (100%) percent of the net cash proceeds received by the Obligor in connection with insurance proceeds, new debt offerings, equity issuance(s) by the Obligor, and/or the sale of any or all of the Obligor's assets; and (ii) within one hundred twenty (120) days after the end of each fiscal year of the Obligor commencing with the Obligor's fiscal year ending December 31, 2001, (A) fifty (50%) percent of Excess Cash Flow when the total outstanding Indebtedness of the Obligor to the Lender is greater than or equal to 3.5 X EBITDA, and (B) twenty-five (25%) percent of Excess Cash Flow when the total outstanding Indebtedness of the Obligor to the Lender is greater than or equal to 2.5 X EBITDA, but less than 3.5 X EBITDA.

2.8 Reimbursement Obligation. The Obligor absolutely, irrevocably and unconditionally agrees to pay to the Lender an amount equal to, and in reimbursement for, each amount which the Lender pays under any Letters of Credit on or before the earlier of (a) the date specified for payment, if any, of such amount by the Lender in the Letters of Credit, or (b) the actual date of payment by the Lender of such amount. The Obligor hereby authorize the Lender to make from time to time, pursuant to

Section 2.2 above, one or more Own Note Borrowings in an amount equal to the Obligor's reimbursement obligation as set forth herein and to distribute such advance to the Lender to be applied to payment of such reimbursement obligation. The Obligor expressly agrees that all Own Note Borrowings so made shall be deemed to have been requested by it and direct that all proceeds thereof shall be applied to payment of such reimbursement obligation as aforesaid.

2.9 Indemnification. The Obligor agrees to indemnify and save harmless the Lender from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees) which the Lender may incur or be subject to as a consequence, directly or indirectly, of the issuance of any Letters of Credit or any action or proceeding relating to a court order, injunction, or other process or decree restraining or seeking to restrain the Lender from paying any amount under any Letters of Credit. In furtherance and not in limitation of the foregoing, the obligations of the Obligor hereunder shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms hereof under all circumstances, including, without limitation, any of the following circumstances:

(i) any lack of validity or enforceability of any Letters of Credit or any agreement or instrument relating thereto;

(ii) the existence of any claim, setoff, defense or other right which the Obligor may have at any time against the beneficiary or any transferee of any Letters of Credit;

(iii) any draft, certificate, or other document presented under any Letters of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(iv) any lack of validity, effectiveness, or sufficiency or any instrument transferring or assigning or purporting to transfer or assign any Letters of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part;

(v) any loss or delay in the transmission or otherwise of any documents required in order to make a drawing under any Letters of Credit or of the proceeds thereof;



(vi) any failure of the beneficiary of a Letter of Credit to strictly comply with the conditions required in order to draw upon any Letters of Credit;

(vii) any misapplication by the beneficiary of any Letters of Credit of the proceeds of any drawing under such Letters of Credit; or

(viii) any other circumstance or happening whatsoever, whether or not similar to the foregoing;

Provided, however, that notwithstanding the foregoing, the Lender shall not be relieved of any liability it may otherwise have as a result of its gross negligence, willful misconduct or wrongful refusal to honor any Letters of Credit.

2.10 Uniform Customs and Practice. The Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce, shall in all respects be deemed a part of this Agreement as if set forth at length herein and shall apply to the Letters of Credit.

2.11 Standby Letter of Credit Fees. The Obligor agrees to pay to the Lender a standby letter of credit fee with respect to standby letters of credit on the maximum amount available to be drawn under such standby letters of credit on the date of issuance of such standby letters of credit (the determination of such maximum amount to be made as if any and all conditions for the drawing thereof having been met) from the date of issuance of such standby letters of credit until the expiration date thereof at the rate of three (3%) percent per annum, such standby letter of credit fee to be payable in advance on or before the date of issuance of each standby letter of credit and if applicable, annually thereafter. The Obligor further agrees to pay such other customary fees and charges as are required by the Lender in accordance with its general practice relating to the issuance, maintenance, transfer and payment of standby letters of credit.

2.12 Documentary Letters of Credit. The Obligor agrees to pay to the Lender certain customary and standard fees and charges as are required by the Lender, relating to the issuance, maintenance, transfer and payment of documentary letters of credit.

2.13 Business Day. Whenever any payment hereunder or under the Notes shall be stated as due on any day other than a Business Day, the maturity of such payment shall be extended to the next

succeeding Business Day and interest and all other fees shall accrue during such extension.

2.14 Automatic Charge. Without in any way limiting any right of offset, counterclaim or Banker's lien which the Lender may otherwise have at law, the Obligor hereby irrevocably authorizes and directs the Lender to charge against the Obligor's account or accounts with the Lender, an amount or amounts equal in the aggregate to such aforesaid sums as are due and payable from time to time to the Lender.

2.15 Termination. The obligation of the Lender to make any Line of Credit Borrowing hereunder may be terminated;

(a) by the Lender at any time after the occurrence of an Event of Default; or

(b) by either party on the Revolving Loan Termination Date; or

(c) by the Obligor at any time upon sixty (60) days prior written notice to the Lender, subject to the Obligor's obligation to pay the Termination Fee, as set forth in Section 2.19 of this Agreement.

2.16 Field Examination and Collateral Management Fees. Provided the Obligor is not in Default under this Agreement, the Lender agrees to limit the Lender Costs associated with the Lender's field examination, by Lender's internal examiners, of the Obligor's books and records as more fully set forth, permitted pursuant to Section 5.7 of this Agreement, to seven hundred fifty (\$750.00) dollars per examiner per day plus reasonable out-of-pocket expenses, not to exceed four thousand five hundred (\$4,500.00) dollars per annum plus out-of-pocket expenses. All Lender Costs actually incurred by the Lender, associated with the Lender's field examination of the Obligor's books and records by outside examiners not affiliated with the Lender, shall be reimbursed by the Obligor to the Lender. All Lender Costs associated with the Lender's field examination of the Obligor's books and records shall be immediately paid by the Obligor upon completion of said field examination by the Lender. The Obligor shall pay to the Lender, in advance on the last day of each calendar quarter beginning September 30, 2000, a collateral management fee in the amount of One Thousand Five Hundred (\$1,500.00) Dollars.

2.17 Late Charge. In the event that any payment shall not be received by the Lender within ten (10) days of the due date, the Obligor shall, to the extent permitted by law, pay a late charge equal to five (5%) percent of the overdue payment (but in no event less than twenty five (\$25.00) dollars nor more than two thousand five hundred (\$2,500.00) dollars), for the purpose of defraying the expense incident to the handling of such delinquent payment. Any such late charge assessed is immediately due and payable.

2.18 Increased Costs. If as the result of any enactment or issuance of, or any change in, any law or regulation affecting commercial banks in general, or in the interpretation thereof by any court or administrative or governmental authority having jurisdiction thereto, there shall be any increase in the cost of the Lender of agreeing to make or making the Facility or any Line of Credit Borrowing, including without limitation, any increase in cost arising from the imposition or modification of any reserve, special deposit or other requirement or arising from any increase in capital required to be maintained by the Lender, then the Obligor shall from time to time, upon thirty (30) days prior written notice by the Lender, pay to the Lender such additional amount as may be necessary to reimburse the Lender for such increased cost. In any such case of increased cost, the Lender shall provide the Obligor with a detailed certificate setting forth the amount of such increased cost and the calculation thereof, which certificate shall be conclusive and binding for all purposes, absent manifest error.

2.19 Termination Fee. In the event the Lender's obligation to make the Facility available to the Obligor is terminated prior to December 31, 2001, then the Obligor shall be obligated to pay to the Lender a termination fee (the "Termination Fee") in an amount equal to Twelve Thousand Five Hundred (\$12,500) Dollars. The Obligor acknowledges that: (i) such Termination Fee is a material inducement to the Lender to make the Facility available to the Obligor; (ii) the Lender would not have made the Facility in the absence of the agreement of the Obligor to pay such Termination Fee; and (iii) such Termination Fee is not a penalty and represents a reasonable estimate of the cost to the Lender in allocating its resources (both personnel and financial) to the ongoing review, monitoring, administration and collection of the Facility.

2.20 Acceleration of Indebtedness to Lender. Upon the earlier of: (i) written notice from the Obligor of its election to terminate the Revolving Loan, or (ii) the Revolving Loan Termination Date; all Obligations of the Obligor and any other

Indebtedness of the Guarantor to the Lender, shall be immediately due and payable by the Obligor and the Guarantor, notwithstanding anything to the contrary set forth in the documentation evidencing said Obligations or Indebtedness.

2.21 Reserves. The Lender shall have the right from time to time, to require the Obligor to establish and maintain with the Lender, financial reserves in such amounts as are determined by the Lender to satisfy certain existing or anticipated Indebtedness of the Obligor.

#### 2.22 Fees.

(a) The Obligor shall pay a closing fee to the Lender, payable on the date hereof in the amount of \$25,000.00.

(b) The Obligor shall pay a commitment fee to the Lender, payable calendar quarterly in arrears (commencing on September 30, 2000) in the amount of one-half of one (0.50%) percent per annum of the average unused portion of the Revolving Loan.

(c) The Obligor shall pay to the Lender a Facility fee in the amount of Twenty Four Thousand (\$24,000.00) Dollars (the "Facility Fee"). The Facility Fee shall be payable to the Lender as follows: (a) Six Thousand (\$6,000.00) Dollars on the date hereof; (b) Six Thousand (\$6,000.00) Dollars on December 31, 2000; (c) Six Thousand (\$6,000.00) Dollars on April 30, 2001; and (d) Six Thousand (\$6,000.00) Dollars on August 31, 2001. Notwithstanding the foregoing payment schedule, in the event of any early termination of the Facility, the Obligor shall immediately pay to the Lender any unpaid portion of the Facility Fee.

### III. SECURITY INTEREST

#### 3.1 Grant of Security Interest.

(a) As general and continuing collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of all Obligations and in order to induce the Lender to enter into this Agreement and, among other things, make the Facility available to the Obligor as provided herein, the Obligor hereby, assigns, conveys, mortgages, pledges, hypothecates, transfers and grants to the Lender a security interest in and first lien (except for Permitted Liens, as applicable) on all of the Obligor's right, title and interest in and to all of the Obligor's assets, whether

now owned or hereafter acquired, including without limitation, the following (all of which being hereinafter collectively called the "Collateral"):

(i) all Accounts Receivable;

(ii) all Contracts;

(iii) all Inventory;

(iv) all Equipment;

(v) all General Intangibles;

(vi) all Goods;

(vii) the Collateral Proceeds Account, and all moneys on deposit therein;

(viii) any and all moneys, securities, drafts, notes, and other property of any kind of the Obligor, now or hereafter held or received by or in transit to the Lender from or for the Obligor (including, without limitation, all moneys held or deposited in any lock box maintained at any office of the Lender), or which may now or hereafter be in the possession of the Lender, or as to which the Lender may now or hereafter be in the control or possession of, by documents of title or otherwise, whether for safekeeping, custody, pledge, transmission, collection or otherwise, and any and all deposits, general or special, balances, sums, proceeds and credits of the Obligor, and all rights and remedies which the Obligor might exercise with respect to any of the foregoing but for this Agreement;

(ix) to the extent not otherwise included in the foregoing, all other personal property of the Obligor, whether tangible or intangible, whether now owned or hereafter acquired and wherever located; and

(x) all Proceeds and Products of the foregoing.

(b) All Collateral heretofore, herein or hereafter given or granted to the Lender by the Obligor shall secure payment of all of the Obligations. The Lender shall be under no obligation to proceed against any or all of the Collateral before proceeding directly against the Obligor.

(c) In addition to the security interest of the Lender in the Collateral as herein provided, all of the Obligations shall be secured by (i) an unconditional guaranty by the Guarantor in accordance with the terms and provisions set forth in the Guaranty Agreement, and (ii) a pledge of all the issued and outstanding shares of each class of stock of the Obligor pursuant to a certain Stock Pledge and Security Agreement ("Stock Pledge") by and between the Guarantor and the Lender.

### 3.2 Rights of the Lender; Limitations on Lender's Obligations.

(a) It is expressly agreed by the Obligor that, anything herein to the contrary notwithstanding, the Obligor shall remain liable under each Contract to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with and pursuant to the terms and provisions of each such Contract. The Lender shall not have any obligation or liability under any Contract by reason of or arising out of this Agreement or the receipt by the Lender of any payment relating to any Contract pursuant hereto, nor shall the Lender be required or obligated in any manner to perform or fulfill any of the obligations of the Obligor under or pursuant to any Contract, or to make any payment, or to make any inquiry as to the nature or the sufficiency of any payment received by it or the sufficiency of any performance by any party under any Contract, or to present or file any claim, or to take any action to collect or enforce any performance or the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(b) The Obligor is authorized to collect amounts owing to it with respect to the Collateral, provided that the Lender may, at any time following the occurrence of an Event of Default, curtail or terminate said authority upon prior written notice. At the Lender's election, following the occurrence of an Event of Default, any Proceeds, when collected by the Obligor, whether consisting of checks, notes, drafts, bills of exchange, money orders, commercial paper of any kind whatsoever, or other documents, received as payment in respect of any Collateral, shall be promptly deposited by the Obligor in precisely the form received, except for its endorsement when required, in a special bank account maintained by the Lender, designated as the Collateral Proceeds Account, and until so turned over, shall be deemed to be held in trust by the Obligor for and as the Lender's property and shall not be commingled with any of the Obligor's other funds. Such Proceeds, when deposited, shall continue to be

Collateral for all of the Obligations and shall not constitute payment thereof until applied as hereinafter provided. On every Business Day, the Lender shall apply all or any part of the funds on deposit in the Collateral Proceeds Account on account of the principal of and/or interest on the Revolving Note. For purposes of the preceding sentence, funds shall be deemed on deposit in the Collateral Proceeds Account on the second Business Day after the actual date of deposit of said funds in the Collateral Proceeds Account. However, the actual date of deposit of said funds shall determine the availability of funds to the Obligor under the Revolving Loan.

