

TRADEMARK ASSIGNMENT

Electronic Version v1.1  
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<b>SUBMISSION TYPE:</b>	NEW ASSIGNMENT		
<b>NATURE OF CONVEYANCE:</b>	Release of Security Interest by United States Bankruptcy Court District of Massachusetts (Western Division)		
<b>CONVEYING PARTY DATA</b>			
<b>Name</b>	<b>Formerly</b>	<b>Execution Date</b>	<b>Entity Type</b>
Paragon Capital LLC		07/23/2004	LIMITED LIABILITY COMPANY: DELAWARE
<b>RECEIVING PARTY DATA</b>			
<b>Name:</b>	Dick Blick Holdings, Inc.		
<b>Street Address:</b>	1849 Green Bay Road		
<b>Internal Address:</b>	Renaissance Place; Suite 310		
<b>City:</b>	Highland Park		
<b>State/Country:</b>	ILLINOIS		
<b>Postal Code:</b>	60035		
<b>Entity Type:</b>	CORPORATION: DELAWARE		
<b>PROPERTY NUMBERS Total: 1</b>			
<b>Property Type</b>	<b>Number</b>	<b>Word Mark</b>	
<b>Registration Number:</b>	1225587	AS THE ART STORE	
<b>CORRESPONDENCE DATA</b>			
Fax Number:			
<i>Correspondence will be sent to the e-mail address first; if that is unsuccessful, it will be sent via US Mail.</i>			
Phone:	(312) 715-5172		
Email:	matthew.ingersoll@quarles.com		
Correspondent Name:	Matthew T. Ingersoll		
Address Line 1:	300 North LaSalle Street		
Address Line 2:	Suite 4000		
Address Line 4:	Chicago, ILLINOIS 60645		
<b>ATTORNEY DOCKET NUMBER:</b>	122008.00019		
<b>NAME OF SUBMITTER:</b>	Matthew T Ingersoll		

CH \$40.00 1225587

Signature:

/MTI/

Date:

03/26/2013

**Total Attachments: 105**

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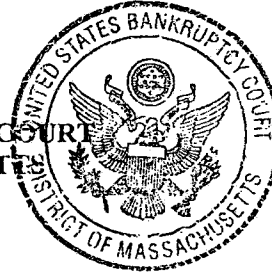
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UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MASSACHUSETTS  
(WESTERN DIVISION)



Certified to be a true and  
correct copy of the original  
James M. Lynch, Clerk  
U.S. Bankruptcy Court  
District of Massachusetts

By: David Kamin  
Deputy Clerk

Date: 7/29/07

In re:

THE ART STORE, INC., et al.

Debtors.

Chapter 11  
Case Nos. 03-46456;  
03-46458; and  
03-46459

**ORDER APPROVING DEBTORS' MOTION FOR AUTHORITY TO  
(I) SELL SUBSTANTIALLY ALL OF THEIR ASSETS PURSUANT TO  
SECTION 363 OF THE BANKRUPTCY CODE AND (II) ASSUME AND ASSIGN  
CERTAIN LEASES AND EXECUTORY CONTRACTS PURSUANT TO  
SECTION 365 OF THE BANKRUPTCY CODE**

Upon the motion, dated June 14, 2004 (the "Motion"), of The Art Store, Inc., The Art Store New York Realty Corp. and ADAR Associates LLC (collectively, the "Debtors" or "Sellers") for the entry of an order pursuant to Sections 105, 363(b), 363(f), 363(m), 365 and 1146(c) of title 11 of the United States Bankruptcy Code (the "Bankruptcy Code") and Rules 6004, 6006 and 9014 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules" and each individually a "Bankruptcy Rule") authorizing the Debtors to, *inter alia*, (i) sell substantially all their assets (the "Assets"), said assets being more fully described in the Asset Purchase Agreement, free and clear of all liens, claims, and encumbrances (other than Permitted Liens) with such sale to be substantially in accordance with the terms and conditions of the Asset Purchase Agreement, dated as of June 10, 2004 among Dick Blick Holdings, Inc., or its designee, as Buyer (the "Buyer") and the Sellers, a copy of which is annexed to the Motion as Exhibit A (the "Agreement"), (ii) enter into the Agreement; and (iii) assume and assign certain executory contracts (collectively, the "Assumed Contracts") in connection with

such sale; and this Court having entered an order dated June 14, 2004 authorizing the Debtors to conduct, and approving the terms and conditions of, an auction (the "Auction") and bidding procedures to consider higher and otherwise better offers for the Assets, establishing a date for the Auction, and approving, *inter alia*, (i) procedures for the submission of qualifying bids, (ii) the form and manner of notice of the Auction and (iii) the Break-up Fee (the "Sale Procedures Order"); and the Court having established the date of the Sale Hearing; and the Court having jurisdiction to consider the Motion and the relief requested therein in accordance with 28 U S C §§ 157(b)(2) and 1334; and consideration of the Motion, the relief requested therein, and the responses thereto, if any, being a core proceeding in accordance with 28 U S C § 157(b), venue before this Court is proper pursuant to 28 U.S.C. §§ 1408 and 1409; and the appearance of all interested parties and all responses to the Motion having been duly noted in the record of the Sale Hearing; and upon the record of the Sale Hearing, and, except as set forth herein, all objections having been resolved or overruled pursuant to this Order, and all other pleadings and proceedings in these cases, including the Motion, and after due deliberation and sufficient cause appearing therefor,

**IT IS HEREBY FOUND AND DETERMINED THAT:**

A. The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014.

B. To the extent any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.

C. The Art Store, Inc. filed petition a for reorganization under Chapter 11, Title 11 of the United States Code on November 7, 2003, in the United States Bankruptcy Court for the District of Massachusetts. ADAR Associates, LLC and The Art Store New York Realty Corp. filed petitions for reorganization under Chapter 11, Title 11 of the United States Code on November 10, 2003, in the United States Bankruptcy Court for the District of Massachusetts. The Debtors continue to operate their businesses and manage their property as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

D. As evidenced by Certificates of Service dated June 14 and 25, 2004, proper, timely, adequate and sufficient notice of the Motion, the Auction, the Sale Hearing, and the assumption and assignment of each Assumed Contract, and a reasonable opportunity to object and be heard regarding the relief requested, has been provided in accordance with sections 102(1), 363(b) and 365 of the Bankruptcy Code, Bankruptcy Rules 2002, 6004, 6006, 9006, 9007, 9008 and 9014, the local rules of this Court, the procedural due process requirements of the United States Constitution and the Bidding Procedures Order by:

1. serving, pursuant to the Bidding Procedures Order, copies of the Bidding Procedures Order, the Sale Notice and the Motion (including a copy of the Agreement) upon (i) the Office of the United States Trustee; (ii) counsel for the Official Committee of Unsecured Creditors, (iii) counsel to Wells Fargo Retail Finance II ("Wells Fargo"); (iv) counsel to Retail and Restaurant Growth Capital, Inc. ("RRGC"); (v) counsel to George Granoff; (vi) counsel to Crescent Capital LLC ("Crescent"); (vii) United Commercial Bank; (viii) the United States Environmental Protection Agency; (ix) the California Environmental Protection Agency; (x) the Department of Labor for the states of New York, Illinois, California, and Massachusetts and for the District of Columbia; (xi) the Internal Revenue Service; (xii) the Departments of taxation for the states of New York, Illinois, California and Massachusetts and for the District of Columbia; (xiii) counsel for the Buyer; (xiv) all entities who claim or have threatened claims against or who have asserted any interest in or lien upon the Assets, (xv) all non-debtor parties to the Assumed Contracts, (xvi) any other governmental taxing

authorities who have, or as a result of the sale of the Assets may have, claims, contingent or otherwise, against the Debtors, (xvii) all parties who filed requests for notices under Bankruptcy Rule 9010(b) or were entitled to notice under Bankruptcy Rule 2002; (xviii) the Pension Benefit Guaranty Corporation; (xix) all entities that heretofore expressed to Debtors an interest in purchasing the Assets; (xx) all current employees of the Debtors, and all former employees of the Debtors who are entitled to, or have the right to receive, or are receiving retiree medical or other welfare benefits or COBRA; and (xxi) the Securities & Exchange Commission (collectively, the "Prime Recipients");

2. publishing a notice of the Bidding Procedures and Sale Hearing in the Wall Street Journal June 28, 2004. The Debtors have filed proof of such publication with the Court and have proven such service to the satisfaction of the Court;

3. serving a copy of the Bidding Procedures Order and the Sale Notice as approved by the Court pursuant to the Bidding Procedures Order upon (i) each of the Debtors' creditors, as such term is defined in 11 U.S.C. §101(10) that is not a Prime Recipient or their counsel; (ii) all known holders of equity interests in the Debtors; and (iii) any other persons known by the Debtors to hold, assert or have threatened to assert any Claims, as such term is defined in 11 U.S.C. §101(5), against the Debtors; and

4. filing an executed copy of the Agreement with the Court on June 14, 2004.

Such notice of the Motion, the Auction, the Sale Hearing, the assumption and assignment of the Assumed Contracts and the entry of this Order was in accordance with the Bidding Procedures Order and no further notice is necessary or required.

E. The Debtors have demonstrated a sufficient basis and the existence of exigent circumstances requiring them to sell the Assets and assume and assign any Assumed Contracts under sections 363 and 365 of the Bankruptcy Code, and such actions are appropriate exercises of the Debtors' business judgment and in the best interests of the Debtors, their estates and their creditors.

F. Through the marketing and sale process, the Debtors afforded interested potential Buyers a full, fair and reasonable opportunity to make a higher and better offer



to purchase the Assets, and provided potential buyers, upon request, sufficient information to enable them to make an informed judgment on whether to bid on the Assets.

G. The offer of the Buyer to purchase the Assets and any Assumed Contracts is the best offer received by the Debtors and the Purchase Price stated on the record of the Sale Hearing is fair, is in the best interest of the Debtors' estate and constitutes full and adequate consideration and reasonably equivalent value for the Assets.

H. Without an expeditious sale of the Assets free and clear of liens, claims and encumbrances, and the assumption and assignment of any Assumed Contracts, there will be a substantial diminution in the value of the Debtors and their assets to the detriment of their creditors and other parties in interest.

I. The Buyer is not an insider, as that term is defined in section 101(31) of the Bankruptcy Code. The Buyer is a buyer in good faith, as that term is used in the Bankruptcy Code and the decisions thereunder, and is entitled to the protections of sections 363(m) and (n) of the Bankruptcy Code with respect to the Sale, all of the Assets and the Assumed Contracts. The Agreement was negotiated and entered into in good faith, based upon arm's length bargaining and without collusion. Neither the Debtors nor the Buyer has engaged in any conduct that would prevent the application of section 363(m) of the Bankruptcy Code or cause the application of section 363(n) to the Agreement or to consummation of the Sale to the Buyer.

J. The Debtors have full corporate power and authority to execute the Agreement and all other documents contemplated thereby, and the sale of the Assets has been duly and validly authorized by all corporate authority necessary to consummate the

transactions contemplated by the Agreement. No consents or approvals, other than as expressly provided for in the Agreement, are required by the Debtors to consummate such transactions.

K. The Debtors have advanced sound business reasons for seeking to enter into the Agreement and to sell the Assets and assume and assign any Assumed Contracts, as more fully set forth in the Motion and as demonstrated at the Sale Hearing, and it is a reasonable exercise of the Debtors' business judgment to sell the Assets and to execute and deliver the Agreement to the Buyer.

L. The terms and conditions of the Agreement, including the total consideration to be realized by the Debtors pursuant to the Agreement, are fair and reasonable and the transactions contemplated by the Agreement are in the best interest of the Debtors' estates and their creditors.

M. A valid business purpose exists for approval of the transactions contemplated by the Motion pursuant to section 363(b) of the Bankruptcy Code. The transfer of the Assets and any Assumed Contracts from the Debtors to the Buyer is a legal, valid and effective transfer of the Assets and any Assumed Contracts notwithstanding any requirement for approval or consent by any person.

N. The Debtors and the Buyer have, to the extent necessary, and subject to the terms and conditions set forth herein, satisfied the requirements of Bankruptcy Code section 365, including sections 365(b)(1) and 365(f)(2), in connection with the sale and the assumption and assignment of any Assumed Contracts. The Buyer has demonstrated adequate assurance of future performance with respect to all Assumed Contracts.

O. The Debtors' sale of the Assets is in furtherance of a subsequent plan of

liquidation to be filed by the Debtors.

P. In the absence of a stay pending appeal, the Buyer will be acting in good faith pursuant to section 363(m) of the Bankruptcy Code in closing the transactions contemplated by the Agreement at any time on or after entry of this Order and cause has been shown as to why this order should not be subject to the stay provided by Fed R. Bankr. P. 6004(g) and 6006(d).

Q. The sale of the Assets outside of a plan of reorganization pursuant to the Agreement neither impermissibly restructures the rights of the Debtors' creditors nor impermissibly dictates the terms of a liquidating plan of reorganization for the Debtors.

R. Wells Fargo has a valid blanket lien against the Assets, and, pursuant to section 363(f) of the Bankruptcy Code, has consented to this Order and the transactions contemplated hereby.

S. All other entities who assert liens against or interests in the Assets have either consented to this Order, or, (i) the Purchase Price for the Assets is greater than the aggregate value of all liens against and interests in the Assets, (ii) applicable nonbankruptcy law permits sale of the assets free and clear of such interest; (iii) such interest is in bona fide dispute; or (iv) such entity could be compelled, in a legal or equitable proceeding, to accept a money satisfaction of such interest, and therefore, Section 363(f) of the Bankruptcy Code has been satisfied.

**NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED:**

1. The Motion is granted in its entirety, subject to the terms and conditions contained herein.
2. The Agreement and the transactions contemplated thereby be, and hereby

are, approved and the Debtors are hereby authorized and empowered and directed to enter into, and to perform their obligations under, the Agreement and to execute and perform such agreements or documents and take such other actions as are necessary or desirable to effectuate the terms of the Agreement.

3. All objections, responses, and requests for continuance concerning the Motion are resolved in accordance with the terms of this Order and as set forth in the record of the Sale Hearing. To the extent any such objection, response or request for continuance was not otherwise withdrawn, waived, settled, or otherwise provided herein, it, and all reservations and rights contained therein, is overruled and denied.

4. The Debtors shall be, and hereby are, authorized, empowered and directed, pursuant to sections 105 and 363(b) and (f) of the Bankruptcy Code, to sell the Assets to the Buyer upon delivery of the consideration specified in the Agreement and completing all other deliveries required under the Agreement. Except as otherwise provided in the Agreement, such sale of the Assets shall vest the Buyer with good title to the Assets, and shall be free and clear of any and all liens, claims, encumbrances, liabilities, obligations, licenses, covenants, pledges, security interests, charges, and interests of any kind, including, without limitation, (i) option rights, rights of first refusal or similar agreements with respect to the Real Property, (ii) claims for Cure Amounts; (iii) competing claims to title to the Assets; and (iv) claims of taxing and other governmental authorities, whether secured or unsecured, choate or inchoate, filed or unfiled, scheduled or unscheduled, noticed or unnoticed, recorded or unrecorded, contingent or non-contingent, liquidated or unliquidated, matured or unmatured, disputed or undisputed, or known or unknown, whether arising prior to or subsequent to the Petition Date, whether imposed by

agreement, understanding, law, equity or otherwise (collectively, "Claims"), other than the Permitted Liens and Assumed Liabilities. All such Claims on or against the Assets shall attach to the proceeds of the sale, with the same force, validity, priority and effect as they now may have. The sale proceeds shall be delivered to Wells Fargo for application by Wells Fargo against the Debtors' obligations in accordance with the provisions of the Agreed Order Regarding Use of Cash Collateral dated June 1, 2004. Wells Fargo will apply such proceeds upon receipt thereof in full and complete satisfaction of its Claim against the Debtors.

5. The Mortgage which is being assumed by the Buyers as part of the Assumed Liabilities is in full force and effect; there are no defaults, monetary or non-monetary thereunder, and there are no circumstances which exist which, with the passage of time, would constitute a default thereunder.

6. Each of the Debtors' creditors is authorized and directed to execute such documents and take all other actions as may be necessary to release any Claims of any kind against the Assets as such Claims may have been recorded or may otherwise exist. If any person or entity that has filed financing statements or other documents or agreements evidencing liens and encumbrances or other Claims on the Assets shall not have delivered to the Debtors prior to the Closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, or releases of all such liens, encumbrances, or other Claims which the person or entity has with respect to the Assets, the Debtors are hereby authorized and directed to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to such Assets prior to the Closing.

7. This Order shall be binding upon and govern the acts of all persons or entities, including without limitation, all filing agents, recording agencies, secretaries of state, utility providers, providers of telephone and/or telecommunication services and all other persons and entities who may be required by operation of law to accept, file, register or otherwise record or release any documents or instruments.

8. Subject to the delivery of the consideration specified in the Agreement and completing all other deliveries required under the Agreement, effective as of the Closing, (a) the sale of the Assets by the Debtors to the Buyer shall constitute a legal, valid and effective transfer of the Assets notwithstanding any requirement for approval or consent by any person and shall vest the Buyer with all right, title and interest of the Debtors in and to the Assets, free and clear of all Claims (other than the Permitted Liens and the Assumed Liabilities) pursuant to section 363(f) of the Bankruptcy Code, and (b) the assumption of any Assumed Liabilities by Buyer shall constitute a legal, valid and effective delegation of any Assumed Liabilities to Buyer and shall divest the Debtors of all liability with respect to any Assumed Liabilities.

9. All persons or entities, presently or on or after the Closing Date in possession of some or all of the Assets are directed to surrender possession of the Assets to the Buyer on the Closing Date or at such time thereafter as the Buyer may request.

10. The sale of the Assets to the Buyer under the Agreement will constitute a transfer for reasonably equivalent value and fair consideration under the Bankruptcy Code and all applicable law.

11. The Buyer is hereby granted and is entitled to the protections provided to a good faith buyer under section 363(m) of the Bankruptcy Code, including with respect to

any transfer of any Assumed Contracts as part of the sale of the Assets pursuant to section 365 of the Bankruptcy Code and this Order.

12. Each of the Assumed Contracts set forth on Exhibit A to this Order constitute executory contracts or unexpired leases within meaning of section 365 of the Bankruptcy Code.

13. Subject to the terms and conditions of this Order and as set forth on the record at the Sale Hearing, the Buyer has satisfied all requirements under section 365(f)(2)(B) of the Bankruptcy Code to provide adequate assurance of future performance of any Assumed Contracts. Additionally, as adequate assurance of future performance, Dick Blick Holdings, Inc. shall provide, on or before the Closing Date, to each landlord of an Acquired Store, a written guaranty whereby Dick Blick Holdings, Inc. guarantees the performance of all obligations of Buyer under the leases for the Acquired Stores. Pursuant to section 365(b)(1)(A) and (B) of the Bankruptcy Code, the Debtors shall pay to the parties to any Assumed Contracts the Cure Amounts, if any, set forth on Exhibit A hereto, on the Closing Date or such other amounts as the parties to such contracts shall have agreed to accept in lieu of such Cure Amounts and/or at such time after the Closing as such parties shall have agreed.

14. The Objections to the Sale Motion filed by the following parties are hereby resolved as follows:

- a. B&B Associates, Inc. ("B&B") is hereby allowed a security deposit ("Deposit") in the total amount of \$80,000; \$34,922.77 shall be satisfied from the current letter of credit, and \$40,077.23 shall be paid in cash by Buyer. So long as the lessee is not in default under the lease, the Deposit shall be decreased by \$10,000 each year, with reimbursements made to Buyer, until the Deposit reaches \$30,000, at which level it shall remain until the end of the lease term. Debtors' dispute with B&B regarding fees and expenses asserted by B&B and B&B's post-petition draw on the current letter

of credit is hereby waived, and B&B's action against George Granoff shall be dismissed with prejudice. The parties shall exchange releases of any and all claims (B&B shall also release any and all claims against George Granoff) and estoppel certificates.

- b. AMS Group LLC ("AMS") is hereby allowed a claim for Cure Amount in the amount of \$5,213.08. The dispute between Debtors and AMS regarding AMS' entitlement to reimbursement of attorneys' fees is hereby continued for a non-evidentiary hearing to September 7, 2004 at 11:30 a.m. Buyer has represented that it will comply with the tenant's obligation under the lease to replace the roof.
- c. The objection filed by the California College of the Arts as to a purchaser other than Buyer is hereby overruled as moot.
- d. The claim for Cure Amount asserted by Church Street Plaza, LLC is hereby allowed in the amount of \$34,266.38.
- e. The claim for Cure Amount asserted by The Vons Companies, Inc. is hereby allowed in the amount of \$20,370.87.
- f. The claim of 1-9 Bond Street Realty, Inc. for Cure Amount consisting of rent, taxes and rent increases and a cash security deposit is hereby continued for a non-evidentiary hearing to September 7, 2004 at 11:30 a.m. The Debtors shall hold and reserve from the sale proceeds funds in the amount of \$157,549.60 for the satisfaction of the Cure Amount owed to 1-9 Bond Street Realty, Inc. until such time as such Cure Amount is agreed upon by the parties or determined by the Court.

15. The Debtors shall credit the sum of \$30,000 against the Purchase Price in satisfaction of Buyer's Claims against the Debtors for (i) reimbursement of the Deposit, and (ii) the roof and HVAC repair under the AMS Group, Inc. lease. In addition, the Buyer shall offer COBRA coverage to all of the Debtors' employees who (i) are currently enrolled in the Debtors' health plan pursuant to COBRA or (ii) suffer a loss of employment because of the closing of the Debtors' corporate headquarters and the Debtors' store located in the District of Columbia.



16. The assumption by the Debtors of any Assumed Contracts and the assignment of such Assumed Contracts to the Buyer, as provided for or contemplated by the Agreement, is hereby authorized and approved subject to the occurrence of the Closing Date under the Agreement, and any and all existing defaults under the Assumed Contracts shall be deemed cured by the payment of the aforementioned Cure Amounts and other resolutions, and any Assumed Contracts are, and shall remain, in full force and effect and assumed by the Debtors and assigned and sold to the Buyer pursuant to sections 363 and 365 of the Bankruptcy Code. All claims for Cure Amounts and any other Claims of the lessors shall attach to the sale proceeds, and shall not be paid by the Buyer, except as provided herein. Subject only to payment of the Cure Amounts, the Assumed Contracts are hereby deemed to be in full force and effect, with no defaults thereunder, monetary or non-monetary, and there are no circumstances which exist under the Assumed Contracts which, with the passage of time, would constitute a default. Pursuant to section 365(k) of the Bankruptcy Code, and subject to the terms herein, neither the Debtors nor their bankruptcy estates shall have any liabilities under any Assumed Contracts for breach or otherwise from and after the assignment of any Assumed Contracts, and the Debtors and their estates shall be relieved of any liability for any breach of any Assumed Contracts first accruing or occurring after such assignment; provided, however, that until the Closing Date, the Debtors shall continue to perform all obligations arising under the Assumed Contracts. The Assumed Contracts shall remain in full force and effect for the benefit of the Buyer, its successors and assigns, notwithstanding any provision in such Assumed Contract that prohibits such assignment.

17. Except for allowed claims for Cure Amounts as provided herein, each non-

debtor party to an Assumed Contract shall, as of the Closing Date, be forever barred and enjoined from asserting against the Debtors, their bankruptcy estates, the Buyer or any of the Assets: (a) any default, monetary or non-monetary, existing as of the Closing Date, or (b) any objection to the assumption and assignment of such non-debtor party's Assumed Contracts, whether or not such non-debtor party filed a proof of claim; provided, however, that the objections to Cure Amounts filed by 1-9 Bond Street Realty, Inc., and AMS Group, LLC shall continue pending determination of such Cure Amounts. The assignment of an Assumed Contract to the Buyer will not cause a default or otherwise allow the non-debtor party thereto to terminate or adversely affect the Debtors' or the Buyer's rights thereunder.

18. With respect to unexpired leases for the Debtors' stores in Evanston, Illinois, Chicago, Illinois and San Francisco, California, the Buyer and each landlord have reached agreements, in principle, concerning the terms of lease amendments that will be entered into upon the Closing Date. Such leases will be assumed subject to such lease amendments.

19. This Order and the Agreement shall be binding upon, and shall inure to the benefit of, the Debtors and the Buyer and its affiliates, successors and assigns, all parties holding Claims against the Debtors or the Assets and each of the parties listed in Paragraph D above, and each of their respective successors and assigns, including without limitation, any chapter 11 trustee hereinafter appointed or elected for the Debtors' estate or any trustee appointed or elected in a Chapter 7 case if this case is converted from Chapter 11.

20. This Court shall retain exclusive jurisdiction to enforce the provisions of

this Order and the Agreement and to resolve any dispute concerning this Order, the Agreement, or the rights and duties of the parties hereunder or thereunder or any issues relating to the Agreement and this Order, including, but not limited to, the interpretation of the terms, conditions and provisions hereof and thereof, the status, nature and extent of the Assets and any Assumed Contracts and all issues and disputes arising in connection with the relief authorized herein.

21. Notwithstanding Bankruptcy Rules 6004(g) and 6006(d), this Order shall be effective and enforceable immediately upon entry pursuant to Rule 9006(c)(1). In the absence of any entity obtaining a stay pending appeal the Debtors and the Buyer are free to close under the Agreement at any time. In the absence of any entity obtaining a stay pending appeal, if the Debtors and the Buyer close under the Agreement, the Buyer shall be deemed to be acting in "good faith" and shall be entitled to the protection of section 363(m) of the Bankruptcy Code as to all aspects of the transactions contemplated by the Agreement, regardless of whether this Order or any authorization contained herein is reversed or modified on appeal.