(c) The Lender may at any time notify Account Debtors to the effect that the Accounts Receivable have been assigned to the Lender and that payments shall be made directly to the Lender or as the Lender shall otherwise direct. Upon the request of the Lender at any time following the occurrence of an Event of Default, the Obligor will so notify such Account Debtors and will indicate on all bills that payments shall be made directly to the Lender or as the Lender shall otherwise direct. The Lender may, in its own name or in the name of others, communicate with Account Debtors in order to verify with them, to the Lender's satisfaction, the existence, amount and terms of any Accounts Receivable.

(d) The Lender shall have the right to make test verifications of the Accounts Receivable in any manner and through any medium that it considers advisable, and the Obligor agrees to furnish all such assistance and information as the Lender may reasonably require in connection therewith.

(e) Without limiting any of the foregoing, upon the occurrence of an Event of Default, at the option of the Lender upon serving written notice to the Obligor, the Obligor agrees to establish a lock-box at the Lender in favor of the Lender, on terms and conditions acceptable to the Lender in its sole and absolute discretion.

(f) The Lender agrees to release the Collateral promptly upon satisfaction of all of the following: (i) the receipt by the Lender of a written request therefor from the Obligor; (ii) payment in full of all Obligations (including without limitation the Termination Fee and Facility Fee); and (iii) the payment by the Obligor of all costs and expenses (including without limitation Lender Costs) incurred by the Lender in connection with such release of the Collateral and any documentation that may be required in connection therewith.

#### IV. REPRESENTATIONS AND WARRANTIES.

In order to induce the Lender to enter into this Agreement and, among other things, make the Facility as provided herein, the Obligor hereby represents, warrants and agrees that:

4.1 Organization; Power; Qualification. The Obligor: (i) is a corporation duly organized, validly existing and in good standing under the laws of the state or jurisdiction of its incorporation; (ii) has the full power and authority to own and operate its properties and assets and to carry on the business now conducted by it; and (iii) is qualified or authorized to do business and is in good standing in the state or jurisdiction of its incorporation and all other jurisdictions wherein the failure to make such qualification or authorization might have a material adverse effect on its business, assets, liabilities, financial condition, results of operation or business prospects.

4.2 Authorization of Agreement. The Obligor has full power and authority to execute, deliver and perform any action which may be necessary or advisable to carry out the terms of the Loan Documents; and each Loan Document to which the Obligor is a party has been duly authorized, executed and delivered by the Obligor and is the legal, valid and binding obligation of the Obligor, enforceable in accordance with its terms.

4.3 No Legal Bar. The execution, delivery and performance of the Loan Documents will not: (a) violate any provision of any existing law, statute, rule, regulation or ordinance; (b) except as set forth on Exhibit 4.3 attached hereto and made a part hereof, conflict with, result in a breach of, or constitute a default under (i) the certificate of incorporation or by-laws of the Obligor; (ii) any order, judgment, award or decree of any court, governmental authority, bureau or agency; or (iii) any mortgage, lease, material contract or other material agreement or undertaking to which the Obligor is a party or by which the Obligor or any of its properties or assets may be bound; and (c) result in the creation or imposition of any Lien upon or with respect to any property or asset now or hereafter acquired by the Obligor, other than the Liens created by the Loan Documents.

4.4 Consent. Except as set forth on Exhibit 4.4 attached hereto and made a part hereof, no consent, license, permit, approval or authorization of, exemption by, notice to, report to, or registration, filing or declaration with any Person is required in connection with the execution, delivery, performance or



validity of the Loan Documents or the transactions contemplated thereby, other than filing or recordation of financing statements and like documents in connection with the Liens being granted in favor of the Lender.

4.5 Compliance With Law. The Obligor is not in violation of any applicable law, rule, regulation, statute, ordinance, or any order, judgment, award or decree of any court, governmental authority, bureau or agency, the violation of which might have a materially adverse effect on its business, assets, liabilities, financial condition, results of operation or business prospects.

4.6 Title to Properties and Assets; Liens. The Obligor has good, marketable and legal title to its properties and assets. All of said properties and assets are in proper working order, reasonable wear and tear excepted. The Obligor does not own, or have any interest in, any real property other than a leaseholder interest in the office locations set forth in Exhibit 4.15 attached hereto. Except as set forth on Exhibit 4.6 attached hereto and made a part hereof, and except for financing statements naming the Lender as secured party, no financing statement under the Code, as in effect in any jurisdiction, which names the Obligor as debtor has been filed in any jurisdiction, and the Obligor has not signed any such financing statement or any security agreement authorizing any secured party thereunder to file any such financing statement in any such jurisdiction.

4.7 No Default. The Obligor is not in default in the payment or performance of any of its obligations or in the performance of any mortgage, indenture, lease, contract or other agreement or undertaking to which it is a party or by which it or any of its properties or assets may be bound, which default may materially affect its business, assets, liabilities, results of operations or financial condition, and no Default or Event of Default has occurred and is continuing. The Obligor is not in default under any order, award or decree of any court, arbitrator, or governmental authority binding upon or affecting it or by which any of its properties or assets may be bound or affected, and no such order, award or decree, if any, materially and adversely affects the ability of the Obligor to carry on its business as presently conducted or to perform its obligations under the Loan Documents.

4.8 No Litigation/Judgments. No litigation, investigation or proceeding of or before any court, arbitrator or governmental authority is currently pending, nor, to the knowledge of the Obligor, is threatened, against the Obligor or any of its

properties and revenues, which, if adversely determined, would materially and adversely affect its business, operations, financial condition or results of operations. There are no outstanding judgements against the Obligor.

4.9 No Burdensome Restrictions. The Obligor is not a party to or is bound by any contract or agreement or instrument nor subject to any restriction materially and adversely affecting its business, operations, properties or financial or other condition.

4.10 Tax Returns and Payments. All federal, state and other tax returns of the Obligor required by law to be filed have been duly filed or extensions obtained, and all federal, state and other taxes, assessments and governmental charges or levies upon the Obligor or any of its properties, income, profits or assets which are due and payable have been paid or provided for, except for such taxes and assessments which the Obligor is disputing in good faith and for which the Obligor has established adequate reserves on its books for the payment of such disputed taxes or assessments in accordance with GAAP.

4.11 Financial Statements. The Obligor has furnished to the Lender copies of the balance sheet and related statements of income of PHP as of July 31, 2000. To the best of Obligor's knowledge, such financial statements are true, correct and complete in all material respects and reflect all material direct and contingent liabilities of every kind required to be provided for on a balance sheet prepared in accordance with GAAP as adjusted, based upon the past business practices of PHP and, to the best of Obligor's knowledge, fairly present the financial position and results of operations of the Obligor on the dates and for the periods then ended, in accordance with GAAP, consistently applied throughout the periods involved as adjusted, based upon the past business practices of PHP.

4.12 No Adverse Changes. Since July 31, 2000, no material adverse change has occurred in the business, assets, liabilities, financial condition, results of operations or business prospects of PHP, and no event has occurred or failed to occur which has had or is likely to have a material adverse effect on the business, assets, liabilities, financial condition, results of operations or business prospects of the Obligor as successor-in-interest to the business previously conducted by PHP.

#### 4.13 ERISA.

(a) The Obligor is in compliance in all material respects with the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and all regulations issued thereunder; and

(b) No "employee benefit plan", as defined in Section 3 of ERISA, maintained and administered by the Obligor (and including any multi-employer plan in which the Obligor participates but does not administer), as from time to time in effect (the "Plans"), nor any trusts created thereunder, nor any trustee or administrator thereof, has engaged in a "prohibited transaction", as defined in Section 4975 of the Internal Revenue Code of 1986, as amended, which could subject the Obligor, any Plan or any such trust, or any trustee or administrator thereof, or any party dealing with any Plan or any such trust to the tax or penalty on prohibited transactions imposed by said Section 4975. Neither any of the Plans nor any such trusts have been terminated, nor has there been any "reportable event", as defined in Section 4043 of ERISA (for which the thirty (30) day notice has not been waived), or "accumulated funding deficiency", as defined in Section 4971 of the Internal Revenue Code of 1986, as amended. The Obligor has not incurred any liability to the Pension Benefit Guaranty Corporation.

4.14 Federal Reserve Regulations. The Obligor has not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Regulations U and X of the Board of Governors of the Federal Reserve System). No part of any of the Facility hereunder shall be used to purchase or carry any such margin stock or to extend credit to others for the purpose of purchasing or carrying any such margin stock.

#### 4.15 Collateral.

(a) The Obligor is (or, in the case of after acquired property, will be) the sole owner of each item of Collateral and has good and marketable title thereto, free and clear of any and all Liens except for Permitted Liens.

(b) No security agreement, financing statement, mortgage, deed of trust, equivalent security or instrument or continuation statement covering all or any part of the Collateral is on file or of record in any public office, except for Permitted Liens.

(c) This Agreement constitutes a valid and continuing first lien on, and upon filing the necessary UCC-1 financing statements with the appropriate governmental authorities a first perfected security interest in, the Collateral in which a security interest can be perfected by the filing of a financing statement under the Code, in favor of the Lender, prior to all other liens, encumbrances, security interests and rights of others (except for Permitted Liens), and is enforceable as such or against creditors of and purchasers from the Obligor. Upon the filing of UCC-1 financing statements, all actions necessary or desirable to protect and perfect such security interest in each item of Collateral in which a security interest can be perfected by the filing of a financing statement under the Code shall have been duly taken.

(d) Exhibit 4.15 attached hereto and by this reference made a part hereof, sets forth the location of each of the Obligor's places of business. Exhibit 4.15 also sets forth the place where records concerning the Obligor's Collateral is kept. Exhibit 4.15 also sets forth the various locations at which any Collateral may be found (except for items in transit), including any Inventory which may be held on consignment or under any field warehousing arrangement. Exhibit 4.15 further sets forth whether any of such locations are owned by the Obligor or leased from any other Person, and if leased, the name and address of the lessor thereunder.

(e) Except as set forth on Exhibit 4.15, the Obligor has not within the past six (6) months, and does not presently, conduct any business under, or use, any trade name, alternate name or fictitious name in any manner.

(f) Each Accounts Receivable is a bona fide, valid and legally enforceable obligation of the Account Debtor in respect thereof and does not represent a sale on consignment, sale or return, or other similar understanding, and to the best of the Obligor's knowledge, no facts exist which are the basis for any future, offset or counterclaim or other defense on the part of such Account Debtor, including, without limitation, any account payable owing by the Obligor to such Account Debtor, nor will any of the foregoing, whether or not arising in the ordinary course of business, have a material and adverse effect on the business, financial condition or results of operations of the Obligor or the aggregate value of the Accounts Receivable. The amount represented by the Obligor to the Lender as owing by each Account Debtor in respect of the Accounts Receivable is the correct amount

actually and unconditionally owing by such Account Debtor thereunder.

4.16 Accuracy and Completeness of Information. To the best of Obligor's knowledge, all information, reports and other papers and data furnished to the Lender were, at the time the same were so furnished, complete and correct in all material respects. No document furnished or statement made to the Lender in connection with the negotiation, preparation or execution of the Loan Documents contains or will contain any untrue statement of material fact or omits or will omit to state a material fact necessary in order to make the statements contained therein not misleading. No fact is known to the Obligor which has had or may in the future have (so far as the Obligor can reasonably foresee) a material adverse effect upon Obligor's business, assets, liabilities, condition, financial or otherwise, or results of operations that has not been set forth in the financial statements furnished to the Lender or other reports or other papers or data otherwise disclosed in writing to the Lender.

## V. COVENANTS

The Obligor covenants and agrees that until all the Obligations have been satisfied and paid in full, the Obligor will comply with the following covenants:

5.1 Preservation of Existence. The Obligor will do or cause to be done all things necessary to preserve and maintain in full force and effect its corporate existence and all contracts, rights, licenses, permits, franchises and trade names, which in its judgment are necessary or useful to the proper conduct of its business and shall qualify and remain qualified as a foreign corporation and authorized to do business in each jurisdiction in which the character of its properties or the nature of its business requires such qualification or authorization.

5.2 Nature of Business. The Obligor will continue to be engaged principally in the business of the design and publication of high quality greeting cards, stationery, and related paper and other gift items.

5.3 Compliance with Laws. The Obligor will comply in all material respects with all laws, ordinances, governmental rules and regulations to which it or its properties or assets are, or might become subject, including but not limited to all environmental laws, rules and regulations (unless the same shall be contested in good faith and by appropriate proceedings and such

contest shall operate to stay any such noncompliance), the noncompliance with which might have a material adverse effect with the performance of its obligations under the Loan Documents or with the proper conduct of its business.

5.4 Maintenance of Properties. The Obligor will maintain or cause to be maintained in working order and good condition, ordinary wear and tear excepted, all of its assets and properties which are material to the conduct of its business, and from time to time, make or cause to be made all necessary repairs, replacements, additions, betterments and improvements thereto, so that the business carried on in connection therewith may be properly and advantageously conducted at all times.

5.5 Accounting Methods. The Obligor will maintain a system of accounting established and administered in accordance with GAAP, keep adequate records and books of account in which complete entries will be made in accordance with GAAP, make provision in its accounts in accordance with GAAP for reserves for depreciation, obsolescence and amortization and all other proper reserves and accruals which in accordance with GAAP should be established.

5.6 Payment of Taxes and Claims. The Obligor will pay and discharge promptly: (a) all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or upon any of their properties or assets before the same shall become delinquent; (b) all lawful claims of materialmen, mechanics, carriers, warehousemen, landlords, and other similar persons for labor, materials, supplies and rentals which, if unpaid, might by law become a Lien or charge upon its property; and (c) all of its Indebtedness and other obligations of whatever nature when due (subject, where applicable, to grace periods, normal credit terms and to other forbearance in the ordinary course of business); provided, however, that none of the foregoing need be paid while being contested in good faith and by appropriate proceedings, so long as adequate book reserves have been established in accordance with GAAP with respect thereto.

5.7 Visits and Inspection; Field Examinations. The Obligor will permit the Lender and its agents and representatives from time to time upon reasonable prior written notice during normal business hours (no less than every ninety (90) days) to: (a) visit and inspect its properties; (b) inspect and make extracts from its books and records; (c) discuss with its principal officers and independent public accountants any and all matters with respect to its business, assets, liabilities, financial condition, results of

operations and business prospects (provided that all Persons to whom such information is made available agree in advance that they will neither use for their own benefit nor disclose to third parties any confidential information of the Obligor or trade secrets of the Obligor); and (d) perform a field examination of all Accounts Receivable, general ledgers, Inventory, and corporate records of the Obligor.

5.8 Information Covenants. The Obligor will furnish, or cause to be furnished, as the case may be, the following information to the Lender (which shall be in such form and in such detail as shall be satisfactory to the Lender):

(a) As soon as practicable, and, in any case, within one hundred twenty (120) days after the end of each fiscal year of the Obligor a balance sheet for the Obligor as of the end of such fiscal year and the related statements of income, retained earnings and cash flows for the Obligor for such fiscal year, setting forth in comparative form the figures as at the end of and for the previous fiscal year, audited by independent certified public accountants reasonably satisfactory to the Lender, and shall state that such financial statements have been prepared in accordance with GAAP consistently applied on an audit basis, and who shall have authorized the Obligor to deliver such financial statements to the Lender pursuant to this Agreement;

(b) As soon as practicable, and, in any case, within thirty (30) days after the end of each month, a balance sheet of the Obligor as at the end of such month and the related statements of income, retained earnings and cash flows of the Obligor for the elapsed portion of the fiscal year ending with the last day of such month, setting forth in comparative form the elapsed portion of the fiscal figures for the corresponding periods of the previous fiscal year, all prepared in accordance with GAAP consistently applied by the Obligor's President or other authorized officer and certified by such officer to be true and correct.

(c) At the time the financial statements and reports are furnished pursuant to Subsections 5.8 (a) and (b) above, the Obligor shall also furnish a certificate of the President or other authorized officer of the Obligor stating that no event has occurred which constitutes a Default or an Event of Default under any of the Loan Documents or if such an event has occurred, disclosing each such event or failure and its nature, when it occurred, whether it is continuing and the steps being taken by the Obligor with respect to such event or failure;

(d) If requested by the Lender, as soon as practicable following the last day of each month and, in any event, within fifteen (15) Business Days after the last day of each month, an Accounts Receivable listing and aging report (with progress billings and foreign Accounts Receivable broken out), certified as true and correct by the President or other authorized officer of the Obligor;

(e) Concurrent with the request for any Line of Credit Borrowing hereunder, and in any event no later than the tenth (10<sup>th</sup>) Business Day after the end of each month, a Borrowing Base Certificate including all current information and data necessary to complete the Borrowing Base Certificate;

(f) If requested by the Lender, as soon as practicable following the end of each month, and in any event, within fifteen (15) Business Days after the end of each month, an Inventory summary prepared on a form prescribed by the Lender, all in reasonable detail satisfactory to the Lender, certified as true and correct by the President or other authorized officer of the Obligor;

(g) Commencing on December 31, 2000, and continuing on the last day of every calendar quarter thereafter a statement signed by the President or other authorized officer of the Obligor which provides that the Obligor is in compliance with all terms and conditions set forth in this Agreement and in the other Loan Documents;

(h) not later than thirty (30) days prior to the end of each fiscal year of the Obligor, an annual budget and business plan (which shall include, without limitation, budgeted capital expenditures) with detailed monthly projections for the immediately succeeding fiscal year made in good faith and based on reasonable factual assumptions, as determined by the Obligor's Board of Directors; such budgets shall be in a format acceptable to the Lender, shall state the underlying assumptions, shall have been approved by the Obligor's Board of Directors, and shall be accompanied by a written statement of the Obligor's chief financial officer certifying as to such approval;

(i) as soon as available and in any event within sixty (60) days after the Closing Date (as such term is defined under the Asset Purchase Agreement) an unaudited balance sheet of the Obligor as of said Closing Date and after given effect to the transactions contemplated under the Asset Purchase Agreement,



prepared in accordance with GAAP and certified by the Obligor's chief financial officer stating that such financial statements present fairly the financial position of the Obligor as of said Closing Date in conformity with GAAP;

(j) promptly after receipt thereof, copies of all reports (including, without limitation, audit reports and so-called management letters) or written comments submitted to the Obligor by independent certified public accountants in connection with each annual, interim or special audit in respect of the financial statements or the accounts of the Obligor made by such accountants;

(k) From time to time and promptly upon each request from Lender, such existing reports and other information regarding the business, assets, liabilities, financial condition, results of operations or business prospects of the Obligor or the Guarantor, as the Lender may reasonably request including, but not limited to, copies of the Obligor's or the Guarantor's filed tax returns, machinery and equipment appraisals, personal property appraisals, environmental assessments and reports, invoices, bills of lading, warehouse receipts and shipping documents and copies of all financial information submitted by the Obligor to FNEC in connection with the Subordinated Indebtedness;

(l) Immediate notice of:

(i) the commencement of any proceeding or investigation by or before any governmental body and any action or proceeding in any court or before any arbitrator against or in any other way relating adversely to the Obligor or any of its respective properties, assets or business, which, if adversely determined, would singly or when aggregated with all other proceedings, investigations or actions, materially and adversely affect the business, results of operations or financial condition of the Obligor;

(ii) any notice received from any administrative official or agency relating to any order, ruling, statute or other law or information which would materially and adversely affect the operations of the Obligor;

(iii) any amendment of the certificate of incorporation or by-laws of the Obligor;

(iv) any material adverse change with respect to the business, assets, liabilities, financial condition, business prospects or results of operations of the Obligor; and

(v) any Event of Default hereunder or any event of default under any other material agreement to which the Obligor is a party or by which any of its properties may be bound;

(m) As soon as possible, and, in any event, within thirty (30) days after any executive officer of the Obligor knows that any reportable event (as defined in Section 4043 of ERISA) with respect to any Plan has occurred, a statement of the Director of Finance of the Obligor setting forth details as to such reportable event and the action that the Obligor proposes to take with respect thereto, together with a copy of the notice of such reportable event given to the Pension Benefit Guaranty Corporation; and

(n) Promptly after receipt thereof, a copy of any notice the Obligor may receive from the Pension Benefit Guaranty Corporation relating to its intention to terminate any Plan or to appoint a trustee to administer any Plan.

5.9 Accuracy and Completeness of Information. The Obligor covenants that all information, reports, statements, and other papers and data furnished to the Lender pursuant to any provision or term of any of the Loan Documents shall be, at the time the same is so furnished, complete and correct in all material respects.

5.10 Insurance. (a) The Obligor will maintain with financially sound and reputable insurance companies, insurance policies: (i) insuring the Collateral against loss by fire, explosion, vandalism, malicious mischief, theft and such other casualties as are usually insured against by companies engaged in the same or similar businesses; (ii) insuring the Obligor and the Lender against liability for personal injury and property damage relating to the Collateral; and (iii) providing for business interruption coverage, such policies to be in such form and in such amounts and coverage as may be reasonably satisfactory to the Lender, with losses payable to the Lender as additional insured and as lender loss payee, as its interest may appear under standard non-contributory "mortgagee", "lender loss payee" or "secured party" clauses. The Obligor shall, if so requested by the Lender, deliver to the Lender, as often as the Lender may reasonably request, a report of a reputable insurance broker with respect to the insurance on the Collateral. All insurance with

respect to the Collateral shall: (i) provide that no cancellation, reduction in amount or change in coverage thereof shall be effective until at least thirty (30) days after receipt by the Lender of written notice thereof; and (ii) be reasonably satisfactory in all material respects to the Lender. In the event of a partial or total destruction of any of the Collateral by fire or other insured casualty, the Lender shall not unreasonably withhold any such insurance proceeds received by the Lender, provided, that the Obligor is in compliance with all the terms and conditions of the Loan Documents and provided further that any such insurance proceeds released by the Lender to the Obligor shall be used solely for the purchase, repair or replacement of Collateral. In the event that the Obligor is not in compliance with all the terms and conditions of the Loan Documents or if any of the insurance proceeds released to the Obligor are used for any other purpose other than as set forth above, then at the option of the Lender, the remaining insurance proceeds may be utilized by the Lender to reduce the Obligations.

(a) The Obligor shall give the Lender prompt notice of any and all insurance claims made by the Obligor with respect to the Collateral which are in excess of twenty-five thousand (\$25,000.00) dollars and are in dispute or unpaid, unless such dispute is resolved or such claim is paid within thirty (30) days of the date of the claim.

5.11 Indebtedness. The Obligor will not create, assume, incur, guarantee or in any manner become liable, contingently or otherwise, in respect of any Indebtedness except for Permitted Indebtedness; provided, however, that the foregoing provision shall not apply if, concurrently with the incurrence of such Indebtedness, the proceeds thereof are applied to the complete satisfaction and payment in full of all Obligations.

5.12 Liens. The Obligor will not, without Lender's prior written consent, create, assume or incur or cause to be created, assumed or incurred, or permit to exist, any Liens on its properties or assets except for Permitted Liens, and the Obligor will defend the right, title and interest of the Lender in and to the Obligor's rights to the Collateral and in and to the Proceeds and Products thereof against the claims and demands of all Persons whatsoever.

5.13 Sale of Assets; Merger. The Obligor shall not, without the prior written consent of the Lender: (a) sell, transfer, assign, lease or otherwise dispose of (whether in one transaction or a series of transactions) all or substantially all of its

assets (whether now owned or hereafter acquired); or (b) consolidate with or merge into any other corporation or permit any corporation to merge into it.

5.14 Guaranties. The Obligor shall not without Lender's prior written consent, guaranty, endorse, become surety for, or otherwise in any way become or be responsible for, the obligations of any other Person, whether by agreement to purchase the Indebtedness of any other Person, or agreement for the furnishing of funds, directly or indirectly, for the purpose of payment of Indebtedness of any other Person, other than in connection with Permitted Indebtedness and endorsements of negotiable instruments for deposit or collection in the ordinary course of its business.

5.15 Collateral.

(a) The Obligor will keep and maintain at their its cost and expense satisfactory and complete records of the Collateral, including, without limitation, a record of all payments received and all credits granted with respect to the Collateral and all other dealings with the Collateral. The Obligor will mark its books and records pertaining to the Collateral to evidence the security interest therein granted hereby as the Lender may reasonably request. For the Lender's further security, the Obligor agrees that the Lender shall have a security interest in and a Lien upon all of the Obligor's books and records (including all computer programs, software, discs, drives, printouts and similar items) pertaining to the Collateral, and if any Event of Default shall have occurred and be continuing, the Obligor shall promptly deliver and turn over any such books and records to the Lender or its representatives at any time upon demand.

(b) Except as otherwise expressly permitted herein, the Obligor will not sell, transfer, lease or otherwise dispose of any or all of the Collateral, or attempt, offer or contract to do so, without the express prior written consent of the Lender, except for: (i) sales or other dispositions or use of Inventory in the ordinary course of business; and (ii) sales or other dispositions of Inventory and Equipment which is obsolete or is otherwise no longer needed in connection with the Obligor's business.

(c) The Obligor will perform and comply in all material respects with all obligations under all material Contracts and all other material agreements to which its is a party or by which it is bound.

(d) The Obligor will not (i) amend, modify, terminate or waive any provision of any material Contract in any manner which might adversely affect the value of the Collateral; or (ii) fail to exercise promptly and diligently each and every right which it may have under each material Contract (other than any right of termination).