22. The sale approved by this Order is not subject to avoidance pursuant to Section 363(n) of the Bankruptcy Code.

23. The provisions of this Order authorizing the sale of the Assets free and clear of Claims shall be self-executing, and neither the Debtors nor the Buyer shall be required to execute or file releases, termination statements, assignments, consents, or other instruments in order to effectuate, consummate and implement the provisions of this Order. However, the Debtors and the Buyer are authorized and empowered to take all actions and execute and deliver any and all documents and instruments that either the

Debtors or the Buyer deem necessary or appropriate to implement and effectuate the terms of the Agreement and this Order. The Debtors and each other person having duties or responsibilities under the Agreement, any agreements related thereto or this Order, and their respective directors, officers, managing partners or members, general partners, agents, representatives, and attorneys, are authorized and empowered – subject to the terms and conditions contained in the Agreement and the schedules annexed thereto – to carry out all of the provisions of the Agreement and any related agreements, to issue, execute, deliver, file and record, as appropriate, the documents evidencing and consummating the Agreement, and any related agreements, to take any and all actions contemplated by the Agreement, any related agreements or this Order and to issue, execute, deliver, file and record, as appropriate, such other contracts, instruments, releases, indentures, mortgages, deeds, bills of sale, assignments, leases, or other agreements or documents and to perform such other acts, and execute and deliver such other documents, as are consistent with, and necessary or appropriate to implement, effectuate, and consummate, the Agreement, any related agreements and this Order and the transactions contemplated thereby and hereby, all without further application to or order of the Court or further action by their respective directors, stockholders, or partners, and with like effect as if such actions had been taken by unanimous action of the respective directors, stockholders, and partners of such entities. All such additional agreements, documents, and instruments shall be deemed to be “related agreements” for purposes of this Order. The Debtors are further authorized and empowered to cause to be filed with the Secretary of State of any state or other applicable officials of any applicable governmental units any and all certificates, agreements, or amendments

necessary or appropriate to effectuate the transactions contemplated by the Agreement, any related agreements and this Order, including amended and restated certificates or articles of incorporation and by-laws or certificates or articles of amendment, and all such other actions, filings, or recordings as may be required under appropriate provisions of the applicable laws of all applicable governmental units or as any of the officers or managers of the Debtors may determine are necessary or appropriate. The execution of any such document or the taking of any such action shall be, and hereby is, deemed conclusive evidence of the authority of such person to so act. Without limiting the generality of the foregoing, this Order shall constitute all approvals and consents, if any, required by the corporation laws of the States of Delaware and New York and all other applicable business corporation, trust, and other laws of the applicable governmental units with respect to the implementation and consummation of the Agreement, any related agreements and this Order, and the transactions contemplated thereby and hereby. Each and every federal, state and local governmental agency or department and each and every utility or provider of telephone service is hereby directed to accept any and all documents and instruments, including, without limitation, a certified copy of this Order, which are necessary or appropriate to consummate the transactions contemplated by the Agreement.

24. Nothing in this Order purports to excuse the Buyer or the Debtors or any other person or entity from each of their respective past, present and continuing obligations to comply with any and all applicable state and federal regulatory laws, or impair, release or nullify any claim or potential claim of the United States of America against the Debtors.

~~25. The sale of the Assets to the Buyer is a necessary step in contemplation of~~

~~(and therefore under) a liquidating plan for these Chapter 11 cases, and, therefore, is exempt from any and all laws imposing a stamp or similar tax in accordance with Section 1146(c) of the Bankruptcy Code. Each and every federal, state and local government agency or department is hereby directed to accept any and all documents and instruments necessary and appropriate to consummate the transfer of any of the Assets, all without imposition or payment of any stamp tax, transfer tax or similar tax.~~

26. The Buyer is not a successor to the Debtors or their estates by reason of any theory of law or equity and the Buyer shall not assume, nor be deemed to assume, or in any way be responsible for any liability or obligation of any of the Debtors and/or their estates except as otherwise expressly provided in the Agreement.

27. Pursuant to sections 105 and 363 of the Bankruptcy Code, all persons and entities, including, but not limited to, all parties holding any Claims against the Debtors, their estates or their assets, the Debtors' employees, former employees and shareholders, administrative agencies, governmental departments, secretaries of state, federal, state and local officials, including such officials maintaining any authority relating to environmental, labor and health and safety laws, and their respective successors or assigns, are hereby permanently and forever barred, restrained and enjoined from commencing or continuing in any manner any action or other proceeding of any kind or the employment of any process or any act to collect, offset or recover any Claim against the Buyer, or that seeks to impose liability upon the Buyer or any affiliate, successor or assign thereof, or against the Assets or the Assumed Contracts, under the laws of the United States, any state, territory or possession thereof or the District of Columbia based, in whole or in part, directly or indirectly, on any theory of law, including, without

limitation, any theory of successor or transferee liability or any liability for pre- or postpetition Claims against any of the Debtors by reason of the transfer of the Assets to the Buyer, except for the Assumed Liabilities, including, without limitation, pre- and postpetition Claims of the Pension Benefit Guaranty Corporation or successor thereof ("PBGC"), the United States Department of Labor, the Internal Revenue Service, or other federal, state or local governmental entities, of any current or former employee for claims arising out of employment and termination of employment, including, without limitation, claims for wages, bonuses, commissions, accrued vacation, severance, continuation of coverage under COBRA, or pension, welfare, fringe benefits or any other benefits of any kind including, without limitation, obligations in respect of retiree medical coverage or benefits. Without limiting the generality of the foregoing, Buyer shall have no responsibility for or liability regarding the Retained Liabilities. As used in this Order, Claims against the Debtors include Claims against any officer, director or agent of the Debtors which derive from a Claim against the Debtors.

28. The Agreement and any related agreements may be waived, modified, amended, or supplemented by agreement of the Debtors and the Buyer without further action of the Court; provided, however, that any such waiver, modification, amendment, or supplement is not material and substantially conforms to and effectuates the Agreement.

29. The failure specifically to include any particular provisions of the Agreement or any related agreements in this Order shall not diminish or impair the effectiveness of such provision, it being the intent of the Court, the Debtors and the Buyer that the Agreement and any related agreements are authorized and approved in their

entirety with such amendments thereto as may be made by the parties in accordance with this Order.

30. No bulk sale law or any similar law of any state or other jurisdiction shall apply in any way to the transaction contemplated by the Agreement.

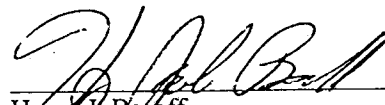
31. The Business Employees' employment with the Debtors shall not be deemed to have been terminated solely for purposes of the Worker Adjustment and Retraining Notification ("WARN") Act.

32. Nothing in this Order or the Agreement shall require the Buyer to (i) continue or maintain in effect, or assume any liability in respect of any employee pension, welfare, fringe benefit or any other benefit plan, trust arrangement or other agreements to which the Debtors are parties or have any responsibility therefor, including, without limitation, medical, welfare and pension benefits payable after retirement or other termination of employment, or (ii) assume any responsibility as a fiduciary, plan sponsor or otherwise, for making any contribution to, or in respect of the funding, investment or administration of any employee pension plan or the termination of any such plan.

33. To the extent any provisions of this Order conflict with the terms and conditions of the Agreement, this Order shall govern and control.

Dated:

*July 23, 2004*

  
Henry J. Rogoff  
United State Bankruptcy Judge



**EXHIBIT A**

**SCHEDULE OF CURE AMOUNTS**

<b>Counterparty</b>	<b>Description of Property</b>	<b>Notice Address</b>	<b>Cure Amount</b>
1-9 Bondst Realty c/o Win Restaurant Supply, Inc. 318 Lafayette Street New York, NY 10012	Unit #1 1-5 Bond Street New York, NY	same	To be determined; paragraph 14(f) of Sale Order.
Abbey Landmark Operating LLC	The Landmark Center 201 Brookline Avenue Boston, MA.	c/o The Abbey Group 575 Boylston Street Boston, MA 02116	\$31,748.06
Rue-Ell Enterprises, Inc.	811 University Avenue Units 1A and 1B Berkeley, CA	Rue-Ell Enterprises, Inc. 2437 Durant Avenue Berkeley, CA 94704	\$5,001.80
B&B Associates, LLC 10380 Wilshire Boulevard LA Tour Building, Suite 1104 Los Angeles, CA 90024 Attn: Betty Benzra	7301 W. Beverly Blvd Los Angeles, CA	Landlord, with copy to: Appel & Associates, LLP 1901 Avenue of the Stars, Suite 525 Los Angeles, CA 90067 Attn: Brian J. Appel, Esq.	\$0; see paragraph of the Sale Order
AMS Group, LLC 781 E. San Bernardino Rd. Covina, CA 91723	44 South Raymond Ave Pasadena, CA	Landlord, with copy to: Polston, Schwartz, Hamilton & Fraser 9440 Santa Monica Blvd Suite 405 Beverly Hills, CA 90210 Attn: Stephen M. Fenster, Esq.	To be determined. paragraph 14(b) o Sale Order.
The Vons Companies, Inc.	11660 Santa Monica Blvd Los Angeles, CA	Safeway/Property Development Associates c/o Safeway, Inc./PDA 4834 Collections Center Drive Chicago, IL 60693  Property Development Associates 618 Michillinda Avenue Arcadia, CA 91007-1734	\$20,370.87
H.G. Daniels Company	1844 India Street San Diego, CA	H.G. Daniels Company c/o Michael G. Daniels 1675 Via Corona La Jolla, CA 92037	\$1,747.20
Van Ness Avenue Partners	1414 Van Ness Avenue San Francisco, CA	Van Ness Avenue Partners 660 Woodside Drive Woodside, CA 94062	\$16,800.80

Counterparty	Description of Property	Notice Address	Cure Amount
North Kingsbury, LLC 400 West Huron Chicago, IL 60610	1025 W. North Avenue Chicago, IL	Landlord, with copy to: Benjamin J. Randall, Esq. Katz Randall & Weinberg, P.C. 333 West Wacker Drive, Ste 1800 Chicago, Illinois 60606	\$33,497.48
Church Street Plaza LLC 900 Clark Street Evanston, IL 60201	Church Street Plaza Evanston, IL.	Landlord, with copy to: Schiff Hardin & Waite 6600 Sears Tower Chicago, IL 60606 Attn: David A. Grossberg	\$34,266.58
California College of Arts & Crafts 5201 Broadway Oakland, CA 94618	The Art Store, Inc. 4300 W. 190 <sup>th</sup> Street Torrance, CA 90509	California College of Arts & Crafts Attn: Business Manager 5212 Broadway Oakland, CA 94618	\$0
Information Leasing Corporation 1023 W.Eighth Street Cincinnati, OH 45203	1. Equipment Lease No. 321080001 (located in Boston, MA) 2. Lease Agreement No. 357650002 (located in Washington DC)	same	\$2,322.77
Boston Financial & Equity Corporation 20 Overland Street Boston, MA 02215	Equipment Lease and Software Licenses - Lease Schedule No. 1 to Master Equipment Lease No. 1351. Equipment located in CA, NY, MA, IL, and Washington D.C.	20 Overland Street Boston, MA 02215	\$0
GE Capital Colonial Pacific Leasing P.O. Box 642752 Pittsburgh, PA 15264- 2752	GE Equipment Lease No. 354766001 - Key Lease No. GE35476601. Lease assigned to Key Equipment Finance.	Key Equipment Finance 66 S. Pearl Street Albany, NY 12201-1339	\$0
GreatAmerica Leasing Corp 625 First Street SE Cedar Rapids, IA 52401	1. Phone Equipment Lease - Lease No. 157976 - equipment located at 11660 Santa Monica Blvd, Los Angeles, CA. 2. Phone Equipment Lease - Lease No. 154951 - equipment located at 1755 Maple Avenue, Evanston, IL.	same	\$732.27

Counterparty	Description of Property	Notice Address	Cure Amount
Jules and Associates, Inc. 515 S. Figueroa Street Suite 1950 Los Angeles, CA 90071	Master Equipment Lease Agreement dated September 3, 2002 - Master Lease Agreement No. A03292002. Debtor is Lessee. Lease assigned to Colonial Pacific Leasing Corporation November 1, 2002	Colonial Pacific Leasing Corporation 13010 SW 68 <sup>th</sup> Parkway Portland, OR 97223	\$5,841.56
Integrated Systems Development, Inc. 11335 James Street Holland, MI 49424	Software License Agreement and Annual Support Agreement both dated March 8, 2002	same	\$0
JDA Software, Inc. 11811 North Tatum Blvd., Suite 2000 Phoenix, AZ 85028	Software License Agreement and Software Support Agreement each dated June 29, 1997	same	\$872.23
Direct Systems Support 9020 Kenamar Drive San Diego, CA 92121	Hardware Maintenance Agreement dated 2/10/04	same	\$0
MCI WorldCom Marketing Sale Contract Administration 500 Clinton Center Drive, Bldg 4 Clinton, MS 39056	1. On-Net Service Agreement dated 2/7/01 (#32166700) 2. Internet Colocation Service Contract dated 9/27/02 (#396189-00) 3. On-Net Service Agreement dated 11/7/02 (#39745100) 4. Service Agreement dated 5/13/04 (#44328901)	MCI WorldCom Contract Distribution (8CA) 11475 Great Oaks Way Suite 300 Alpharetta, GA 30022	\$51,373.86
Wells Fargo Bank, N.A.	Business Bank Card Service and Security Agreement	Wells Fargo Merchandise Services LLC 265 Broad Hollow Rd. Melville, NY 11477	\$0
United Parcel Service	Carrier Agreements dated as of 9/15/03	UPS Corporate Headquarters 55 Glenlake Parkway, N.E. Atlanta, GA 30328	\$0

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**ASSET PURCHASE AGREEMENT**

dated as of June 10, 2004

by and among

**DICK BLICK HOLDINGS, INC., as BUYER**

and

**THE ART STORE, INC.,**

**ADAR ASSOCIATES, LLC, and**

**THE ART STORE OF NEW YORK REALTY CORP.,**

**each individually as a SELLER and collectively as the SELLERS**

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## ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "Agreement") is dated as of June 10, 2004, by and among DICK BLICK HOLDINGS, INC., a Delaware corporation (the "Buyer"), and THE ART STORE, INC., a Delaware corporation ("TAS"), ADAR ASSOCIATES, LLC, a Delaware limited liability company ("ADAR"), and THE ART STORE OF NEW YORK REALTY CORP., a New York corporation ("TASNYC" and collectively with TAS and ADAR, the "Sellers", and any individually, a "Seller"). Buyer and Sellers are referred to collectively herein as the "Parties."

WHEREAS, TAS filed a petition for relief under Chapter 11 of the Bankruptcy Code (as hereinafter defined) in the United States Bankruptcy Court for the District of Massachusetts, Western Division (the "Bankruptcy Court") on November 7, 2003 (the "TAS Bankruptcy Case");

WHEREAS, ADAR and TASNYC each filed a petition for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court on November 10, 2003 (collectively and together with the TAS Bankruptcy Case, the "Bankruptcy Case"); and

WHEREAS, Buyer desires to purchase from Sellers, in accordance with Sections 363 and 365 and the other applicable provisions of the Bankruptcy Code, all of the Purchased Assets (as hereinafter defined), together with the Assumed Liabilities (as hereinafter defined), of Sellers upon the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows:

1. Definitions.

"Acquired Stores" means the stores set forth on Schedule A, as such Schedule may be amended pursuant to §2(c) hereof.

"ADAR" has the meaning set forth in the preface above.

"Administrative Claims" means claims for payment of an administrative expense of a kind specified in section 503(b) of the Bankruptcy Code, including those entitled to priority pursuant to section 507(a)(1) of the Bankruptcy Code.

"Affiliate" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act.

"Agreement" has the meaning set forth in the preface above.

"Assumed Contracts" means the Leases, contracts and the other agreements listed in Schedule B, as such schedule may be amended pursuant to §2(c) and such additional contracts as may be designated by Buyer, but no other contracts or agreements.

"Assumed Liabilities" means all of the (i) liabilities and obligations under the Assumed Contracts accruing after the Closing, (ii) liabilities and obligations accruing after the Closing relating to and arising from the Buyer's operation of the Acquired Stores and the Purchased Assets, (iii) liabilities and obligations under Valid Gift Certificates and Merchandise Credits which may be redeemed by consumers at the Acquired Stores; (iv) Mortgage payments in respect of the Real Property that become due and payable after the Closing; and (v) liabilities incurred by Sellers between November 8, 2003 and the Closing Date for goods and services purchased in the Ordinary Course of Business, including but not limited to, those liabilities reflected in the Debtors' ledger as accounts payable merchandise, purchase accrual, accounts payable expenses, accounts payable other, corporate check liability, accrued expenses for inventory, credit card fees and utilities, but only if such liabilities are either (x) less than 60 days old, or (y) within the agreed time period for payment if such period is less than 60 days old; provided, however, that the Assumed Liabilities identified in (iii) and (v) above shall not exceed \$742,000 in total. In the event that the Assumed Liabilities identified in (iii) and (v) above exceed \$742,000, Buyer shall pay, in the following order of priority: (a) those liabilities identified in (iii) above, (b) accounts payable merchandise; and then all other liabilities identified in (v) above, with any amounts above \$742,000 to be paid by Sellers.

"Assumption Agreement" has the meaning set forth in §7(a) below.

"Auction" has the meaning set forth in §5(f) below.

"Bankruptcy Case" has the meaning set forth in the preface above.

"Bankruptcy Code" means the United States Bankruptcy Code, 11 U.S.C. § 101 et seq., as amended, or any successor thereto, and any rules and regulations promulgated thereunder.

"Bankruptcy Court" has the meaning set forth in the preface above.

"Base Inventory Value" has the meaning set forth in §2(g) below.

"Benefit Arrangement" means any employment, severance or similar contract or arrangement or any plan, policy, fund, program or contract or arrangement providing for compensation, bonus, profit-sharing, stock option, or other stock related rights or other forms of incentive or deferred compensation, vacation benefits, insurance coverage (including any self-insured arrangements) with respect to benefits set forth in Section 3(1) of ERISA, health or medical benefits, disability benefits, supplemental unemployment benefits, and post-employment or retirement benefits (including compensation, pension, health, medical or life insurance or other benefits) that (i) is not an Employee Plan, (ii) is entered into, maintained, administered or contributed to, as the case may be, by any Seller or for which the Sellers or any ERISA Affiliate has any liability or contingent liability and (iii) covers (a) any employee or former employee of Sellers or any ERISA Affiliate or (b) any employee of another Person who regularly provides services to any Seller or any ERISA Affiliate.

"Bill of Sale" has the meaning set forth in §7(a) below.

"Books and Records" has the meaning set forth in §2(a) below.

**“Break-Up Fee”** means a fee in an amount equal to the lesser of (i) three percent of the Purchase Price, or (ii) the reasonable documented costs and expenses incurred by Buyer in connection with this Agreement and the transaction contemplated hereby. Notwithstanding anything to the contrary contained herein, a return of the Deposit (together with interest thereon) and payment of the Break-Up Fee shall be the sole and exclusive remedy of Buyer against Sellers under this Agreement.

**“Business Employees”** means all employees who are assigned to work primarily at the Acquired Stores but not employees who are primarily assigned to work at Sellers’ corporate headquarters in Milford, Massachusetts.

**“Buyer”** has the meaning set forth in the preface above.

**“Buyer Plans”** has the meaning set forth in §5(g) below.

**“Cash”** means cash and cash equivalents.

**“CERCLA”** has the meaning set forth in §4(h) below.

**“Closing”** has the meaning set forth in §2(i) below.

**“Closing Date”** has the meaning set forth in §2(i) below.

**“Closing Date Inventory Value”** has the meaning set forth in §2(g) below.

**“Closing Date Inventory Value Objection Notice”** has the meaning set forth in §2(g) below.

**“COBRA”** means Part 6 of Subtitle B of Title I of ERISA, Section 4980B of the Internal Revenue Code, and any similar state law.

**“Confidential Information”** means any information concerning the businesses and affairs of Sellers that is not already generally available to the public.

**“Deed”** has the meaning set forth in §7(a) below.

**“Deposit”** has the meaning set forth in §2(g) below.

**“Disclosure Schedule”** means Schedules A through F hereto.

**“Domain Name”** means the internet domain names owned by TAS in connection with the operation of Sellers’ businesses, listed in Schedule D.

**“Employee Plan”** means any “employee benefit plan,” as defined in Section 3(3) of ERISA, that (i) is subject to any provision of ERISA, (ii) is entered into, maintained, administered or contributed to, as the case may be, by any Seller or for which the Seller or any ERISA Affiliate has any liability or contingent liability, and (iii) covers (a) any employee or former employee of Sellers or any ERISA Affiliate or (b) any employee of another Person who regularly provides services to any Seller and who will be a Transferred Employee.

“Environmental Laws” has the meaning set forth in §4(h) below.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“ERISA Affiliate” means any entity that would be deemed a “single employer” with the Seller under Section 414(b), (c), (m) or (o) of the Internal Revenue Code or Section 4001 of ERISA.

“Excluded Assets” has the meaning set forth in §2(b) below.

“Final Order” shall mean an order or judgment, the operation or effect of which is not stayed, and as to which order or judgment (or any revision, modification or amendment thereof), the time to appeal or seek review or rehearing has expired, and as to which no appeal or petition for review or motion for reargument has been taken or been made and is pending for argument.

“Financial Statements” has the meaning set forth in §4(e) below.

“Gift Certificates and Merchandise Credits” means all amounts owed or owing by Sellers to any Person for, or which may be redeemed by any Person with respect to, prepaid purchases and/or inventory which was purchased and returned for credit, allowing in either case, the holder thereof to acquire inventory from a Seller in exchange for the surrender of all or a portion thereof.

“Hazardous Substances” has the meaning set forth in §4(h) below.

“Intellectual Property” has the meaning set forth in §2(a) below.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended.

“Inventory” means all supplies and items of inventory wherever located, including without limitation, inventory in transit.

“Laws” means all laws, rules, regulations, statutes and ordinances of all federal, state, and local governments and governmental authorities.

“Leased Real Property” means all leasehold or subleasehold estates and other rights to use or occupy any land, buildings, structures, improvements, fixtures, or other interest in leased real property which is used in Sellers’ businesses.

“Leases” means all leases, including all written amendments, modifications and renewals thereto, for the Acquired Stores, including with respect to the Leased Real Property.

“Lenders” means each of the lenders of Sellers for borrowed money.

“Lien” means any mortgage, pledge, lien, security interest, claim (as defined in the Bankruptcy Code), encumbrance, charge, or other interest.

“Material Adverse Change” means any effect or change that would be or is reasonably determined to be materially adverse to the business of the Acquired Stores, taken as a whole, or

on the ability of any Party to consummate timely the transactions contemplated hereby; provided that none of the following shall be deemed to constitute, and none of the following shall be taken into account in determining whether there has been, a Material Adverse Change: (a) any adverse change, event, development, or effect arising from or relating to (1) general business or economic conditions, including such conditions related to the businesses of Sellers, (2) national or international political or social conditions, including the engagement by the United States in hostilities, whether or not pursuant to the declaration of a national emergency or war, or the occurrence of any military or terrorist attack upon the United States, or any of its territories, possessions, or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States, (3) financial, banking, or securities markets (including any disruption thereof and any decline in the price of any security or any market index), (4) changes in United States generally accepted accounting principles, or (5) the taking of any action contemplated by this Agreement and the other agreements contemplated hereby, (b) any existing event, occurrence, or circumstance with respect to which Buyer has knowledge as of the date hereof, and (c) any adverse change in or effect on the businesses of Sellers that is cured by Sellers (if curable) before the earlier of (1) the Closing Date or (2) the date on which this Agreement is terminated pursuant to §9 hereof; provided, however, that notwithstanding the foregoing or anything to the contrary contained herein, (i) the failure of the Sellers to assume and assign to the Buyer the Leases and the Leased Real Property with respect to the Acquired Stores and title to the Real Property or (ii) revenues generated by the Acquired Stores for the period from June 14 through July 25 is more than 10% less than sales of the Acquired Stores for the same period of 2002 shall constitute a Material Adverse Change.

“Mortgage” means the mortgage granted by ADAR on the Real Property in favor of United Commercial Bank.

“Ordinary Course of Business” means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

“Party” has the meaning set forth in the preface above.

“Permitted Liens” means (1) the Mortgage, (2) general real estate taxes which are not yet due and payable, (3) building, zoning, subdivision laws, and state and Federal regulations now of record, (4) utility and drainage easements now of record, (5) restrictive covenants, setback lines, landscape easements, plats and similar restrictions which do not prohibit the present improvements constituting the building, parking areas and related improvements located on the real property, (6) standard printed exceptions as may be shown in a current title policy for the Real Property, and (7) easements or restrictions of record as may be disclosed by a survey prepared at direction of Buyer that do not materially interfere with the use or operation of the Real Property as a retail, school and other multi-use facility and accessory parking.

“Person” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, any other business entity or a governmental entity (or any department, agency, or political subdivision thereof).

“Purchased Assets” has the meaning set forth in §2(a) below.

“Purchase Price” has the meaning set forth in §2(f) below.

“Real Property” means the land, buildings, structures, improvements, fixtures, or other interest in the real property known as and located at 5301 Broadway, Oakland, California.

“Sale Order” has the meaning set forth in §5(e) below.

“Sales Procedures” has the meaning set forth in §5(e) below.

“Sale Procedures Order” has the meaning set forth in §5(e) below.

“Securities Act” means the Securities Act of 1933, as amended.

“Securities Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Seller(s)” has the meaning set forth in the preface above and as used in this Agreement shall mean each Seller individually and all of the Sellers collectively as the context so permits.

“Sellers’ Retained Liabilities” shall mean all of the claims (as defined in the Bankruptcy Code), liabilities, obligations or indebtedness of any nature whatsoever of Sellers, other than the Assumed Liabilities, including, without limitation, any or all of the following:

- a. Sellers’ accounts payable and other liabilities to third parties (except to the extent that such accounts and other liabilities are Assumed Liabilities);
- b. Except as set forth in section 5(h) below, all of Sellers’ liabilities relating to any Employee Plan, Benefit Arrangement or other compensation or benefit arrangement of Sellers;
- c. Liabilities under contracts of Sellers, other than those accruing after the Closing under any Assumed Contract;
- d. Tax liabilities of Sellers;
- e. Claims against Sellers or against any of them or against any of the assets of Sellers to the extent attributable to facts, events or circumstances occurring on or prior to the Closing Date;
- f. Liabilities arising out of the operation of Sellers’ business prior to the Closing Date, including, but not limited to those relating to laws and regulations concerning pollution or protection of human health or environment;
- g. All of Sellers’ liabilities relating in any way to any of the Excluded Assets;
- h. Any liability arising out of or related to any products of the Sellers to the extent manufactured or sold on or prior to the Closing Date;
- i. Any liability of the Sellers arising out of the violation of or failure to comply with the Worker Adjustment and Retraining Notification Act; and

- j. Any liability of the Sellers based upon the Sellers' acts or omissions occurring prior to or after the Closing Date.

"TAS" has the meaning set forth in the preface above.

"TAS Bankruptcy Case" has the meaning set forth in the preface above.

"TASNYC" has the meaning set forth in the preface above.

"Tax" or "Taxes" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Internal Revenue Code §59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Trademark" means the trademarks owned by TAS in connection with the operation of Sellers' businesses, listed in Schedule C.

"Trademark Assignment Agreement" has the meaning set forth in §7(a) below.

"Transfer of Rights in Internet Domain Name Registrations" has the meaning set forth in 7(a) below.