(e) Except in the ordinary course of the Obligor's business consistent with its past business practice, the Obligor will not grant any extension of the time of payment of any of the Accounts Receivable, or compromise, compound or settle the same for less than the full amount thereof, or release, wholly or partly, any person liable for the payment thereof, or allow any credit or discount whatsoever thereon.

(f) The Obligor will furnish to the Lender, from time to time, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Lender may reasonably request, all in reasonable detail.

(g) The Obligor will immediately advise the Lender, in complete detail: (i) of any Lien asserted or claim made against any of the Collateral; (ii) of any material change in the composition of the Collateral; and (iii) of the occurrence of any other event which would have a material adverse effect on the aggregate value of the Collateral or on the security interest created hereunder.

(h) The Obligor will not change its name, identity or corporate structure in any manner which might make any financing or continuation statement filed hereunder misleading, nor will the Obligor change its principal place of business, record-keeping location or remove any of its books and records or the Inventory to any location other than the Premises (except as otherwise permitted in Subsection 5.15(b) hereof) unless, in each case with respect to the Inventory, the Obligor shall have given the Lender at least thirty (30) days' prior written notice thereof or shall have delivered to the Lender acknowledgment copies of financing statements recording such change, duly executed and duly filed in each jurisdiction in which financing statements on form UCC-1 are required to be filed in order to perfect the security interest granted by the Obligor in favor of the Lender as set forth in this Agreement in the Collateral, and shall have taken all action necessary or reasonably requested by the Lender to amend such financing statement or continuation statement so that it is not misleading.

5.16 Sale and Leaseback. The Obligor shall not directly or indirectly enter into any arrangement with any Person providing for the leasing by the Obligor of any asset (real or personal) which has been or is to be sold or transferred by the Obligor to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such asset or rental obligations of the Obligor.

5.17 Transactions with Affiliates. The Obligor shall not enter into any transaction with any Affiliate of the Obligor on terms which are less favorable to the Obligor than if such transaction were a bona-fide arms-length transaction between unaffiliated parties.

5.18 Operating Accounts. The Obligor shall establish and maintain all of their primary operating accounts with the Lender.

5.19 Capital Structure.

(a) The Obligor shall not alter its existing capital stock structure by the issuance of new shares of existing classes of stock or by the creation of new classes of stock, or otherwise.

(b) David G. Hoffman and Madison Investment Partners II, L.P. and their Affiliates shall at all times own collectively at least fifty one (51%) percent of all legal and beneficial ownership of voting equities issued by the Guarantor.

5.20 Change of Ownership or Management. The Obligor shall not, without the prior written consent of the Lender, permit or cause any change in: (i) the ownership of its presently issued and outstanding stock; and (ii) its existing corporate management group of David Hoffman and Donald Guidi.

5.21 Dividends. The Obligor shall not declare or pay any dividend or distribution, in cash or otherwise, on any shares of stock of the Obligor or redeem, return, purchase or otherwise acquire directly or indirectly any of its shares of stock now or hereafter outstanding. Notwithstanding the foregoing, the Obligor shall be permitted to make cash dividends to the Guarantor not in excess of ten thousand (\$10,000.00) dollars per calendar year for the sole purpose of: (i) satisfying current income tax obligations of the Guarantor, and (ii) providing funds for the Guarantor to repurchase unexercised warrants or stock issued by the Guarantor.

5.22 Loans to other Persons. The Obligor shall not at any point in time, make any loans or advances to any of its officers, directors, employees or shareholders, or to any other Person, in excess of Thirty Thousand (\$30,000.00) Dollars to any one Person in each instance and Fifty Thousand (\$50,000.00) Dollars in the aggregate to all Persons, without the prior written consent of the Lender.

5.23 Capital Expenditures. The Obligor shall not enter into any agreement to purchase or pay for or become obligated to pay for capital expenditures, as determined in accordance with GAAP, in an amount in excess of (a) One Hundred Twenty Five Thousand (\$125,000.00) Dollars in the aggregate for the period from the date hereof through and including December 31, 2001, and (b) Seventy Five Thousand (\$75,000.00) Dollars per calendar year beginning January 1, 2002. The balance of any capital expenditures not expended in one calendar year may be carried forward to the next calendar year, provided, however, that the amount carried over shall in no event exceed Fifty Thousand (\$50,000.00) Dollars.

5.24 Further Documentation. At any time, and from time to time, upon the Lender's written request and at the Obligor's sole expense, the Obligor will promptly and duly execute and deliver such further documents and instruments and do such further acts and things as the Lender may reasonably request in order to obtain the full benefits of this Agreement and the Loan Documents and the rights and powers herein and therein granted, including the filing of any financing or continuation statements and amendments thereto under the Code in effect in any jurisdiction and any and all other recording documents with respect to the Liens and security interests granted to the Lender pursuant to the Loan Documents. The Obligor also hereby authorizes the Lender to file any such financing or continuation statement without the signature of the Obligor to the extent permitted by applicable law. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note or other instrument, such note or other instrument shall be immediately pledged to the Lender hereunder, duly endorsed in a manner satisfactory to the Lender and delivered to the Lender.

5.25 Lender's Appointment as Attorney-in-Fact.

(a) The Obligor hereby irrevocably constitutes and appoints the Lender, and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Obligor and in the name of the Obligor or in its own name, from

time to time in the Lender's discretion for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, hereby gives the Lender the power and right, on behalf of the Obligor, without notice to or assent by the Obligor, to do the following:

(i) to ask, demand, collect, receive and give acquittances and receipts for any and all monies due and to become due under or in connection with any Collateral and, in the name of the Obligor or its own name or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under any Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Lender for the purpose of collecting any and all such monies due under any Collateral whenever payable; and

(ii) to: (A) direct any party liable for any payment under any of the Collateral to make payment of any and all monies due and to become due thereunder directly to the Lender or as the Lender shall direct; (B) receive, open and dispose of all mail addressed to the Obligor and to notify postal authorities to change the address for delivery thereof to such address as may be designated by the Lender; (C) receive payment of and receipt for any and all monies, claims and other amounts due and to become due at any time in respect of or arising out of any Collateral; (D) sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications and notices in connection with accounts and other documents relating to the Collateral; (E) commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (F) defend any suit, action or proceeding brought against the Obligor with respect to any Collateral; (G) settle, compromise or adjust any suit, action or proceeding described above and, in connection therewith, to give such discharges or releases as the Lender may deem appropriate; (H) assign any copyright, license or Trademark (along with the goodwill of the business to which such Trademark pertains) for such term or terms, on such conditions, and in such reasonable manner as the Lender shall determine in its sole and absolute discretion; and (I) generally, to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully



and completely as though the Lender were the absolute owner thereof for all purposes, and to do, at the Lender's option and the Obligor's expense, at any time or from time to time, all acts and things which the Lender deems necessary to protect, preserve or realize upon the Collateral and the Lender's security interest therein, in order to effect the intent of this Agreement.

(b) The Obligor hereby ratifies all that said attorney-in-fact shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable until: (i) the obligation of the Lender to make Line of Credit Borrowings to the Obligor ceases; and (ii) there are no outstanding Obligations of the Obligor to the Lender.

(c) The powers conferred on the Lender hereunder are solely to protect the interests of the Lender in the Collateral and shall not impose any duty upon it to exercise any such powers. The Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, employees or agents shall be responsible to the Obligor for any act or failure to act except if such acts or failures to act are grossly negligent or result from the Lender's willful misconduct.

(d) The Obligor also authorizes the Lender at any time, and from time to time: (i) to communicate with Account Debtors and any party to any Contract with regard to the assignment of Accounts Receivable hereunder and other matters relating thereto; and (ii) to execute any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

5.26 Performance by Lender of the Obligor's Obligations. If the Obligor fails to perform or comply with any of its agreements contained herein following written demand therefor by the Lender, and the Lender, as provided for by the terms of this Agreement, shall perform or comply, or otherwise cause performance or compliance, with such agreement, the expenses of the Lender incurred in connection with such performance or compliance (together with interest thereon at the interest rate set forth in the Revolving Note plus two (2%) percent) shall be payable by the Obligor to the Lender on demand and shall constitute Obligations secured hereby.

5.27 Payments on the Subordinated Indebtedness. The Obligor shall not be permitted to make any cash payments to FNEC in connection with the Subordinated Indebtedness except as permitted

under the Intercreditor and Subordination Agreement by and between the Obligor, Lender and FNEC.

5.28 Licensing Agreements. The Obligor shall, within five (5) Business Days, report to the Lender any notice(s) received by it of the termination of, or default by the Obligor in connection with, any third party licensing agreements used by the Obligor in connection with the operation of the Obligor's business and/or the production of its Inventory, which licensing rights were used in generating at least seventy five thousand (\$75,000.00) dollars of gross revenues for the Obligor and/or PHP during the twelve (12) month period immediately preceding the month in which such termination or default occurred.

5.29 Financial Covenants. The Obligor shall comply with the following covenants at all times, which covenants shall be tested beginning December 31, 2000 and on the last day of each calendar quarter thereafter, unless otherwise noted, until all of the Obligations are paid, satisfied in full and the Lender's obligation to make the Facility available to the Obligor is terminated:

(a) The Obligor shall maintain a Fixed Charge Coverage Ratio (hereinafter defined) of not less than (i) 1.10 to 1.00 from the date hereof through December 31, 2001, (ii) 1.15 to 1.00 from January 1, 2002 through December 31, 2002, and (iii) 1.20 to 1.00 from January 1, 2003 through December 31, 2004. For purposes hereof, "Fixed Charge Coverage Ratio" shall be computed on an annualized year-to-end basis through the reporting period ending September 30, 2001 and on a trailing twelve (12) month basis for all reporting periods after September 30, 2001 and shall mean the total of the Obligor's EBITDA less Unfunded Capital Expenditures (hereinafter defined) to be divided by the current portion of the Obligor's long term Indebtedness plus interest expense, plus cash taxes, plus unscheduled payments. "Unfunded Capital Expenditures" shall mean capital expenditures, determined in accordance with GAAP, applied on a consistent basis, that are not financed by the Lender or any Person;

(b) The Obligor shall maintain a Total Leverage (hereinafter defined) of not more than 4.25 to 1.00. For purposes hereof, "Total Leverage" shall mean: (i) the Obligor's total Indebtedness, as determined in accordance with GAAP, which shall include Subordinated Indebtedness only to the extent cash interest is paid with respect to such Indebtedness, divided by (ii) EBITDA plus the Consultant Fee (as defined in Section 5.30

below) actually paid by the Obligor in the tested calendar year to be computed on an annualized year-to-end basis through the reporting period ending September 30, 2001 and on a trailing twelve (12) month basis for all reporting periods after September 30, 2001; and

(c) The Obligor shall maintain a Senior Leverage (hereinafter defined) of not more than 2.25 to 1.00. For purposes hereof, "Senior Leverage" shall mean: (i) the Obligor's total Indebtedness owing to the Lender, as determined in accordance with GAAP, divided by (ii) EBITDA plus the Consultant Fee (as defined in Section 5.30 below) actually paid by the Obligor in the tested calendar year to be computed on an annualized year-to-end basis through the reporting period ending September 30, 2001 and on a trailing twelve (12) month basis for all reporting periods after September 30, 2001.

5.30 Consultant Fee. The Obligor shall be permitted to pay an aggregate consulting fee to Madison Investment Partners II, L.P. and David G. Hoffman (collectively, the "Consultants") pursuant to consulting agreements in connection with the operation of the Obligor's business not in excess of One Hundred Fifty Thousand (\$150,000.00) Dollars per calendar year (the "Consultant Fee") beginning in calendar year 2000. Upon the occurrence of an Event of Default, hereunder or an event which with notice or the passage of time, or both is likely to lead to an Event of Default, the Obligor shall not be permitted to pay the Consultant Fee to the Consultants.