"Transferred Employees" has the meaning set forth in §5(g) below.

"Transition Period" has the meaning set forth in §6(b) below.

"Valid Gift Certificates and Merchandise Credits" means all Gift Certificates and Merchandise Credits which have not expired by their terms or by law and with respect to which Sellers have complied with all applicable Laws with respect thereto including Laws concerning escheat.

2. Purchase and Sale of Assets; Assumption of Liabilities.

(a) Purchased Assets. On the terms and subject to the conditions set forth herein, on the Closing Date, Sellers shall sell, transfer, assign, convey and deliver to Buyer, and Buyer shall purchase from Sellers, free and clear of all Liens (other than the Permitted Liens), those certain assets, properties and businesses of Sellers' of every kind, character and description, whether tangible, intangible, personal or mixed, and wherever located, including, but without limitation, the following:

- (i) The Real Property.

- (ii) All furniture, equipment and other similar items of tangible personal property wherever located.
- (iii) All Inventory.
- (iv) All orders previously placed and unfilled by Sellers as of the Closing.
- (v) All product development materials, including concept information, artwork and prototypes.
- (vi) All Assumed Contracts.
- (vii) All factory and vendor contracts and transaction records for the past three years.
- (viii) All designs, plans, tools and models for managing inventory.
- (ix) All intellectual property, including, without limitation, all, trade names, Trademarks, and service marks (registered and unregistered), Domain Names and other internet addresses or identifiers, trade dress and similar rights, and applications to register any of the foregoing (collectively "Marks"), all patents and patent applications (collectively, "Patents"), all copyrights and registrations and applications therefore (collectively "Copyrights"), all know-how, inventions, methods, processes, technical data and other proprietary or confidential information (collectively "Trade Secrets"), any moral rights, publicity rights and any other proprietary or industrial property rights not protected as Marks, Patents, Copyrights or Trade Secrets, and all licenses to software embedded in equipment included in the Purchased Assets, all software licenses and all other licenses or agreements relating to intellectual property, unless consent is required to assign any such licenses or agreements) owned or used by Sellers and all Sellers' rights to intellectual property (collectively the "Intellectual Property").
- (x) Subject to §§2(b)(vii), 2(b)(ix), 2(d) and 10(b) hereof, all deposits (other than the Deposit) and prepaid expenses of the business of the Acquired Stores, including, without limitation, prepaid employment related expenses.
- (xi) All notes and trade and other accounts receivables.
- (xii) All marketing information and collateral materials used in the past five (5) years.
- (xiii) Subject to §6(b) hereof, all books and records (including all data and other information stored on discs, tapes or other media) of Sellers' businesses (the "Books and Records").
- (xiv) All phone numbers and listings for the Acquired Stores.



(xv) To the extent transferable, all licenses, permits or other grants granted by governmental authorities used in or required or necessary for the lawful ownership or operation of the Acquired Stores.

(xvi) All claims, rights or causes of action for the enforcement of rights incident to the Purchased Assets, including, but not limited to causes of action based on accounts receivable, violations of Intellectual Property rights, and defects in Inventory items transferred to Buyer.

(xvii) If any, copies of all of Sellers' financial records for the last five (5) years including, without limitation, (i) balance sheets, income statements and statements of cash flow and (ii) inventory records including FOB costs for all SKUs for the last five (5) years.

(xviii) If any, lists showing each customer with whom Sellers have done business at any time during the last two (2) years and (ii) spread sheets showing the sales history, payment history and customer service history for each customer for the last (2) years.

(xix) All of Sellers' mailing lists and internet lists showing, in the case of mailing lists, the name and address of each Person for whom Sellers have such information, and in the case of internet lists, the email address of each Person for whom Sellers have such information, and in both cases, a history of orders placed by each such Person.

(xx) Any and all prepaid premiums or cash surrender value for life insurance policies for any employee of the Sellers.

(xxi) Such additional records relating to Sellers' business as Buyer shall reasonably request.

(xxii) All other assets owned by Sellers which are located at or related to the Acquired Stores.

The aforesaid assets and properties to be sold and transferred to Buyer hereunder are hereinafter collectively referred to as the "Purchased Assets."

(b) Excluded Assets: Notwithstanding §2(a) above, Buyer and Sellers agree that the following items shall be excluded from the Purchased Assets and shall be retained by Sellers and are not being sold or transferred to Buyer hereunder (herein referred to as the "Excluded Assets"):

(i) All Cash of Sellers.

(ii) Subject to §2(a)(xvi), all of Sellers' rights, claims, rights of offset or causes of action against Buyer and/or any third Person, government or governmental agency, including, without limitation, those arising under and relating to Chapter 5 of the Bankruptcy Code.

(iii) All of Sellers' rights, claims or causes of action in or under the Bankruptcy Code, provided, that this provision shall not exclude from the Purchased Assets any claims, rights or causes of action for the enforcement of rights incident to the Purchased Assets, including, but not limited to causes of action based on accounts receivable, violations of Intellectual Property rights, and defects in inventory items transferred to Buyer.

(iv) All corporate minute books and stock transfer books and the corporate seal of any of Sellers.

(v) All shares of capital stock of each of Sellers and all equity securities owned or held by any of Sellers.

(vi) All contracts other than the Assumed Contracts.

(vii) All insurance policies and any refund amounts pertaining thereto including, without limitation, premiums and premium financing arrangements relating thereto.

(viii) All Employee Plans and Benefit Arrangements and any trusts, insurance contracts or administrative service agreements pertaining thereto.

(ix) All Tax refunds as set forth in §10(b) hereof.

(c) Exclusion of Additional Assets. Notwithstanding the provisions of §§2(a) and 2(b) hereof, Buyer may provide written notice to Sellers by no later than one business day prior to the Auction if Buyer desires to exclude one or more Leases for Leased Real Property from the list of Assumed Contracts (and the corresponding store location from the list of Acquired Stores) and any unexpired lease for personal property located within such Leased Real Property from the list of Assumed Contracts (the "Additional Excluded Contracts") and to exclude the liabilities associated with such Additional Excluded Contracts from the category of Assumed Liabilities, in which case Sellers may cause the rejection of such Additional Excluded Contracts in the Bankruptcy Case. Buyer shall be entitled, in its sole discretion, to so exclude up to two (2) Leases for Leased Real Property from the list of Assumed Contracts (and the corresponding store locations(s) from the list of Acquired Stores), together with any unexpired lease(s) of personal property located within such Leased Real Property. By mutual written consent of Buyer and Seller, Buyer shall be entitled to exclude up to one (1) additional Lease of Leased Real Property from the list of Assumed Contracts (and the corresponding store location from the list of Acquired Stores), together with any unexpired lease(s) of personal property located within such Leased Real Property (for a total of 3 such Leases). If Buyer excludes one or more Leases for Leased Real Property from the list of Assumed Contracts (and from the list of Acquired Stores)(the "Excluded Leases"), then Buyer shall pay to Sellers (or their duly appointed representative) as additional Purchase Price, an amount equal to the actual percentage distribution that the Debtors' bankruptcy estates would make to the holders of allowed claims asserted by the lessors of the Excluded Leases for rejection damages attributable to the rejection of the Excluded Leases. Buyer shall not be responsible for payment of any claims relating to related leases for personal property or other claims arising out of or related to the rejection of the

Excluded Leases. Buyer may direct Sellers (or their duly appointed representative) to object to any claim arising from the rejection of the Excluded Leases, and to participate in the contested proceedings related to such claims. In addition, Buyer may choose not to assume any of the contracts listed on Schedule B hereto which relate to Sellers' corporate office; provided, however, that Buyer will not pay to Sellers or their bankruptcy estates any money on account of any claims arising from the rejection of any such contract. From and after the date of execution of this Agreement and up through the date that is one date prior to the Auction, Sellers and Buyer will jointly communicate with landlords of those Acquired Stores designated by Buyer.

(d) Assumed Contracts and Liabilities. On and as of the Closing Date, from the proceeds of the Purchase Price, Sellers shall cure (including, without limitation, by payment of any applicable cure amounts) all defaults in respect of the Assumed Contracts to the extent required by the Bankruptcy Code and pursuant to any order of the Bankruptcy Court to effectuate the assignment of the Assumed Contracts to Buyer as contemplated by this Agreement. At and as of the Closing, Buyer shall assume and thereafter in due course pay, fully satisfy, discharge and perform all of the Assumed Liabilities.

(e) Sellers' Retained Liabilities. Buyer shall not assume or agree to pay, satisfy, discharge or perform, or take or agree to take any of the Purchased Assets subject to, and shall not be deemed by virtue of the execution and delivery of this Agreement or any document delivered to Buyer at the Closing pursuant hereto, or as a result of the consummation of the transactions contemplated hereby, to have assumed, or to have agreed to assume, pay, satisfy, discharge or perform, or take, or to have agreed to take, any of the Sellers' Retained Liabilities.

(f) Purchase Price. The aggregate purchase price for the Purchased Assets shall be Eleven Million Dollars (\$11,000,000) plus the Assumed Liabilities (collectively, the "Purchase Price").

(g) Closing Adjustments to the Purchase Price. As of the Closing, Buyer and Sellers shall undertake adjustments for the purchase by Buyer of the Inventory. For purposes of such adjustment, Buyer and Sellers agree that the book value of Seller's inventory shall be \$5,427,000 as determined in accordance with generally accepted accounting principles and net of reserves (the "Base Inventory Value"). On the Closing Date, Sellers shall provide Buyer with Sellers' financial information regarding Inventory, including but not limited to information regarding retail sales, retail merchandise receipts and retail markdowns for the period from the date of the Sellers' physical inventory conducted on or about June 15, 2004 through the Closing Date from which Buyer shall verify the book value of Sellers' inventory on the Closing Date as determined in accordance with generally accepted accounting principles and net of reserves (the "Closing Date Inventory Value"). The Purchase Price shall be increased or decreased, as the case may be, on a dollar for dollar basis to the extent that the Closing Date Inventory Value is greater than or lesser than the Base Inventory Value.

(i) The determination by Buyer of the Closing Date Inventory Value shall be binding upon Seller unless Seller delivers a written objection to Buyer's calculation (the "Closing Date Inventory Value Objection Notice") within five (5) business days after receipt of the determination of the Closing Date Inventory Value from Buyer.

(ii) If the Buyer and Seller cannot mutually agree on the same within fifteen (15) days following receipt by Buyer of the Closing Date Inventory Value Objection Notice from Buyer, a neutral auditor shall be selected by the parties or appointed by the Bankruptcy Court upon request of Buyer or Seller. The neutral auditor shall review the determination of the Closing Date Inventory Value and, within ten (10) business days of its appointment, shall make any adjustments necessary thereto. Nothing herein shall authorize or permit the neutral auditor to determine any questions or matters whatsoever under or in connection with this Agreement, except for the resolution of the dispute between the Seller and Buyer regarding the Closing Date Inventory Value. Upon completion of such review, the Closing Date Inventory Value as determined by the neutral auditor shall be binding upon the parties. If such a review is conducted, then all fees and expenses associated with such review will be borne and paid equally by Buyer and Seller.

(iii) Within five (5) business days following the determination of the Closing Date Inventory Value (by agreement of the parties or by neutral auditor), (i) in the event the Closing Date Inventory Value is less than the Base Inventory Value, such shortfall shall be paid immediately to the Buyer by the Sellers or (ii) in the event the Closing Date Inventory Value is greater than the Base Inventory Value, such shortfall shall be paid immediately to the Sellers by the Buyer.

(h) Deposit. Upon delivery of this Agreement, signed by Buyer to Sellers, an earnest money deposit (the "Deposit"), in the amount of five percent (5%) of the Purchase Price shall be paid by Buyer into escrow by wire transfer in immediately available funds, to be held by Sellers' counsel, Gadsby Hannah LLP, in an interest bearing account at a financial institution reasonably acceptable to Buyer. The Deposit, together with all interest thereon, shall be applied to the Purchase Price payable by Buyer on the Closing Date. Subject to §5(f) hereof, if: (i) this Agreement shall be terminated by any Party hereto pursuant to §9(a) hereof, or (ii) the Closing has not occurred on or before August 16, 2004 for any reason other than default of the Buyer, then the Deposit, together with all interest thereon, shall be immediately refunded in full to the Buyer and in any event within seven (7) days after the occurrence of any or all of the above events, among other remedies of Buyer expressly set forth herein. If Buyer defaults under any of the material terms of this Agreement, then Sellers shall retain the Deposit as liquidated damages hereunder as a result of such default.

(i) Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Gadsby Hannah LLP, in Boston, Massachusetts commencing at 9:00 a.m. local time on or before the eleventh (11<sup>th</sup>) day following entry of the Sale Order, or at such other time and place as the parties agree to in writing (the "Closing Date"), pursuant to an exchange of documents by commercial courier service (e.g., Federal Express) or telephone facsimile transmission.

(j) Deliveries at Closing. At the Closing, (i) Sellers shall deliver to Buyer the various instruments and documents referred to in §7(a) below, (ii) Buyer shall deliver to Sellers the various instruments, and documents referred to in §7(b) below, and (iii) Buyer shall deliver the Purchase Price specified in §2(f) above into an account of Sellers, by wire transfer in immediately available funds.

(k) Allocation of Purchase Price. The parties hereby agree to allocate the Purchase Price of the Purchased Assets. Such allocation shall be mutually agreed upon by the parties and set forth prior to Closing on Exhibit F, to be attached hereto and made a part hereof. Each of the parties agrees to report this transaction for federal tax purposes in accordance with this allocation of the Purchase Price and agree to file IRS Form 8594, to the extent necessary or desirable, consistent with the foregoing allocation.