## VI. CONDITIONS PRECEDENT

6.1 Conditions Precedent to Initial Line of Credit Borrowing and Term Loan. The obligation of the Lender to make the initial Line of Credit Borrowing and Term Loan hereunder is subject to the condition precedent that the Lender shall have received each and every one of the following in form and substance reasonably satisfactory to the Lender:

(a) An originally executed copy of this Agreement and each of the other Loan Documents;

(b) A copy of the certificate of incorporation and by-laws of the Obligor, certified as a true copy by the Secretary of the Obligor;

(c) A good standing certificate with respect to the Obligor issued as of a recent date by the Secretary of State or similar

governmental body of any state or jurisdiction in which the Obligor is required to be authorized to do business;

(d) A certificate of the Secretary of the Obligor certifying the names and true signatures of the officers of the Obligor authorized to sign each of the Loan Documents to which the Obligor is a party;

(e) A copy of the resolutions approved by the Board of Directors of the Obligor authorizing the execution, delivery and performance by the Obligor of each of the Loan Documents to which it is a party, certified as a true copy by the Secretary of the Obligor;

(f) A written opinion of counsel to the Obligor with respect to such matters as the Lender shall reasonably request;

(g) An originally executed copy of a Borrowing Base Certificate dated as of a date not more than one (1) day prior to the date of the initial Line of Credit Borrowing;

(h) Evidence reasonably satisfactory to the Lender that the Collateral is properly insured in accordance with the provisions of this Agreement and that the Collateral is not subject to any Lien other than Permitted Liens;

(i) Evidence reasonably satisfactory to the Lender that all filings, recordings and other actions that are necessary or desirable in order to establish and perfect the Lender's security interest in the Collateral as a valid perfected first priority security interest shall have been duly effected, including, without limitation, the filing of UCC-1 financing statements, the filing of all UCC-3 termination statements, and the filing or recordation of such other documents as the Lender shall deem necessary or desirable, all in form and substance satisfactory to the Lender, and all fees, taxes and other charges relating to such filings and recordings shall have been paid by the Obligor;

(j) The Lender shall have (i) performed to its satisfaction, an audit of all Accounts Receivable, general ledgers, Inventory, Equipment, Contracts, and corporate records of the Obligor; and (ii) received an evaluation of the Obligor's intangible assets, prepared by a consulting firm or appraiser acceptable to the Lender;

(k) The Lender shall have received a fully executed subordination agreement in form and substance acceptable to the Lender with respect to the Subordinated Indebtedness;

(l) A copy of PHP's financial statements for the fiscal years ending December 31, 1997, December 31, 1998, and December 31, 1999, prepared by Schwartz & Gleich, C.P.A.'s, P.C.;

(m) A copy of PHP's most recent internally-prepared financial statements, certified as true, correct and complete by PHP's Director of Finance;

(n) Evidence of the absence of any material litigation pertaining to or involving the Obligor;

(o) There is and has been no material adverse change in the Obligor's financial condition, results of operations, business prospects or otherwise which would, in the reasonable judgment of the Lender, impair the Obligor's ability to repay all or any portion of the Notes;

(p) Payment by the Obligor of any and all fees required to be paid by the Obligor in connection with the Revolving Loan and/or the Term Loan;

(q) Receipt by the Lender of pro forma financial statements of the Obligor for the next five (5) years, with the first such year projected by month;

(r) Evidence reasonably satisfactory to the Lender that: (i) the Guarantor is properly capitalized and (ii) Madison Investment Partners II, L.P. and David G. Hoffman shall collectively own at least fifty one (51%) percent of all legal and beneficial ownership of voting equities issued by the Guarantor;

(s) Receipt by the Lender of a financial statement approved by Madison Investment Partners II, L.P. indicating that the earnings before interest, taxes, depreciation and amortization of PHP for the trailing twelve (12) month period ending July 31, 2000 was at least one million one hundred thousand (\$1,100,000.00) dollars; and

(t) Such other documents and information as the Lender shall reasonably request, in form and substance reasonably satisfactory to the Lender, and all legal matters and documents with respect to the transactions contemplated by this Agreement shall be satisfactory to counsel for the Lender.

6.2 Conditions Precedent to Additional Line of Credit Borrowings. The Lender shall have no obligation to make any additional Line of Credit Borrowing subsequent to the initial Line of Credit Borrowing unless each of the following conditions precedent has been either satisfied or waived prior to or concurrently with the making of such Line of Credit Borrowing:

(i) Each of the Loan Documents shall be in full force and effect;

(ii) The representations and warranties of the Obligor set forth herein shall be true and correct as of the date of each Line of Credit Borrowing as if made on and as of such date, and each request for a Line of Credit Borrowing by the Obligor shall be deemed a representation and warranty by the Obligor to such effect;

(iii) No Default or Event of Default has occurred and is continuing as of the date of each Line of Credit Borrowing;

(iv) There is and has been no material adverse change in the Obligor's financial condition, results of operations, business prospects or otherwise which would, in the reasonable judgment of the Lender, impair the Obligor's ability to repay all or any portion of the Notes;

(v) An originally executed copy of a Borrowing Base Certificate dated as of a date not more than three (3) days prior to the date of the Line of Credit Borrowing;

(vi) Payment by the Obligor of any and all fees required to be paid by the Obligor in connection with the Revolving Loan and/or the Term Loan;

(vii) No further action, including any filing or recording or any agreement, document or instrument, is necessary to establish and perfect the Lender's lien and priority in the Collateral; and

(viii) On or before the date which is one hundred twenty (120) days after the date hereof, the Obligor has delivered to the Lender, in form and substance satisfactory to the Lender, (a) a copy of the life insurance policies, each in an amount of Two Million (\$2,000,000.00) Dollars, naming Jeffrey Milstein and Don Guidi, respectively, as the insureds, and (b) a collateral assignment of said life insurance policies and the proceeds

payable thereunder in favor of the Lender on a form prescribed by the Lender.

## VII. EVENTS OF DEFAULT

Each of the following shall constitute an Event of Default, whatever the reason for such event and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment or order of any court or any order, rule or regulation of any governmental body:

7.1 Failure to Pay. The Obligor fails to make any payment of principal, interest or any other fee or amount payable under either of the Notes or hereunder on the date when due;

7.2 False Representation or Warranty. Any warranty or representation made by or on behalf of the Obligor or Guarantor, contained herein or in any of the Loan Documents or in any document furnished in compliance or connection with the Loan Documents is false or incorrect in any material respect when made;

7.3 Failure to Perform. The Obligor shall default in the performance or observance of any covenant or agreement contained in this Agreement and such default shall not be cured within thirty (30) days upon the earlier of: (i) actual notice of such default by the Obligor or (ii) receipt of written notice of such default from the Lender;

7.4 Cross Default. Any Event of Default shall occur under any of the other Loan Documents;

7.5 Default on other Indebtedness. The Obligor shall:

(a) default in any payment of the principal of or interest on any Indebtedness (other than the Notes) owing to the Lender that continues beyond any applicable grace or cure period;

(b) default in any payment of the principal of or interest on any other Indebtedness (including the Subordinated Indebtedness) in excess of fifty thousand (\$50,000.00) dollars, beyond the period of grace or cure, if any, provided in the instrument or agreement under which such Indebtedness was created; or

(c) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or

relating thereto, or any other event shall occur, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity and as the result of such default or event such Indebtedness has been accelerated and become due and payable prior to its stated maturity.

7.6 Petition; Appointment of Receiver. (a) The Obligor shall commence any case, proceeding or other action (i) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding up, liquidation, dissolution, composition or other relief with respect to it or its debts; or (ii) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Obligor shall make a general assignment for the benefit of its creditors;

(b) there shall be commenced against the Obligor, any case, proceeding or other action of a nature referred to in Subsection 7.6(a) above which: (i) results in the entry of an order for relief or any such adjudication or appointment; or (ii) remains undismissed, undischarged or unbonded for a period of thirty (30) days;

(c) there shall be commenced against the Obligor, any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or

(d) The Obligor shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in this Section 7.6;

7.7 Judgments; Levys; Liens. A final judgment shall be entered against the Obligor by any court for the payment of money which, together with all other outstanding judgments against the Obligor, exceeds Twenty Five Thousand (\$25,000.00) Dollars in the aggregate, which judgment is not fully covered by insurance, or a warrant of attachment or execution or similar process shall be



issued or levied against property of the Obligor which warrant of attachment, execution or similar process exceeds in value Twenty Five Thousand (\$25,000.00) Dollars in the aggregate and, if within sixty (60) days (ten (10) days if such aggregate amount exceeds Ten Thousand (\$10,000.00) Dollars) after the entry, issue or levy thereof, such judgment, warrant or process shall not have been discharged or stayed pending appeal, or, if within sixty (60) days (ten (10) days if such aggregate amount exceeds Ten Thousand (\$10,000.00) Dollars) after the expiration of any such stay, such judgment, warrant or process shall not have been discharged;

#### 7.8 ERISA.

(a) A reportable event (as defined in Section 4043 of Title IV of ERISA) shall have occurred with respect to any Plans or any Plans of the Obligor shall have been voluntarily terminated as provided in Section 4041(a) of ERISA;

(b) A trustee shall be appointed by a United States District Court to administer any Plan; or

(c) the Pension Benefit Guaranty Corporation shall institute proceedings to terminate any Plan.

7.9 Liquidation or Dissolution. If the Obligor shall commence any action or step with respect to, or shall approve any plan of, any winding up, liquidation or dissolution of the Obligor; and

7.10 Change in Condition. If there occurs any material adverse change in the condition or affairs, financial, business prospects or otherwise, of the Obligor, which in the reasonable opinion of the Lender increases its risk.

### VIII. REMEDIES

8.1 Acceleration Automatic. Upon the occurrence of an Event of Default set forth in Section 7.6, all amounts outstanding (with accrued interest thereon), including without limitation, all other amounts owing under the Notes and the other Loan Documents shall immediately become due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Obligor, to the fullest extent permitted by applicable law.

8.2 Acceleration; Lender Discretion. Upon the occurrence of any Event of Default, other than an Event of Default as set forth

in Section 7.6, the Lender may declare all amounts outstanding (with accrued interest thereon), including without limitation, all other amounts owing to it under the Notes, and the other Loan Documents to be due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Obligor, to the fullest extent permitted by applicable law.

8.3 Proceeds held in Trust. Upon the occurrence of any Event of Default:

(a) All payments received by the Obligor under or in connection with any of the Collateral shall be held by the Obligor in trust for the Lender, shall be segregated from funds of the Obligor and shall forthwith upon receipt by the Obligor be turned over to the Lender, in the same form as received by the Obligor (duly endorsed by the Obligor to the Lender, if required);

(b) Any and all such payments so received by the Lender (whether from the Obligor or otherwise) may, in the sole and absolute discretion of the Lender, be held by the Lender as collateral security for, and/or then or at any time thereafter applied in whole or in part by the Lender against, all or any part of the Obligations in such order as the Lender shall determine in its sole and absolute discretion. Any balance of such payments held by the Lender and remaining after payment in full of all such Obligations shall be paid over to the Obligor or, if the Lender has knowledge that another Person is lawfully entitled to receive the same, to such other Person.

(c) The Obligor shall, upon demand, pay interest, to the extent permitted by applicable law, on all unpaid Obligations upon the occurrence of an Event of Default until paid (before or after judgment) at a fluctuating rate equal to the interest rate set forth in the Revolving Note plus two (2%) percent.

8.4 Set-Off; Sale. If any Event of Default shall occur, the Lender may exercise, in addition to all other rights and remedies granted to it in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the Code, to the fullest extent permitted by law. Without limiting the generality of the foregoing, the Lender may, to the fullest extent permitted by law, without any requirement of notice, setoff any and all amounts owing by the Obligor to it against any deposit account maintained in the Lender (or any affiliate or subsidiary of the Lender) by the Obligor or any other property of the Obligor which

may now or hereafter be in the Lender's (or any affiliate or subsidiary of the Lender) possession or control, and such right of setoff shall be deemed to have been exercised immediately upon such stated or accelerated maturity as aforesaid even though such setoff is not noted on the Lender's records until a later time. Without limiting the generality of the foregoing, the Obligor expressly agrees that in any such event the Lender, without demand of performance or other demand, advertisement or notice of any kind (except any notice provisions otherwise contained in this Agreement and the notice specified below of time and place of public or private sale) to or upon the Obligor or any other Person (all and each of which demands, advertisements and/or notices are hereby expressly waived), may, to the fullest extent permitted by law, forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give option or options to purchase, or sell or otherwise dispose of and deliver the Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales, at any exchange, broker's board or at any of the Lender's offices or elsewhere at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Obligor which shall be released. The Obligor further agrees, at the Lender's request, to assemble the Collateral and make it available to the Lender at places which the Lender shall reasonably select, whether at the Obligor's premises or elsewhere. The Lender shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care, safekeeping or otherwise of any or all of the Collateral or in any way relating to the rights of the Lender hereunder, including reasonable attorneys' fees and legal expenses, to the Lender for payment in whole or in part of the Obligations, in such order as hereinafter provided, the Obligor remaining liable for any deficiency remaining unpaid after such application. To the extent permitted by applicable law, the Obligor waives all claims, damages, and demands against the Lender arising out of the repossession, retention or sale of the Collateral. The Obligor agrees that, to the fullest extent permitted by law, the Lender need not give more than ten (10) days' notice (which notification shall be deemed given when mailed, postage prepaid, addressed to the Obligor at its address set forth in Subsection 10.1 hereof) of the time and place of any public sale or of the time upon which a private sale

may take place and that such notice is reasonable notification of such matters. The Obligor shall remain liable on a joint and several basis for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all amounts to which the Lender is entitled, the Obligor also being liable for the reasonable fees of any attorneys employed by the Lender to collect such deficiency.

8.5 Lender Costs. The Obligor also agrees to pay all Lender Costs incurred with respect to the collection of any of the Obligations and the enforcement of any of the Lender's rights hereunder.

8.6 Waivers. The Obligor hereby waives: (a) presentment, demand, protest or any notice of any kind in connection with this Agreement or any Collateral, except as otherwise provided herein; (b) all rights to seek from any court any bond or security prior to the exercise by the Lender of any remedy described herein; (c) the benefit of all valuation, appraisal and exemption laws; and (d) all rights to demand or to have any marshalling of the Collateral upon any power of sale granted herein or pursuant to judicial proceedings or upon any foreclosure or any enforcement of this Agreement.