(l) Excise and Property Taxes. As between Sellers and Buyer, Sellers shall pay all sales, use and transfer taxes arising out of the transfer of the Purchased Assets. Buyer shall not be responsible for any business, occupation, withholding, or similar tax, any state and local real and personal property taxes of any or all of the Sellers, or any taxes of any kind related to any period before the Closing Date.

(m) Nominees. Buyer may assign this Agreement, in whole or in part, to an Affiliate which Affiliate shall become a party to this Agreement and shall assume all of the Buyer's rights and obligations hereunder. The Buyer, and any such Affiliate, shall have the right to designate nominees to hold title to all or any portion of the Purchased Assets provided that such nominees are themselves Affiliates of the Buyer and that such nominee shall become a party to this Agreement and shall assume all of the Buyer's rights and obligations hereunder.

(n) Adjustments. Water and sewer use charges, real estate taxes, municipal betterment assessments, utility and lease deposits and advances as of the Closing Date and other items normally adjusted for in substantial commercial real estate transactions in the vicinity of the Real Property, for the then current fiscal year, shall be apportioned and fuel value shall be adjusted as of the Closing Date and the net amount thereof shall be added to or deducted from, as the case may be, the Purchase Price at the Closing. If the amount of said taxes or other adjustable items is not known as at the Closing Date, they shall be apportioned on the basis of the taxes assessed or other adjustable items for the preceding year, with a reapportionment as soon as the new tax rate and valuation or other adjustment items can be ascertained.

### 3. Buyer's Representations and Warranties.

Buyer represents and warrants to Sellers that the statements contained in this §3 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made on and as of the Closing Date).

(a) Organization of Buyer. Buyer is a corporation (or other entity) duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation (or other formation).

(b) Authorization of Transaction. Buyer has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms and conditions. Buyer need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order to consummate the transactions contemplated by

this Agreement. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Buyer.

(c) Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of its charter, bylaws, or other governing documents or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets is subject.

(d) Brokers' Fees. Buyer has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

(e) Financing. Buyer has sufficient cash, available lines of credit or other sources of immediately available funds to enable it to purchase the Purchased Assets and pay any other amounts to be paid by it hereunder.

(f) Assumed Contracts. Buyer is and will be capable of satisfying the conditions contained in Section 365(f)(2)(B) of the Bankruptcy Code with respect to the Assumed Contracts.

#### 4. Sellers' Representations and Warranties.

Each Seller represents and warrants to Buyer that the statements contained in this §4 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made on and as of the Closing Date).

(a) Organization, Qualification, and Corporate Power. Each Seller is a corporation or limited liability company duly organized and validly existing under the laws of the jurisdiction of its incorporation or organization. Each Seller is duly authorized to conduct business under the laws of each jurisdiction where such qualification is required, except where the failure to be so qualified would not have a Material Adverse Change. Each Seller has full corporate power and authority to carry on the businesses of the applicable Acquired Store and to own and use the applicable Purchased Assets owned and used by it.

(b) Authorization of Transaction. Subject to obtaining the approval of the Bankruptcy Court, each Seller has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. Subject to obtaining the approval of the Bankruptcy Court, this Agreement constitutes the valid and legally binding obligation of each Seller, enforceable in accordance with its terms and conditions. Subject to the entry of the Sale Order, the execution, delivery and performance of this Agreement and all other agreements, documents, instruments and certificates contemplated hereby have been duly authorized by each Seller and when delivered will be the

valid and legally binding obligation of such Seller, enforceable in accordance with its terms and conditions.

(c) Brokers' Fees. None of Sellers has any liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement, except Brown Gibbons Lang Securities, Inc., and Buyer shall not have any obligation or liability with respect to such fees, commissions or expenses.

(d) Title to Tangible Assets. As of the Closing Date, Sellers will have good and marketable title to, or a valid leasehold interest in, all of the Purchased Assets, which include all material tangible assets used regularly in or are necessary for the conduct of Sellers' businesses, free and clear of all Liens other than the Permitted Liens. At the Closing, each Seller will convey to Buyer valid title to, or valid leasehold interests in, as the case may be, the Purchased Assets held by it, free and clear of all Liens, other than the Permitted Liens.

(e) Financial Statements. Sellers have provided Buyer access to unaudited statements of income for each Seller for the fiscal year ended December 31, 2003, and for the period ended April 30, 2004, copies of which are attached as Schedule E of the Disclosure Schedule (collectively, the "Financial Statements"). The Financial Statements contain confidential information maintained in the Ordinary Course of Business. The Financial Statements were prepared without an audit. The Financial Statements have been prepared from, and are in accordance with, Sellers' books and records and have been prepared in accordance with generally accepted accounting principles applied on consistent basis during the periods involved (except do not contain footnotes and are subject to year end adjustments, none of which will be materially adverse) and, to the best of Sellers' knowledge, fairly present in all material respects the financial position of the Sellers at the dates and for the periods covered thereby. To the best of Sellers' knowledge and except for the Bankruptcy Case, since December 31, 2003, the Acquired Stores have been operated in the Ordinary Course of Business in all material respects and there has been no Material Adverse Changes.

(f) Disclosure Schedule. The Disclosure Schedule is true and correct in all material respects as of the date of this Agreement.

(g) Labor Matters. To the best of Sellers' knowledge, there are no written complaints against any Seller pending before any labor agency or other similar governmental authority by or on behalf of any employee of any Seller. No Seller is a party to, or a participant in any negotiation of, any collective bargaining agreement or other labor agreement with respect to any employees at the Acquired Stores with any labor organization, union, group or association. Within the preceding twelve (12) months, there have been no representation questions, arbitration proceedings, labor strikes, material slow downs, stoppages, material grievances or other material labor disputes pending or, to the knowledge of Sellers, threatened with respect to the employees of the Seller, and, during such period, no Seller has experienced any attempt by organized labor to cause such Seller to organize its employees or to cause any Seller to enter into a binding agreement with organized labor that would cover any or all of its employees.

(h) Environmental Matters. Each Seller is, and has been for the past three (3) years in material compliance with all laws and regulations relating to human health, safety, pollution or

the environment (including, without limitation, the handling of Hazardous Substances or the presence of Hazardous Substances on, under or from the Leased Real Property) ("Environmental Laws"), and (ii) each Seller is in material compliance with all of its licenses issued under Environmental Laws, if any. No Seller has received any written request for information, or been notified that it is a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), or any similar state, local or foreign law with respect to the handling of Hazardous Substances or to any Real Property or any other location used in connection with the business of such Seller. No Seller has received any written notice of any violation or alleged violation of any Environmental Law with respect to the Acquired Stores. There are no writs, injunctions, decrees, orders or judgments outstanding, or any actions pending or, to the knowledge of Sellers, threatened, relating to any Environmental Laws affecting the Purchased Assets. None of the Real Property or property being leased by Sellers is listed or, to the knowledge of Sellers, proposed for listing on the "National Priorities List" under CERCLA, or on the Comprehensive Environmental Response, Compensation and Liability Information System maintained by the United States Environmental Protection Agency, as updated through the Closing Date, or any similar state or foreign list of sites requiring investigation or cleanup. To the knowledge of Sellers, there is no Hazardous Substance that may pose any material risk to safety, health or the environment at, on, under, or migrating from any Real Property, and, to the knowledge of Sellers, there has heretofore been no spillage, discharge, release or disposal of any such Hazardous Substance at, on, or under such property in any amount and of a nature which would reasonably be expected to result in material liability to any Seller and there is no investigatory, remedial or monitoring obligations of any Seller under applicable Environmental Laws. As used herein the term "Hazardous Substances" shall mean any toxic, hazardous, or other regulated wastes, substances, products, pollutants, or materials, including, without limitation, radioactive materials, asbestos, polychlorinated biphenyls, petroleum and petroleum products. Notwithstanding the foregoing, the representations contained in this Paragraph 4(h) shall not apply to the Real Property.

(i) Employees. Sellers have provided Buyer with a schedule that lists each Business Employee, together with the rate of pay, benefits, accrued vacation and sick time for each, and indicates whether such Business Employee is party to an employment agreement or similar contract (whether oral or written) and subject to a non competition, non solicitation or similar arrangement.

(j) Status of Certain Employee Plans. None of Seller or any ERISA Affiliate has at anytime maintained or contributed to or has any liability or contingent liability for a defined benefit plan within the meaning of Section 3(35) of ERISA or a multiemployer plan within the meaning of Section 3(37) of ERISA, which has been subject to Title IV of ERISA.

(k) Secured Claims. Sellers warrant and represent that the Purchase Price is sufficient to pay, in full all alleged secured claims against the Purchased Assets and all Administrative Claims against Sellers, including without limitation the Break-Up Fee.

(l) Existing Causes of Actions. Sellers represent that they have no existing claims, rights of offset, or causes of action against Buyer, including, without limitation, those arising under and relating to Chapter 5 of the Bankruptcy Code.



(m) COBRA Matters. Schedule F of the Disclosure Schedule lists each former employee or other individual who either (i) has elected or is entitled to health continuation coverage pursuant to section 4980B of the Internal Revenue Code or part 6 of Subtitle B of Title I of ERISA ("COBRA") or state law, or (ii) is entitled as of the Closing to elect health continuation coverage in accordance with COBRA or state law.

(n) Disclaimer of Other Representations and Warranties. Except as expressly set forth in this §4, Sellers make no representation or warranty, statutory, express or implied, at law or in equity, in respect of Sellers or any of their respective assets, liabilities or operations, including with respect to merchantability or fitness for any particular purpose or any other warranty of quality, and any such other representations or warranties are hereby expressly disclaimed, and there are no other warranties, statutory, express, or implied that extend beyond the warranties contained in this Agreement. Buyer hereby acknowledges and agrees that, except to the extent specifically set forth in this §4, Buyer is purchasing the Purchased Assets on an "as-is, where-is" basis and "with all faults."

5. Pre-Closing Covenants.

The Parties agree as follows with respect to the period between the execution of this Agreement and the Closing.

(a) General. Each of the Parties will use its reasonable best efforts to take all action and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the Closing conditions set forth in §7 below). In connection with the foregoing Sellers agree to cooperate in good faith with Buyer to accomplish an orderly transition of the business of the Acquired Stores to Buyer at Closing and enable such business to be operational for Buyer immediately following the Closing, including without limitation, providing such information reasonably necessary to enable Buyer to obtain health insurance for the Business Employees.

(b) Notices and Consent. Sellers shall give any required notices to third Persons, and shall use their commercially reasonable efforts to obtain any required third party consents.

(c) Operation of Business and Preservation of Relationships. Except as may be approved by the Bankruptcy Court after notice to the Buyer, until the Closing Date, Sellers will (i) not engage in any practice, take any action, or enter into any transaction outside the Ordinary Course of Business, (ii) maintain the Inventory in the Ordinary Course of Business, (iii) advertise their business in the Ordinary Course of Business, including payment relating to the printing and mailing of back-to-school mailers and (iv) use best efforts to preserve their relationships with their customers, suppliers, employees and other Persons having business relations with them and shall not make or institute any unusual or novel methods of manufacture, purchase, sale, lease, management, accounting, or operation that will vary materially from those methods used by Sellers as of the date of this Agreement. In so doing, Sellers will make no commitments on Buyer's behalf.

(d) Access. Up to and including the Closing Date, Sellers will permit representatives of Buyer (including legal counsel and accountants) to have reasonable access during normal

business hours to (i) all properties, books, records (including Tax records), contracts, corporate minute books, including articles and bylaws, stock transfer books and documents of or pertaining to any of Sellers' businesses, (ii) all of Seller's material vendors, landlords and lenders and (iii) all of the Business Employees. Buyer shall (at its expense) be permitted to make abstracts from, or copies of, all such documents. In addition, prior to the Closing Date, Seller will permit authorized representatives and professionals of Buyer reasonable access during normal operating hours to all management personnel of Sellers. Buyer and its representatives shall coordinate all requests for access and information with Sellers' investment banker, Jay Greyson of Brown, Gibbons, Lang Securities, Inc. In accordance with the Confidentiality Agreement between Buyer and Sellers dated May 19, 2004, Buyer shall treat and hold as such any Confidential Information it receives from Sellers in the course of the reviews contemplated by this §5(d), including, without limitation, any Confidential Information it received prior to the date hereof, shall not use any of the Confidential Information except in connection with this Agreement, and, if this Agreement is terminated for any reason whatsoever, shall return to Sellers all tangible embodiments (and all copies) of the Confidential Information which are in its possession. Sellers shall promptly deliver to Buyer copies of all pleadings, motions, notices, statements, schedules, applications, reports and other papers filed by Sellers in the Bankruptcy Case as Buyer shall reasonably request.

(e) Bankruptcy Court Approval and Related Matters. The Parties acknowledge and agree as follows:

(i) Sellers shall (in each case, in accordance with all applicable requirements of, and procedures under, the Bankruptcy Code and subject in all cases to the approval of the Bankruptcy Court) use their best efforts to (a) assign to Buyer at the Closing, each of the Assumed Contracts to which such Seller is a party, (b) file with the Bankruptcy Court within five (5) days following the execution of this Agreement, motions seeking approval of the Sale Procedures Order (as defined below), and thereafter take all actions as may be reasonably necessary to cause such order and the Sale Order (as defined below) to be issued, entered and become a Final Order, and (c) timely serve copies of the notices setting forth the hearing date on the Sale Procedures Order and the Sale Order upon any and all parties in interest entitled or required to receive notice under all applicable laws, rules and regulations and orders of the Bankruptcy Court prior to the hearing on such motions (all such motions and actions relating to the Sale Procedures Order and the Sale Order will be in form and substance reasonably satisfactory to Buyer).

(ii) The procedures governing the sale of the Purchased Assets (the "Sales Procedures") will be substantially in the form attached hereto as Exhibit G. Sellers shall use their best efforts so that the Bankruptcy Court as part of its Sales Procedures Order includes the Sales Procedures delineated in Exhibit G and, among other things, (a) names Buyer as the "stalking horse" with respect to the Purchased Assets, (b) requires the payment of the Break-Up Fee in accordance with the terms of this Agreement, (c) requires an initial overbid of Eleven Million Six Hundred Fifty Thousand Dollars (\$11,650,000.00), (d) requires a deposit from Qualified Bidders other than Buyer in an amount of five percent (5%) of the proposed Purchase Price (such deposit to be held in accordance with §2(h) hereof), (e) requires written evidence satisfactory to the Sellers demonstrating that each bidder has the financial ability to consummate the purchase of all

or a significant portion of the businesses and assets of Sellers, (f) requires an executed copy of a definitive sale document having, with the exception of the Purchase Price, terms and conditions no less favorable than those contained in this Agreement, including without limitation, assumption of the Assumed Liabilities, and contains no other material terms, (g) requires subsequent bidding increments of \$50,000, and (h) requires that any Qualified Bid (as defined in Exhibit G), other than Buyer's bid pursuant to this Agreement, be delivered to the Sellers on or before the deadline established by the Bankruptcy Court (the "Sales Procedures Order").

(iii) Sellers shall use their best efforts so that the Bankruptcy Court approves the Sale Order which shall be substantially in the form (with such reasonable changes as may be requested by Buyer) attached hereto as Exhibit H and shall contain provisions, among other things, (a) approving the sale of the Purchased Assets to Buyer on the terms and conditions set forth in this Agreement, (b) stating that any objections timely filed with respect to the sale of the Purchased Assets, which have not been withdrawn, are overruled or the interests of such objections have been otherwise satisfied or adequately provided for by the Bankruptcy Court, (c) finding that Buyer is a good faith purchaser of the Purchased Assets under Section 363(m) of the Bankruptcy Code and that the provisions of Section 363(n) of the Bankruptcy Code are not applicable to Buyer's purchase of the Purchased Assets, (d) providing that the sale of the Purchased Assets to Buyer shall be free and clear of any and all Liens, other than the Permitted Liens, under Section 363 of the Bankruptcy Code and any other applicable sections of the Bankruptcy Code, (e) providing that the Bankruptcy Court shall retain jurisdiction for the purpose of enforcing the provisions of the Sale Order including, without limitation, compelling delivery of the Purchased Assets to Buyer and protecting Buyer against any liens, claims, interests, obligations and encumbrances against Sellers or the Purchased Assets, (f) approving the assignment and assumption of the Assumed Contracts and declaring that all Assumed Contracts are valid and binding and in full force and effect, (g) approving the assignment of the Trademarks, (h) approving the assignment of the Domain Names and all other Intellectual Property, (i) providing that the parties hereto shall be authorized to close this transaction immediately upon execution of the Sale Order pursuant to Rules 6004(g) and 6006(d) of the Federal Rules of Bankruptcy Procedure, (j) authorizing and directing Sellers to execute, deliver, perform under, consummate and implement this Agreement, together with all additional instruments and documents that may be reasonably necessary or desirable to implement the foregoing, and (k) determining that Buyer is not a successor to Sellers or otherwise liable for any of the Sellers' Retained Liabilities or Excluded Assets and permanently enjoining all persons and entities from commencing, continuing or otherwise pursuing or enforcing any remedy, claim, cause of action or encumbrance against Buyer or the Purchased Assets related thereto (the "Sale Order").

(iv) Buyer agrees to cooperate with Sellers in connection with furnishing information pertaining to the satisfaction of the requirement of adequate assurances of future performance of the Assumed Contracts as required under Section 365 of the Bankruptcy Code.

(v) Subject to §2(c), notwithstanding anything herein to the contrary, Sellers shall have the right, in their sole discretion (without any obligation to notify or otherwise consult with Buyer) to reject any or all Excluded Assets, including any or all contracts other than the Assumed Contracts, and to take all actions necessary to effectuate any such rejection or rejections, including prosecuting a motion in the Bankruptcy Court seeking authorization, as necessary, to reject such Excluded Assets. Notwithstanding the foregoing, Sellers shall seek rejection of any option contract, right of first refusal or similar agreement related to the Real Property.

(vi) In the event an appeal is taken, or a stay pending appeal is requested or reconsideration is sought, from either the Sale Procedures Order or the Sale Order, the Sellers will immediately notify the Buyer of such appeal or stay request and will provide to the Buyer within two (2) business days a copy of the related notice of appeal or order of stay or application for reconsideration. The Sellers will also provide the Buyer with written notice and copies of any other or further notice of appeal, motion or application filed in connection with any appeal from or application for reconsideration of, any of such orders and any related briefs.

(vii) The Sellers will notify, as is required by the Bankruptcy Code and as reasonably requested by the Buyer, all parties entitled to notice of all motions, notices and orders required to consummate the transactions contemplated by this Agreement, including, without limitation, the Sale Procedures Order and/or the Sale Order, as modified by orders in respect of notice which may be issued at any time and from time to time by the Bankruptcy Court.

(f) Competing Bids. Buyer acknowledges that the sale of the Purchased Assets as contemplated by this Agreement is subject to Bankruptcy Court approval and to higher and better counteroffers and that the Purchased Assets will be sold to the highest and best bidder at an auction to be conducted by Sellers in or around July 2004 (the "Auction"). In the event that the highest and best offer, as determined by Sellers in their sole discretion, is submitted at the Auction by a purchaser other than Buyer, Sellers shall be entitled to close a sale pursuant to such other offer. Upon entry of the Sale Order authorizing a sale of the Purchased Assets to a purchaser other than the Buyer, Sellers shall return the Deposit with accrued interest. Upon closing of a sale pursuant such other offer, Sellers shall pay the Break-Up Fee to Buyer as required hereunder.

(g) No Approval. If the Bankruptcy Court does not approve the sale of the Purchased Assets on the terms of this Agreement on or before August 16, 2004, then all of the Buyer's obligations under this Agreement shall immediately cease and terminate, and the Deposit shall be immediately returned to Buyer.

(h) Employees and Employee Benefits Matters.

(i) Effective as of the Closing Date, Buyer shall have offered employment to all Business Employees (including employees who are on an approved leave of absence, short-term disability leave or military leave, but not including any individual on long-term disability leave) at the same level of pay as such Business Employees received from

the Sellers. The Business Employees who accept such offer of employment are referred to herein as "Transferred Employees." Effective as of the Closing Date the Transferred Employees will cease to participate in, or accrue any benefits under, the Employee Plans and Benefit Arrangements. Buyer shall be solely responsible for any obligations arising under COBRA with respect to all "M&A qualified beneficiaries" as defined in Treasury Regulation § 54.4980B-9.

(ii) Effective as of the Closing Date, Buyer shall make available to the Transferred Employees the employee benefit plans maintained by Buyer generally for its employees (the "Buyer Plans"). Buyer will, but only to the extent practicable, (A) waive all deductibles, waiting periods and limitations with respect to pre-existing conditions that would otherwise be applicable to Transferred Employees under the Buyer Plans as of the Closing Date, and (B) grant full credit for eligibility and for vesting under the Buyer Plans to the Transferred Employees for service with Sellers.

(i) Inventory. Sellers shall cause Washington Inventory Services to take a physical count of Sellers' inventory and deliver to Sellers a detailed report showing each and every item of Sellers' inventory and the value thereof based on the lower of cost or book value. Sellers shall promptly, but no later than three (3) business days of their receipt of such report, deliver a full and complete copy thereof to Buyer.

#### 6. Post-Closing Covenants.

(a) General. In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, each of the Parties will take such further action (including the execution and delivery of such further instruments and documents) as any other Party may reasonably request, all at the sole cost and expense of the requesting Party. Sellers shall use best efforts to put Buyer into full possession and enjoyment of all Purchased Assets to be conveyed and transferred by this Agreement.

(b) Access to Books and Records. For a period of two (2) years after the Closing Date (the "Transition Period"), Sellers and their representatives shall have reasonable access to, and shall have the right to photocopy at their own expense, all of the Books and Records, including any computerized databases and files and programs and associated software relating to the pre-Closing operations of Sellers and/or the Purchased Assets and Assumed Liabilities as they existed as of the Closing Date, including but not limited to (i) the investigation, evaluation and prosecution of any and all claims retained by Sellers, and (ii) the evaluation, allowance, distribution and defense of any and all claims brought against Sellers or their estates and (iii) employees' records or other personnel and medical records, as of the Closing Date, required by law, legal process or subpoena. During the Transition Period, Buyer agrees to provide Sellers and any of their representatives, upon reasonable request and notice and at reasonable times, with reasonable access to employees of Buyer (who may be former employees of Sellers) so long as such access does not interfere with such employees' conduct of their jobs for Buyer. Access pursuant to this section shall be afforded by Buyer upon receipt of reasonable advance notice, during normal business hours. Sellers and their representatives agree to treat confidentially any information obtained pursuant to this section, including the Books and Records. If Buyer shall desire to dispose of any such Books and Records upon or prior to two (2) years after the Closing

Date, Buyer shall, prior to such disposition, give Sellers a reasonable opportunity at Sellers' expense, to segregate and remove such Books and Records as Sellers may select. Notwithstanding the foregoing, Sellers and their representatives shall coordinate all such requests for access and information with Buyer's principal transition officer (or other officer designated by Buyer) and any access shall be in a manner so as not to interfere with the normal business operations of Buyer.

7. Conditions to Obligation to Close.

(a) Conditions to Buyer's Obligation. Buyer's obligation to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions, unless otherwise waived by the Buyer in writing before the Closing, provided, however, that no such waiver of condition shall constitute a waiver by Buyer of any of its rights or remedies, at law or in equity, if Sellers shall be in breach or default of any of their representations, warranties, or covenants under this Agreement:

(i) the representations and warranties set forth in §4 above shall be true and correct in all material respects at and as of the Closing Date as though made at that time, except to the extent that such representations and warranties are qualified by terms such as "material" and "Material Adverse Change," in which case such representations and warranties shall be true and correct in all respects at and as of the Closing Date;

(ii) Sellers shall have performed and complied with all of their covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as "material" and "Material Adverse Change," in which case Sellers shall have performed and complied with all of such covenants in all respects through the Closing Date;

(iii) During the period from June 9, 2004 until the Closing Date, there shall not have been any Material Adverse Change in the financial conditions or the results of operations of the Sellers; provided, however, that if the Auction has occurred by July 30, 2004, then clause (ii) in the last sentence of the definition of Material Adverse Change shall not apply.

(iv) As of the Closing Date, the book value of the Inventory shall be not less than Five Million Four Hundred Twenty-Seven Thousand Dollars (\$5,427,000).

(v) Buyer shall have received a certificate, dated the closing date, signed and verified by Seller's Chief Financial Officer certifying, in such detail as Buyer and its counsel may reasonably request, that the condition specified in Sections 7(a)(i), 7(a)(ii), and 7(a)(iii) of this Agreement have been fulfilled.

(vi) All appropriate Sellers (as determined by Buyer in its sole discretion) shall have entered into a general bill of sale and assignment, substantially in the form of Exhibit A hereto (each, a "Bill of Sale"), with respect to the Purchased Assets, each executed by the appropriate Seller or Sellers, which shall be in full force and effect;

(vii) ADAR shall have executed a deed of the Real Property conveying to Buyer good and marketable title to the Real Property, subject to the Mortgage, substantially in the form of Exhibit B hereto (the "Deed"), with respect to the Real Property;

(viii) the relevant Parties shall have entered into an assumption agreement, substantially in the form of Exhibit C hereto (the "Assumption Agreement"), pursuant to which Buyer shall be assigned and shall assume the Assumed Contracts and the Assumed Liabilities from Sellers, executed by Sellers, which shall be in full force and effect;

(ix) the relevant Parties shall have entered into a trademark assignment agreement, substantially in the form of Exhibit D hereto (the "Trademark Assignment Agreement"), pursuant to which Buyer shall be assigned and shall assume the Trademarks from the appropriate Seller or Sellers, executed by the appropriate Seller or Sellers, which shall be in full force and effect;

(x) the relevant Parties shall have entered into a domain name assignment agreement, substantially in the form of Exhibit E hereto (the "Transfer of Rights in Internet Domain Name Registrations"), pursuant to which Buyer shall be assigned and shall assume the Domain Names from the appropriate Seller or Sellers, executed by the appropriate Seller or Sellers (as determined by Buyer), which shall be in full force and effect;

(xi) the Bankruptcy Court shall have entered the Sale Procedures Order and the Sale Order, and such orders shall not have been rescinded, reversed, modified or stayed; and

(xii) Sellers shall have given notice of the sale proposed hereby to any and all holders of rights of first refusal and similar encumbrances on the Real Property.