8.7 Possession; Receiver. Without limiting the generality of any of the rights and remedies conferred upon the Lender in this Agreement, the Lender may, after the occurrence of an Event of Default: (a) take immediate possession of the Collateral, either personally or by means of a receiver appointed by a court of competent jurisdiction; (b) at the Lender's option, use, operate, manage and control the Collateral in any lawful manner; (c) collect and receive all rents, income, revenue, earnings, issues and profits therefrom; (d) maintain, repair, renovate, alter or remove the Collateral as the Lender may determine in its sole and absolute discretion; and (e) to the fullest extent permitted by applicable law, appoint any person to be a receiver, manager, receiver-manager or receiver and manager (a "Receiver") of the Collateral and to remove any Receiver so appointed and appoint another in its stead, such Receiver to have all of the rights, remedies, powers and privileges of the Lender hereunder.

8.8 Other Remedies. The remedies granted to Lender herein upon an Event of Default are not restrictive or exclusive of any and all other rights and remedies of Lender provided for by this Agreement, any of the Loan Documents and applicable law.

## IX. INDEMNIFICATION

9.1 Indemnification. The Obligor agrees to pay, reimburse, indemnify and hold harmless, the Lender, its directors, officers, employees, agents and representatives from and against any and all actions, reasonable costs, damages, disbursements, reasonable expenses (including reasonable attorneys' fees), judgments, liabilities, losses, obligations, penalties and suits of any kind or nature whatsoever (unless such actions, costs, damages, disbursements, expenses, judgements, liabilities, losses, obligations, penalties or suits were a direct result of the Lender's gross negligence or willful misconduct) with respect to:

(a) the development, negotiation, preparation, execution, enforcement, amendment or modification of any of the Loan Documents;

(b) the exercise of any right or remedy granted in any of the Loan Documents, the collection or enforcement of any of the Obligations and the proof or allowability of any claim arising under any of the Loan Documents, whether in any bankruptcy or receivership proceeding or otherwise;

(c) any claim of third parties, and the prosecution or defense thereof, arising out of or in any way connected with any of the Loan Documents; and

(d) any and all recording and filing fees and taxes, and any and all liabilities with respect thereto, or resulting from any delay in paying stamp and other taxes, if any, which may be payable or determined to be payable in connection with the Loan Documents.

## X. MISCELLANEOUS

10.1 Notice. All notices and other communications given to or made upon any party hereto in connection with this Agreement shall, except as otherwise expressly herein provided, be in writing and mailed, postage prepaid by registered or certified mail, return receipt requested, addressed to the respective parties, as follows:

Lender: Summit Bank  
250 Moore Street  
Hackensack, New Jersey 07601  
Attn: Andrew DeTullio, Vice President  
Jennifer Hoffman, Assistant  
Vice President

Obligor: Paper House Productions, Inc.  
1760 Glasco Turnpike  
Woodstock, New York 12498  
Attn: Donald A. Guidi

or to such changed address as may be fixed by notice. All such notices and other communications shall, except as otherwise expressly herein provided, be effective when received by the party to whom properly addressed, in the case of the Obligor, the written receipt by any employee of the Obligor constituting sufficient evidence of such receipt.

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

10.3 Survival of Agreements. All agreements, representations and warranties made herein, and in any certificates delivered pursuant hereto shall survive the execution and delivery of this Agreement and the Notes.

10.4 Amendment. No modification, amendment or waiver of any provision of this Agreement or either of the Notes, nor consent to any departure by the Obligor, shall in any event be effective unless the same shall be in writing and signed by the party granting such modification, amendment or waiver, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

10.5 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Obligor, the Lender, all future holders of the Notes and their respective successors and assigns, except that the Obligor may not assign or transfer any of its rights under this Agreement without the prior written consent of the Lender.

10.6 Agreement and Other Loan Documents Complementary. The provisions of this Agreement shall be in addition to those of any guaranty, security agreement, note or other evidence of liability held by the Lender, all of which shall be construed as complementary to each other. In the event of ambiguity or

inconsistency between this Agreement, and any other Loan Document, then the terms of this Agreement will govern.

10.7 Lender's Relationship. The Lender and the Obligor expressly agree that the relationship of the Lender to the Obligor is that of a lender only. The intent of this provision is to clarify and stipulate that the Lender is not a partner or a co-venturer of the Obligor and that the Lender's sole interest in the Collateral is for the purpose of security for the repayment of the Obligations of the Obligor.

10.8 Participation. Without limitation of the Lender's rights at law, the Obligor hereby agrees that the Lender shall have the right to sell participations in any Obligation in the sole and absolute discretion of the Lender and that the Obligor shall provide all required assistance to the Lender in selling and closing any participation, including permitting any prospective participant to inspect the Obligor's books, records, Collateral and the Premises.

10.9 Waiver of Trial by Jury. The Lender and the Obligor hereby waive all right to a trial by jury in any litigation relating to, in connection with, or arising out of this Agreement, or any other Loan Document.

10.10 Severability. In case any one or more of the provisions contained in this Agreement or the other Loan Documents should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby.

10.11 Counterparts. This Agreement may be executed by the parties hereto on any number of separate counterparts and all such counterparts taken together shall constitute one and the same instrument.

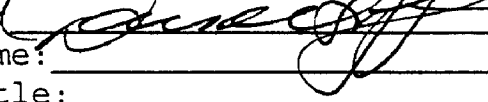
10.12 Governing Law; No Third Party Rights. This Agreement and the other Loan Documents and the rights and obligations of the parties hereunder and thereunder shall be governed by and construed and interpreted in accordance with the law of the State of New Jersey. This Agreement is solely for the benefit of the parties hereto and their respective successors and assigns, and no other person shall have any right, benefit, priority or interest in, under or because of the existence of, this Agreement.


10.13 Cross Default/Cross Collateral. All other agreements, whether now or hereafter existing, between the Obligor or any Guarantor hereunder, and the Lender and/or any of their affiliates or subsidiaries, are hereby amended so that an Event of Default under this Agreement is a default under all other such agreements and a default under any one of those agreements is an Event of Default under this Agreement. All such agreements are further amended so that the Collateral under this Agreement secures the obligations now or hereafter outstanding under all other such agreements, and the collateral which serves as security under all other such agreements secures the Obligations under this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

ATTEST:

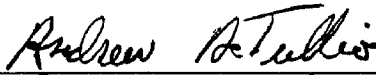
PAPER HOUSE PRODUCTIONS, INC.

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

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

SUMMIT BANK

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

By:   
Name: Andrew DeTullo  
Title: Vice President

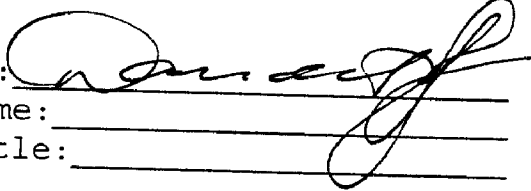
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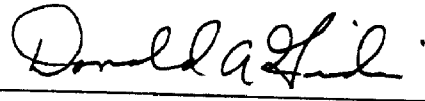


The undersigned execute this Agreement in acknowledgement and acceptance of all of the provisions of the Agreement applicable to it as Guarantor hereunder:

WITNESS:

PAPER HOUSE HOLDINGS, INC.

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

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

EXHIBITS

- 1.1(p) 30% Account Debtors
- 1.1(z) Guaranty Agreement
- 1.1(mm) Patents and Trademarks
- 1.1(vv) Revolving Note
- 1.1(yy) Term Note
- 2.2 Authorized Agents
- 4.3 No Legal Bar
- 4.4 Consents
- 4.6 Filed UCC-1 Financing Statements
- 4.15 Business Locations/Alternate and Fictitious Names

EXHIBIT 1.1(p)

30% ACCOUNT DEBTORS

1. The Nature Company
2. The Museum Company
3. Barnes and Noble
4. Crown Books
5. Bed Bath & Beyond
6. Borders
7. Restoration Hardware

GUARANTY

THIS GUARANTY, dated as of September 14, 2000, by PAPER HOUSE HOLDINGS, INC., a Delaware corporation, having a place of business at 1760 Glasco Turnpike, Woodstock, New York 12498 (the Guarantor") in favor of SUMMIT BANK, a banking institution organized under the laws of the State of New Jersey, at its offices at 210 Main Street, Hackensack, New Jersey 07601 (the "Lender").

FOR VALUABLE CONSIDERATION, and to induce the Lender in its discretion to make loans, credits or other financial accommodations at any time and from time to time to PAPER HOUSE PRODUCTIONS, INC., a Delaware corporation, (the "Borrower"), the Guarantor hereby agrees as follows:

Section 1. Guaranty. The Guarantor hereby unconditionally guarantees to the Lender the prompt payment when due, whether by acceleration or otherwise, of all present or future obligations or liabilities of any and all kinds of the Borrower to the Lender, whether incurred by the Borrower as maker, endorser, drawer, acceptor, guarantor, accommodation party or otherwise, due or to become due, otherwise secured or unsecured, absolute or contingent, joint or several, and howsoever or

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whenever acquired, under or arising out of or in connection with, certain obligations of the Borrower to the Lender pursuant to that certain credit facility made by the Lender to the Borrower pursuant to a Loan and Security Agreement ("Loan Agreement") of even date herewith, as evidenced by (a) a certain Revolving Note of even date herewith in the principal amount of ONE MILLION (\$1,000,000.00) DOLLARS; and (b) a certain Term Note of even date herewith in the principal amount of ONE MILLION FIVE HUNDRED THOUSAND (\$1,500,000.00) DOLLARS, and all installments thereof together with interest on the unpaid principal balance of said obligation at the rate provided therein, and all costs, reasonable expenses and reasonable attorneys' fees incurred or paid by the Lender in connection therewith (all of which are herein collectively referred to as the "Obligations"). All payments by the Guarantor shall be paid in lawful money of the United States. Terms not otherwise defined within this Guaranty, shall have the same meaning as such terms are defined within the Loan Agreement.

Section 2. Guaranty Absolute. The Guarantor guarantees that the Obligations will be paid strictly in accordance with the terms thereof, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Lender with respect thereto. The liability of the Guarantor under this Guaranty shall be absolute

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and unconditional irrespective of:

- (i) any lack of validity or enforceability of the documents evidencing the Obligations or any other agreement or instrument relating thereto;
- (ii) any change in the time, manner, place or amount of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from the terms of the documents evidencing the Obligations;
- (iii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Obligations;
- (iv) any settlement or compromise with the Borrower or any other person of any of the Obligations hereby guaranteed; or
- (v) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower in respect of the Obligations or the Guarantor in respect of this Guaranty.

This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the

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Lender upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

Section 3. Waiver. The Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the Obligations and this Guaranty and any requirement that the Lender exhaust any right or take any action against the Borrower or any other person or entity or any collateral.

Section 4. Subrogation. The Guarantor will not exercise any rights which it may acquire by way of subrogation under this Guaranty, by any payment made hereunder or otherwise, until all the Obligations shall have been paid in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the Obligations shall not have been paid in full, such amount shall promptly be paid to the Lender to be credited and applied upon the Obligations, whether matured or unmatured, in accordance with the terms thereof.

Section 5. Representations and Warranties. The Guarantor hereby represents and warrants as follows:

- (a) No authorization, consent, approval, license, exemption of or filing or registration with any court or governmental department, commission, board, bureau,

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agency or instrumentality, domestic or foreign, is or will be necessary to the valid execution, delivery or performance by the Guarantor of this Guaranty.

(b) This Guaranty has been executed by Guarantor and constitutes the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms.

(c) The Guarantor, as the sole shareholder of the Borrower, expects to derive advantage from each and every financial accommodation granted by the Lender to the Borrower and represents that each such accommodation and this Guaranty will be in furtherance of the Guarantor's purposes.

Section 6. Acceleration. The Guarantor agrees that, if the maturity of any of the Obligations hereby guaranteed is accelerated, by bankruptcy or otherwise, as against the Borrower, such maturity shall also be deemed accelerated for the purposes of this Guaranty, and without demand upon or notice to the Guarantor.

Section 7. Amendments, Waivers and Consents. No amendment or waiver of any provision of this Guaranty nor consent to any departure by the Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by the Lender, and then such waiver or consent shall be effective only in

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the specific instance and for the specific purpose for which given.

Section 8.       Notices. All notices required or permitted hereunder shall be in writing and delivered or mailed, certified mail, to each party at its address set forth herein or at such other address as may be designated in writing. All such notices shall be effective on the date on which delivered or, if mailed by certified mail, on the third business day after the day on which mailed.

Section 9.       No Waiver; Cumulative Remedies. No failure on the part of the Lender to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies provided herein and in all other agreements between the Guarantor and the Lender are cumulative and not exclusive of any remedies provided herein, therein or by law. It shall not be necessary as a condition to enforcement of this Guaranty, that suit be first instituted against the Borrower or that any rights or remedies against the Borrower be first exhausted.

Section 10.      Right of Set-Off; Security Interest. Upon the occurrence and continuance of an Event of Default, the Lender

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is hereby authorized at any time and from time to time, without notice to the Guarantor (any such notice being expressly waived by the Guarantor), to set off and apply to any overdue and unpaid Obligations: (i) any amounts which the Lender from time to time may owe to the Guarantor, including any balance or share of any general or special deposit, certificate of deposit, savings certificate or other account (regardless of the source or intended use of any funds in such account), and (ii) any other property, tangible or intangible, owned by or in which the Guarantor has an interest which may be in the possession or control of the Lender, in which accounts and other property the Guarantor hereby grants the Lender a security interest. This right is in addition to and not in limitation of any other rights, including rights of set-off, which the Lender may have by law.

Section 11. Further Assurances. The Guarantor agrees that at any time or from time to time upon the written request of the Lender, it will promptly execute and deliver any and all such further instruments and documents, including, without limitation, financial statements of the Guarantor, and do such further acts as the Lender may reasonably request in order to more effectively carry out the purposes hereof.

Section 12. Continuing Guaranty; Assignment. This Guaranty is a continuing guaranty and shall: (i) remain in full

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force and effect until payment in full of the Obligations, (ii) extend to and cover every extension or renewal of, and every obligation accepted in substitution for, the Obligations hereby guaranteed, (iii) be binding upon the Guarantor, its executors, heirs, successors and assigns, and (iv) inure to the benefit of and be enforceable by the Lender and its successors, transferees and assigns.

Section 13. Other Guarantors. The Guarantor shall be jointly and severally liable hereunder with any and all other guarantors of the Obligations.

Section 14. Governing Law. This Guaranty shall be governed by, and construed in accordance with, the laws of the State of New Jersey. In the event that the Lender brings any action hereunder in any court of record of New Jersey or the Federal Government, the Guarantor consents to and confers personal jurisdiction over the Guarantor by such court or courts and agrees that service of process may be made upon the Guarantor by mailing a copy of said process to the Guarantor; and in any action hereunder the Guarantor waives the right to demand trial by jury.

Section 15. Cross Default/Cross Collateral. All other agreements between Guarantor and Lender and/or any of its Affiliates or subsidiaries are hereby amended so that a default under this Guaranty is a default under all other such agreements

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and a default under any one of those such agreements is a default under this Guaranty. All such agreements are further amended so that the collateral under this Guaranty secures the obligations now or hereafter outstanding under all other such agreements with Lender and/or Affiliates or subsidiaries, and the collateral which serves as security under any other such agreements with Lender and/or its Affiliates or subsidiaries secures the Obligations under this Guaranty.

Section 16. Release. The Guarantor shall be released of its obligations under this Guaranty and this Guaranty shall terminate upon the written consent of the Lender, acting on the written request of the Guarantor (the "Release Request"), which consent by the Lender shall not be unreasonably withheld provided:

- (i) No Default or Event of Default shall have occurred and be continuing at the time of the Lender's receipt of the Release Request;
- (ii) The Lender is in receipt of all financial statements required to be delivered to the Lender from the Borrower pursuant to the Loan Agreement for the fiscal year ending December 31, 2001 and such financial statements are in form and substance satisfactory to the Lender; and
- (iii) The Release Request is being made by the Guarantor in

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conjunction with the acquisition and/or formation of an entity which will be a wholly owned subsidiary of the Guarantor which entity will have at least a Two Million Five Hundred Thousand (\$2,500,000.00) Dollars initial capitalization.

WITNESS:

PAPER HOUSE HOLDINGS, INC.

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

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

EXHIBIT 1.1(mm)

PATENTS AND TRADEMARKS

Patent

United States Patent # 5,822,896 10/20/1998 Dioramic Greeting Card

Registered Trademarks

Reflections	2,093,976	9/9/1997
Stickypix	2,014,026	11/5/1996
Photosticks	1,818,466	1/25/1994
Paper House Productions Magnet	2,235,809	3/30/1999
Paper House Productions	2,292,722	11/16/1999
Paper House	2,298,073	12/7/1999
Design only	2,298,074	12/7/1999
Design only	2,345,364	4/25/2000
Paper House Magnet	2,321,028	2/22/2000
Design only	2,347,096	5/2/2000

Trademark Applications

Paper House Popouts and Design	75,747,794	6/22/1999
Clipmark and Design	75,705,694	5/14/1999
Design only	75,700,875	5/7/1999
Doggie House Productions	75,501,138	6/12/1998
Movie Greetings	75,574,442	11/6/1998

EXHIBIT 1.1(vv)  
REVOLVING NOTE

Principal Amount: \$1,000,000.00

Dated: September 14, 2000

FOR VALUE RECEIVED, PAPER HOUSE PRODUCTIONS, INC., a Delaware corporation (the "Payor") having a place of business at 1760 Glasco Turnpike, Woodstock, New York 12498, promises to pay to the order of SUMMIT BANK, a banking institution organized and existing under the laws of the State of New Jersey (the "Lender" or "Holder"), its successors and assigns, at its offices at 210 Main Street, Hackensack, New Jersey 07601, or at such other address as Holder shall notify Payor in writing, the principal sum of ONE MILLION and 00/100 (\$1,000,000.00) DOLLARS, or so much thereof as shall have been advanced and outstanding to Payor pursuant to the Loan Agreement (as defined below), together with interest on the unpaid principal balance, payable as provided below.

1. Subject to Loan Documents.

(a) The obligations of the Payor under this Note are secured by the "Collateral", as such term is defined in that certain Loan and Security Agreement entered into between the Lender and Payor on the date hereof (the "Loan Agreement").

(b) The terms, definitions and provisions of the Loan Agreement and all other documents and instruments referred to therein or executed and delivered pursuant thereto are incorporated herein by reference (all of the foregoing are hereinafter collectively referred to as the "Loan Documents").

2. Rate of Interest. The principal amount outstanding under this Note shall bear interest at the Lender's Base Rate plus three-eighths of one (0.375%) percent per annum on a floating basis. The Lender's Base Rate of interest is the rate of interest adopted by the Lender from time to time. The Base Rate is a means of pricing some loans to customers of the Lender. The Base Rate is not tied to any external rate of interest and does not necessarily reflect the lowest rate of interest actually charged at any given time by the Lender to any particular class or category of customers of the Lender. Interest shall be computed on the basis of the actual number of days elapsed over a period of 360 days.

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3. Repayment. Principal and interest shall be paid during the term of this Note in the following manner:

(a) Payor shall make consecutive monthly payments of interest at the rate of interest set forth in Paragraph 2 above on a floating basis on the principal balance outstanding under this Note commencing on September 30, 2000, and continuing on the last day of each and every month thereafter.

(b) Payor shall make a final payment of the entire unpaid principal balance and accrued interest under this Note and all other costs, expenses and charges of any nature whatsoever due or assessable hereunder on the Revolving Loan Termination Date.

(c) In the event that any payment shall not be received by Lender within ten (10) days of the due date, Payor shall, to the extent permitted by law, pay Lender a late charge of five (5%) percent of the overdue payment (but in no event to be less than \$25.00 nor more than \$2,500.00). Any late charge assessed is immediately due and payable.

4. Event of Default. The following shall constitute an Event of Default under this Note:

(a) Failure to make any payments required hereunder on the date when due.

(b) The occurrence of any Event of Default under any of the Loan Documents.

5. Acceleration Upon Default. Upon the occurrence of an Event of Default, the entire unpaid principal balance of this Note, together with accrued interest, shall, at the option of Holder, immediately become due and payable without notice or demand. Upon acceleration by Holder as hereinabove provided, all amounts due hereunder, whether principal, interest or otherwise, which have not been paid as of the date of such acceleration, shall bear interest from such date to the date payment in full is received by Holder at the rate of interest set forth in this Note plus two (2%) percent per annum, instead of the rate established in Paragraph 2 of this Note. The Payor acknowledges that: (i) such additional rate is a material inducement to the Lender to make the Revolving Loan; (ii) the Lender would not have made the Revolving



Loan in the absence of the agreement of the Payor to pay such default rate; (iii) such additional rate represents compensation for increased risk to the Lender that the Revolving Loan will not be repaid; and (iv) such rate is not a penalty and represents a reasonable estimate of (a) the cost to the Lender in connection with allocating its resources (both personnel and financial) to the ongoing review, monitoring, administration and collection of the Revolving Loan, and (b) compensation to the Lender for losses that are difficult to ascertain.

6. Cumulative Remedies; Waivers by Payor. No remedy referred to herein is intended to be exclusive, but each shall be cumulative and in addition to any other remedy above or otherwise available to the Holder under any of the Loan Documents, at law or in equity. Payor hereby waives presentment, demand for payment, protest and notice of dishonor of this Note and all other notices and demands. Trial by jury is also waived.

7. Non-Waiver. Failure to insist on the strict performance of any or all of the terms, provisions, and covenants contained in this Note shall not be construed as a waiver or relinquishment of the future performance of any term, provision or covenant herein.

8. Collection Fees. If suit is brought to collect this Note or any part hereof, Payor expressly agrees to pay all of Holder's reasonable costs and expenses of collection, including reasonable attorneys' fees.

9. Termination Fee. The Revolving Loan may be terminated by the Payor at any time prior to the Revolving Loan Termination Date provided the Payor make payment to the Lender of the Termination Fee as defined in Section 2.19 of the Loan Agreement.

10. Usury. All provisions of this Note and the Loan Documents are expressly subject to the condition that in no event, whether by reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount paid or agreed to be paid to the undersigned hereunder and deemed interest under applicable law exceed the maximum rate of interest on the unpaid principal balance of this Note allowed by applicable law (the "Maximum Allowable Rate"), which shall mean the law in effect on the date of this Note, except that if there is a change in such law which results in a higher or lower Maximum Allowable Rate

being applicable to this Note, then this Note shall be governed by such amended law from and after its effective date. In the event that fulfillment of any provision of this Note or the Loan Documents results in the interest rate hereunder being in excess of the Maximum Allowable Rate, the obligation to be fulfilled shall automatically be reduced to eliminate such excess. If, notwithstanding the foregoing, the Lender or any other holder of this Note receives an amount which under applicable law would cause the interest rate hereunder to exceed the Maximum Allowable Rate, the portion thereof which would be excessive shall automatically be applied to and deemed a prepayment of the unpaid principal balance of this Note and not a payment of interest.

11. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New Jersey.

IN WITNESS WHEREOF, the Payor has duly executed this Revolving Note the day and year first above written.

ATTEST:

PAPER HOUSE PRODUCTIONS, INC.

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

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

EXHIBIT 1.1(yy)

TERM NOTE

Principal Amount: \$1,500,000.00

Dated: September 14, 2000

FOR VALUE RECEIVED, **PAPER HOUSE PRODUCTIONS, INC.**, a Delaware corporation ("Payor") having a place of business at 1760 Glasco Turnpike, Woodstock, New York 12498, promises to pay to the order of **SUMMIT BANK**, a banking institution organized and existing under the laws of the State of New Jersey (the "Lender" or "Holder"), its successors and assigns, at its offices at 210 Main Street, Hackensack, New Jersey 07601, or at such other address as Holder shall notify Payor in writing, the principal sum of ONE MILLION FIVE HUNDRED THOUSAND AND 00/100 (\$1,500,000.00) DOLLARS, pursuant to the Loan Agreement (as defined below), together with interest on the unpaid principal balance, payable as provided below.

1. Loan Documents.

(a) The terms, definitions and provisions of a certain Loan and Security Agreement entered into by and between the Lender and Payor on the date hereof (the "Loan Agreement") and all other documents and instruments referred to therein or executed and delivered pursuant thereto are incorporated herein by reference (all of the foregoing are hereinafter collectively referred to as the "Loan Documents").

(b) The obligations of the Payor under this Note are secured by the "Collateral", as that term is defined within the Loan Agreement.

2. Rate of Interest.

(a) The principal amount outstanding under this Note shall bear interest at the Lender's Base Rate plus three-eighths of one percent (0.375%) per annum on a floating basis. The Lender's Base Rate of interest is the rate of interest adopted by the Lender from time to time. The Base Rate is a means of pricing some loans to customers of the Lender. The Base Rate is not tied to any external rate of interest and does not necessarily reflect the lowest rate of interest actually charged at any given time by the Lender to any particular class or category of customers of the Bank.

(b) Interest shall be computed on the basis of the actual number of days elapsed over a period of 360 days.

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3. Repayment. Principal and interest shall be paid during the term of this Note in the following manner:

(a) Payor shall make consecutive monthly payments of interest at the rate of interest set forth in Paragraph 2 above on a floating basis on the principal balance outstanding under this Note commencing on September 30, 2000, and continuing on the last day of each and every month thereafter.

(b) Payor shall make forty nine (49) consecutive monthly payments of principal in accordance with the principal amortization schedule set forth on Schedule A attached to this Note and made a part hereof. Monthly principal payments shall commence on November 30, 2000, and shall be due on the last day of each and every month thereafter through and including November 30, 2004. To the extent the interest rate as herein stated varies from day to day in accordance with the floating Base Rate, the monthly principal payments shall remain constant in accordance with the terms set forth on Schedule A, but the interest payments will vary with the Lender's Base Rate and shall be billed monthly and any payment overage of interest shall be applied to the reduction of principal.

(c) Payor shall make a final payment of the entire unpaid principal balance and accrued interest under this Note and all other costs, expenses and charges of any nature whatsoever due or assessable hereunder, if any, on December 31, 2004.

(d) In the event that any payment shall not be received by Lender within ten (10) days of the due date, Payor shall, to the extent permitted by law, pay Lender a late charge of five (5%) percent of the overdue payment (but in no event to be less than \$25.00 nor more than \$2,500.00). Any late charge assessed is immediately due and payable.

4. Default. The following shall constitute an Event of Default under this Note:

(a) Failure to make any payments required hereunder on the date when due.

(b) The occurrence of any Event of Default under the Loan Documents.

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5. Acceleration Upon Default. Upon the occurrence of an Event of Default, the entire unpaid principal balance of this Note together with accrued interest shall, at the option of Holder, immediately become due and payable. Upon acceleration by Holder as hereinabove provided, all amounts due hereunder, whether principal, interest or otherwise, which have not been paid as of the date of such acceleration, shall bear interest from such date to the date payment is received by Holder at the rate of interest set forth in Paragraph 2(a) of this Note plus two (2%) percent per annum, instead of the rate established in Paragraph 2(a) of this Note. The Payor acknowledges that: (i) such additional rate is a material inducement to the Lender to make the Term Loan; (ii) Lender would not have made the Term Loan in the absence of the agreement of the Payor to pay such default rate; (iii) such additional rate represents compensation for increased risk to the Lender that the Term Loan will not be repaid; and (iv) such rate is not a penalty and represents a reasonable estimate of (a) the cost to the Lender in allocating its resources (both personnel and financial) to the ongoing review, monitoring, administration and collection of the Term Loan, and (b) compensation to the Lender for losses that are difficult to ascertain.

6. Cumulative Remedies; Waivers by Payor. No remedy referred to herein is intended to be exclusive, but each shall be cumulative and in addition to any other remedy above or otherwise available to the Holder under any of the Loan Documents, at law or in equity. Payor hereby waives presentment, demand for payment, protest and notice of dishonor of this Note and all other notices and demands. Trial by jury is also waived.

7. Non-Waiver. Failure to insist on the strict performance of any or all of the terms, provisions, and covenants contained in this Note shall not be construed as a waiver or relinquishment for the future of any term, provision or covenant herein.

8. Collection Fees. If suit is brought to collect this Note or any part hereof, Payor expressly agrees to pay all of Holder's reasonable costs and expenses of collection, including reasonable attorneys' fees.

9. Usury. All provisions of this Note and the Loan Documents are expressly subject to the condition that in no event, whether by reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount paid or agreed to be paid to the undersigned hereunder and deemed interest under applicable law exceed the maximum rate of interest on the unpaid principal balance of this Note allowed by applicable law (the "Maximum Allowable Rate"), which shall mean the law in effect on the date of this Note, except that if there is a change in such law which results in a higher or lower Maximum Allowable Rate being applicable to this Note, then this Note shall be governed by such amended law from and after its effective date. In the event that fulfillment of any provision of this Note or the Loan Documents results in the interest rate hereunder being in excess of the Maximum Allowable Rate, the obligation to be fulfilled shall automatically be reduced to eliminate such excess. If, notwithstanding the foregoing, the Lender or any other holder of this Note receives an amount which under applicable law would cause the interest rate hereunder to exceed the Maximum Allowable Rate, the portion thereof which would be excessive shall automatically be applied to and deemed a prepayment of the unpaid principal balance of this Note and not a payment of interest.

10. Prepayment. Payor may prepay this Note in whole or in part, at any time, provided that such prepayments shall be in aggregate multiples of Twenty-Five Thousand (\$25,000.00) Dollars. If this Note is prepaid in full prior to December 31, 2001, then the Payor shall make payments to the Lender of the Termination Fee as defined in Section 2.19 of the Loan Agreement. Payor shall also be required to make mandatory prepayments of this Note as more particularly set forth in Section 2.7 of the Loan Agreement. All such partial prepayments shall be applied to principal payments due hereunder in the inverse order in which principal payments are due so as not to affect the due date or amount of any subsequent principal installments due hereunder.

11. Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of New Jersey.

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IN WITNESS WHEREOF, the Payor has duly executed this Note the day and year first above written.

ATTEST:

PAPER HOUSE PRODUCTIONS, INC.

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

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

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SCHEDULE A

Principal Amortization Schedule

November 30, 2000 - \$ 17,500  
December 31, 2000 - \$ 17,500  
January 31, 2001 - \$ 17,500  
February 28, 2001 - \$ 17,500  
March 31, 2001 - \$ 17,500  
April 30, 2001 - \$ 17,500  
May 31, 2001 - \$ 17,500  
June 30, 2001 - \$ 17,500  
July 31, 2001 - \$ 20,000  
August 31, 2001 - \$ 20,000  
September 30, 2001 - \$ 20,000  
October 31, 2001 - \$ 20,000  
November 30, 2001 - \$ 20,000  
December 31, 2001 - \$ 20,000  
January 31, 2002 - \$ 22,500  
February 28, 2002 - \$ 22,500  
March 31, 2002 - \$ 22,500  
April 30, 2002 - \$ 22,500  
May 31, 2002 - \$ 22,500  
June 30, 2002 - \$ 22,500  
July 31, 2002 - \$ 25,000  
August 31, 2002 - \$ 25,000  
September 30, 2002 - \$ 25,000  
October 31, 2002 - \$ 25,000  
November 30, 2002 - \$ 25,000  
December 31, 2002 - \$ 25,000  
January 31, 2003 - \$ 27,500  
February 28, 2003 - \$ 27,500  
March 31, 2003 - \$ 27,500  
April 30, 2003 - \$ 27,500  
May 31, 2003 - \$ 27,500  
June 30, 2003 - \$ 27,500  
July 31, 2003 - \$ 30,000  
August 31, 2003 - \$ 30,000  
September 30, 2003 - \$ 30,000  
October 31, 2003 - \$ 30,000  
November 30, 2003 - \$ 30,000  
December 31, 2003 - \$ 30,000

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January 31, 2004 -	\$ 32,500
February 29, 2004 -	\$ 32,500
March 31, 2004 -	\$ 32,500
April 30, 2004 -	\$ 32,500
May 31, 2004 -	\$ 32,500
June 30, 2004 -	\$ 32,500
July 31, 2004 -	\$ 35,000
August 31, 2004 -	\$ 35,000
September 30, 2004 -	\$ 35,000
October 31, 2004 -	\$ 35,000
November 30, 2004 -	\$ 35,000
December 31, 2004 -	\$240,000

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EXHIBIT 2.2

AUTHORIZED AGENTS

David G. Hoffman  
Donald A. Guidi  
Jeffrey Milstein  
Richard Companik

EXHIBIT 4.3

NO LEGAL BAR

None.

Consents

Consents are required to assign certain licenses to Paper House Productions, Inc.

These are:

DIC 1/1/2000-12/31/2001

Elvis Presley Enterprises 1/1/99 -12/31/2000

Forbes Collection 7/1/99 – 10/31/2001

The Jim Henson Company 6/1/98 - 12/31/2000

Copyrights, Inc. 6/19/98 – 3/31/2001

Universal Studios 11/1/97 – 11/30/2000 or 12/31/2000

Warner Brothers 1/1/99 -12/31/00

American Museum of Natural History 1/19/2000 - 4/19/2002

Schieffelin & Co. 9/1/98 – 8/31/2003

EXHIBIT 4.6

FILED UCC-1 FINANCING STATEMENTS

Financing Statements filed in connection with the Securities Purchase Agreement dated the date hereof by and among the Obligor, First New England Capital 2, LP and First New England Capital Limited Partnership and other related documents thereto, including without limitation the Security Agreement.

BUSINESS LOCATIONS/ALTERNATE AND FICTITIOUS NAMES

1760 Glasco Turnpike  
Woodstock, New York 12498  
(leased pursuant to Lease Agreement dated September 14, 2000  
between the Obligor and Jeffrey Milstein, whose address is 2600  
Route 212, Woodstock, New York 12498)

Inventory Locations

Most inventory is stored at 1760 Glasco Turnpike, Woodstock, New  
York 12498

Displays are stored at Storage 4 You on Glasco Turnpike

Christmas cards returned from Border Group are stored at  
Finnegan's Warehouse, 34 Jeanne Drive, Newburgh, New York

Boxes for Christmas cards are stored at BoxIt Warehouse at 5555  
Walworth Avenue, Cleveland, Ohio.

BRACH, EICHLER, ROSENBERG, SILVER, BERNSTEIN, HAMMER & GLADSTONE  
A PROFESSIONAL CORPORATION

COUNSELLORS AT LAW

101 EISENHOWER PARKWAY  
ROSELAND, N.J. 07068-1067

(973) 228-5700

FAX (973) 228-7852

www.bracheichler.com

26 EAST 64TH STREET  
NEW YORK, N. Y. 10021  
(212) 935-9012

PLEASE RESPOND TO ROSELAND OFFICE

ALAN H. BERNSTEIN  
WILLIAM L. BRACH  
TODD C. BROWER  
THOMAS E. COHN  
RICHARD J. DRIVER\*  
BURTON L. EICHLER\*  
JOHN D. FANBURG\*  
WILLIAM J. FRIEDMAN\*  
STUART M. GLADSTONE\*  
CHARLES X. GORMALLY\*\*

JOSEPH M. GORRELL\*  
ALAN R. HAMMER\*  
BRUCE KLEINMAN\*  
BRIAN R. LENKER  
SUSAN Y. LEONARD  
STUART L. PACHMAN  
ALAN S. PRALGEVER\*  
DAVID J. RITTER  
PAUL F. ROSENBERG  
MICHAEL I. SCHNECK

ANN D. STEVENS  
JEFFREY H. ITZKOWITZ  
CAROL GRELECKI  
RICHARD B. ROBINS  
BRIAN KALVER\*  
JOHN P. INGLESINO  
PAUL M. DELISI\*  
STUART J. POLKOWITZ\*\*  
JED S. FREEMAN†  
GARY L. KOENIGSBERG\*  
JOHN L. WYCISKALA  
SUSAN DROMSKY-REED  
MATTHEW M. COLLINS\*†  
CARL J. SORANNO

ANDREW M. BREWER  
ALLEN J. POPOWITZ\*  
JONATHAN E. LEVITT\*  
KAREN E. ABRAMS\*  
MARK E. MANIGAN\*  
TERRI R. SOARIES†  
EVAN S. GLANZ\*  
KIRKE W. MARSH\*  
MARK A. SBLENDORIO  
JILL H. BLUMBERG\*  
ALEXANDER E. TIGER†  
BENJAMIN C. CURCIO\*  
LANI M. DORNFELD\*  
JASON R. RITTIE\*

OF COUNSEL:  
LANCE A. POSNER\*  
GEORGE Y. SODOWICK  
HENRY N. PORTNER\*†  
HARRIS R. SILVER  
THOMAS W. ACKERMANN\*

COUNSEL:  
ALOIS V. HABJAN\*  
DAVID J. KLEIN\*  
DAVID S. BERNSTEIN  
ROBERT A. KOSICKI

ALSO ADMITTED TO PRACTICE IN  
\* NY ° PA □ DC † OTHER DISTRICTS  
△ CERTIFIED CIVIL TRIAL ATTORNEY  
◇ FL

October 5, 2000

Commission of Patents and Trademarks  
Box Assignments  
Washington, D.C. 20231

**RE: Paper House Productions, Inc.**  
**Our File #003681-268**

Dear Sir or Madam:

Enclosed herein please find the Trademark Recordation Form Cover Sheet with a copy of the Loan and Security Agreement attached thereto. Also enclosed is this firm's check in the amount of \$390.00 for recording fees.

Please return to us evidence of recording on the copy Cover Sheet attached hereto and return same in the enclosed self-addressed envelope provided for your convenience.

Very truly yours,



BRIAN RICHARD LENKER

BRL:ds

Enclosures

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TRADEMARK  
REEL: 002160 FRAME: 0945

### RECORDATION FORM COVER SHEET TRADEMARKS ONLY

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  
Effective Date  
Month Day Year
- Merger
- Change of Name
- Other

#### Conveying Party

Mark if additional names of conveying parties attached

Name  Execution Date  
Month Day Year

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/AKA/TA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)

City State/Country Zip Code

- Individual
- General Partnership
- Limited Partnership
- Corporation
- Association
- Other
- Citizenship/State of Incorporation/Organization

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.)

#### FOR OFFICE USE ONLY

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



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)		
<input type="text" value="75,747,794"/>	<input type="text" value="75,705,694"/>	<input type="text" value="75,700,875"/>	<input type="text" value="2,093,976"/>	<input type="text" value="2,014,026"/>	<input type="text" value="1,818,466"/>
<input type="text" value="75,501,138"/>	<input type="text" value="75,574,442"/>	<input type="text"/>	<input type="text" value="2,235,809"/>	<input type="text" value="2,292,722"/>	<input type="text" value="2,298,073"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text" value="2,298,074"/>	<input type="text" value="2,345,364"/>	<input type="text" value="2,321,028"/>

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

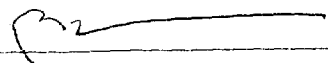
Deposit Account (Enter for payment by deposit account or if additional fees can be charged to the account.)  
Deposit Account Number: #

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.

Brian Richard Lenker  
Name of Person Signing

  
Signature

10/5/00  
Date Signed

RECORDATION FORM COVER SHEET  
CONTINUATION  
TRADEMARKS ONLY

**Conveying Party**

Enter Additional 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**

Enter Additional Receiving Party

Mark if additional names of receiving parties attached

Name

DBA/AKA/TA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)

City

State/Country

Zip Code

Individual  General Partnership  Limited Partnership

Corporation  Association

Other

Citizenship/State of Incorporation/Organization

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 the Assignment.)

**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)

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