(xiii) Either (a) Buyer shall have entered into an occupancy agreement with the landlord of the premises at which Sellers currently maintain their corporate headquarters, for a period not to exceed ninety days commencing on the Closing Date at reasonable rental rates or (b) Seller shall have agreed to seek an extension of the time within which to assume or reject the corporate office lease, in which case Buyer shall be responsible for all rent and other charges arising under such lease from the Closing Date through the date upon which the Bankruptcy Court approves the rejection of the corporate office lease.

(xiv) Deliver to Buyer a certificate of the secretary or other recording officer of the Sellers as to incumbency, appropriate resolutions of the directors, members or other appropriate body of the Seller's authorizing the transactions contemplated hereby and other related matters.

(xv) Deliver to Buyer a Certificate of the Seller's executed under the pains and penalties of perjury stating that each Seller is not a "foreign person", as defined in Section 1445(f) of the Internal Revenue Code and the regulations issued thereunder.

(b) Conditions to Sellers' Obligation. Sellers' obligation to consummate the transactions to be performed by them in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in §3 above shall be true and correct in all material respects at and as of the Closing Date except to the extent that any such representations and warranties are qualified by terms such as "material" and "Material Adverse Change," in which case such representations and warranties shall be true and correct in all respects at and as of the Closing Date;

(ii) Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by terms such as "material" and "Material Adverse Change," in which case Buyer shall have performed and complied with all of such covenants in all respects through the Closing;

(iii) there shall not be any injunction, judgment, order, decree, ruling, or charge in effect preventing consummation of any of the transactions contemplated by this Agreement;

(iv) the relevant Parties shall have entered into the Assumption Agreement, executed by Buyer, which shall be in full force and effect;

(v) the relevant Parties shall have entered into the Trademark Assignment Agreement, executed by Buyer, which shall be in full force and effect;

(vi) the relevant Parties shall have entered into the Transfer of Rights in Internet Domain Name Registrations, executed by Buyer, which shall be in full force and effect; and

(vii) the Bankruptcy Court shall have entered the Sale Order, and such order shall not have been rescinded, reversed, modified or stayed.

Sellers may waive any condition specified in this §7(b) if they execute a writing so stating at or prior to the Closing.

8. Survival of Representations and Warranties.

None of the representations and warranties of Sellers or Buyer contained in this Agreement or made in any other documents or instruments delivered pursuant to this Agreement shall survive the Closing hereunder, except that Sellers representation in Section 4(h) (Environmental) shall survive for the applicable statute of limitations related thereto.

9. Termination.

(a) Termination of Agreement. This Agreement may be terminated as follows:

(i) by Buyer by giving written notice to Seller:



(a) on or before June 25, 2004, if the results of Buyer's due diligence with respect to the Real Property is not satisfactory to the Buyer in its reasonable discretion.

(b) at any time after June 23, 2004, if the Sale Procedures Order does not designate Buyer as a stalking horse and include the Sales Procedures delineated in Exhibit G and in §5(e)(ii) hereof, or if the Sales Procedure Order has not been entered on or before such date;

(c) at any time after July 30, 2004 if the Auction has not occurred;

(d) at any time after August 5, 2004, if the Sale Order approving the sale of the Purchased Assets to Buyer and containing the provisions contained in Exhibit H and §5(e)(iii) hereof has not been entered on or before such date;

(e) at any time after August 16, 2004, if the Closing has not occurred for any reason other than Buyer's material breach of its obligations hereunder;

(f) if there shall have been a material breach of any of the representations or warranties set forth in §4 of this Agreement, which breach is not cured within fifteen (15) days following written notice to Sellers or which breach, individually or which breach, by its nature, cannot be cured prior to the Closing, and which breach, individually or together with other such breaches, would have a Material Adverse Effect on the Purchased Assets, the Acquired Stores or the Businesses; or

(g) if there shall have been a breach by Sellers of their covenants to be performed on or before the Closing Date.

(ii) by Sellers at any time after August 16, 2004 if the Closing has not occurred for any reason other than Sellers' material breach of its obligations hereunder; or

(iii) pursuant to §5(f) hereof.

(b) Effect of Termination. If this Agreement is terminated pursuant to §9(a) above, all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to any other Party (except for any liability of any Party then in breach); provided, however, notwithstanding anything herein to the contrary, any such liability shall not exceed the amount of the Break-Up Fee and the Deposit with accrued interest with respect to Sellers; provided, further, that the confidentiality provisions contained in §5(d) above shall survive termination and the Deposit, together with all interest thereon, shall be returned to Buyer.

10. Taxes.

(a) Taxes Related To Purchased Assets and Assumed Liabilities.

(i) All sales, use, gross-receipts, transfer, gains, excise, value-added or other similar Taxes in connection with the transfer of the Purchased Assets and the assumption of the Assumed Liabilities, and delivery of the Purchased Assets, and all recording and filing fees that may be imposed by reason of the sale, transfer, assignment of the Purchased Assets and that are not exempt under Section 1146(c) of the Bankruptcy Code shall be paid by Sellers on or prior to their due date.

(ii) Buyer shall be liable for and pay all Taxes applicable to the Purchased Assets and Assumed Liabilities that are attributable to taxable years or periods beginning on the Closing Date.

(b) Tax Refunds. Any Tax refunds (including any interest related thereto) received by Buyer, its Affiliates or successors relating to Taxes that Sellers have paid shall be for the account of Sellers, and Buyer shall pay over to Sellers any such amount within ten (10) business days of receipt thereof. Buyer shall include with its remittance to Sellers copies of any correspondence, documents, or other materials received or transmitted by Buyer with respect to the Tax refund.

(c) Cooperation on Tax Matters. Sellers and Buyer shall (and shall cause any respective Affiliates to) use reasonable efforts to cooperate with each other and make available or cause to be made available to each other for consultation, inspection and copying (at such other Party's expense) in a timely fashion such personnel, Tax data, relevant Tax Returns or portions thereof and filings, files, books, records, documents, financial, technical and operating data, computer records and other information as may be reasonably required (i) for the preparation by such other Party of any Tax Returns or (ii) in connection with any Tax audit or proceeding including one Party (or an Affiliate thereof) to the extent such Tax audit or proceeding relates to or arises from the transactions contemplated by this Agreement.

(d) Retention of Tax Records. After the Closing Date and until the expiration of all statutes of limitation applicable to Sellers' liabilities for Taxes, Buyer and Seller shall retain possession of all accounting, business, financial and Tax records and information that (i) relate to the Purchased Assets and are in existence on the Closing Date and (ii) come into existence after the Closing Date but relate to the Purchased Assets before the Closing Date, and Buyer shall give Sellers notice and an opportunity to retain any such records in the event that Buyer determines to destroy or dispose of them during such period. In addition, from and after the Closing Date, Buyer shall provide to Sellers (after reasonable notice and during normal business hours and without charge to Sellers) access to the books, records, documents and other information relating to the Purchased Assets as Sellers may reasonably deem necessary to (i) properly prepare for, file, prove, answer, prosecute and defend any Tax Return, claim, filing, tax audit, tax protest, suit, proceeding or answer or (ii) administer or complete any cases under Chapter 11 of the Bankruptcy Code of or including Sellers. Such access shall include reasonable access to any computerized information systems that contain data regarding the Purchased Assets.

(e) Tax Structure Disclosure. Notwithstanding anything herein to the contrary, each Party to the transactions contemplated herein (and each Affiliate and Person acting on behalf of any such Party) agrees that each Party (and each employee, representative, and other agent of such Party) may disclose to any and all Persons, of any kind, the Tax treatment and Tax structure

of the transaction and all materials of any kind (including opinions or other Tax analyses) that are provided to such Party or such Person relating to such Tax treatment and Tax structure, except to the extent necessary to comply with any applicable federal or state securities laws; provided, however, that such disclosure may not be made until the earliest of the date of any public announcement of the discussions relating to the transaction, the date of any public announcement of the transaction and the date of the execution of this Agreement except that the Parties are not restricted in any manner in discussing the Tax treatment or the Tax structure with their Tax advisors at any time. This authorization is not intended to permit disclosure of any other information including (without limitation): (i) any portion of any materials to the extent not related to the Tax treatment or Tax structure of the transaction; (ii) the identities of participants or potential participants in the transaction; (iii) the existence or status of any negotiations; (iv) any pricing or financial information (except to the extent such pricing or financial information is related to the Tax treatment or Tax structure of the transaction); or (v) any other term or detail not relevant to the Tax treatment or the Tax structure of the transaction.

11. Miscellaneous.

(a) No Third Person Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(b) Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement among the Parties and supersedes any prior understandings, agreements, or representations by or among the Parties, written or oral, to the extent they relate in any way to the subject matter hereof.

(c) Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of his, her, or its rights, interests, or obligations hereunder without the prior written approval of Buyer and Sellers.

(d) Counterparts. This Agreement may be executed in one or more counterparts (including by means of facsimile), each of which shall be deemed an original but all of which together will constitute one and the same instrument.

(e) Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(f) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (i) when delivered personally to the recipient, (ii) one (1) business day after being sent to the recipient by reputable overnight courier service (charges prepaid), (iii) one (1) business day after being sent to the recipient by facsimile transmission or electronic mail, or (iv) four (4) business days after being mailed to the recipient by certified or

registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth below:

**If to Sellers:**

The Art Store, Inc.  
c/o Brown Gibbons Lang Securities, Inc.  
111 Superior Avenue, Suite 900  
Cleveland, OH 44114  
Attn: Jay Greyson, Director  
Facsimile: (216) 241-7417

**Copy to:**

Gadsby Hannah LLP  
225 Franklin Street  
Boston, MA 02110  
Attention: Charles A. Dale III  
Facsimile: (617) 204-8064

**If to Buyer:**

c/o Dick Blick Holdings, Inc.  
Renaissance Place, Suite 310  
1849 Green Bay Road  
Highland Park, IL 60035-3151  
Attention: Mr. Robert Buchsbaum  
Facsimile: (847) 266-8791

**Copy to:**

Quarles & Brady LLP  
500 W. Madison St., Suite 3700  
Chicago, Illinois 60661  
Attention: Melanie Rovner Cohen  
Facsimile: (312) 715-5155

Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Parties notice in the manner herein set forth.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the domestic laws of The Commonwealth of Massachusetts without giving effect to any choice or conflict of law provision or rule (whether of The Commonwealth of Massachusetts or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than The Commonwealth of Massachusetts. Any dispute pertaining to this

Agreement will be adjudicated by the United States Bankruptcy Court for the Western District of Massachusetts.

(h) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and the Seller Parties. No waiver by any Party of any provision of this Agreement or any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be valid unless the same shall be in writing and signed by the Party making such waiver, nor shall such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

(i) Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(j) Expenses. Except as set forth elsewhere in this Agreement, each of the Parties will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

(k) Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including without limitation.

(l) Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

\* \* \* \*

IN WITNESS WHEREOF, the Parties hereto have executed this Asset Purchase Agreement as of the date first above written.

BUYER:

DICK BLICK HOLDINGS, INC.

By: Robert Buchsbaum

Name: Robert Buchsbaum

Title: Chief Executive Officer

SELLERS:

THE ART STORE, INC.

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

Name: George Granoff

Title: Chairman of the Board of Directors

ADAR ASSOCIATES, LLC

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

Name: George Granoff

Title: Manager

THE ART STORE OF NEW YORK REALTY  
CORP.

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

Name: George Granoff

Title: Chairman of the Board of Directors

IN WITNESS WHEREOF, the Parties hereto have executed this Asset Purchase Agreement as of the date first above written.

BUYER:

DICK BLICK HOLDINGS, INC.

By: \_\_\_\_\_  
Name: Robert Buchsbaum  
Title: Chief Executive Officer

SELLERS:

THE ART STORE, INC.

By: George Granoff  
Name: George Granoff  
Title: Chairman of the Board of Directors

ADAR ASSOCIATES, LLC

By: George Granoff  
Name: George Granoff  
Title: Manager

THE ART STORE OF NEW YORK REALTY  
CORP.

By: George Granoff  
Name: George Granoff  
Title: Chairman of the Board of Directors

**EXHIBIT A**

**BILL OF SALE**

This BILL OF SALE is made and entered into as of this \_\_\_\_ day of \_\_\_\_\_, 2004, by and among THE ART STORE, INC., a Delaware corporation, ADAR ASSOCIATES, LLC, a Delaware limited liability company, and THE ART STORE OF NEW YORK REALTY CORP., a New York corporation (collectively the "Sellers", and any individually, a "Seller"), and Dick Blick Holdings, Inc., a Delaware Corporation (the "Buyer"). Sellers and Buyer are referred to collectively herein as the "Parties."

WHEREAS, Sellers and Buyer are parties to that certain Asset Purchase Agreement, dated June 10, 2004 (the "Purchase Agreement"), which provides for the sale by Sellers to, and the purchase by, Buyer of the Purchased Assets (as defined in the Purchase Agreement) (capitalized terms used but not defined herein shall have the respective meanings ascribed to them in the Purchase Agreement);

WHEREAS, the Bankruptcy Court entered a Sale Order on \_\_\_\_\_, 2004, with respect to the transactions contemplated the Purchase Agreement.

WHEREAS, this Bill of Sale is the instrument whereby Sellers convey title to the Purchased Assets to Buyer.

NOW, THEREFORE, in consideration of the premises, terms and conditions set forth herein and in the Purchase Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

A. Effective as of the date hereof, as approved by the Bankruptcy Court and for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, Sellers do hereby sell, assign, transfer, convey and deliver unto Buyer, all of Sellers' right, title and interest in, to and under all of the Purchased Assets and all amendments thereto, to have and to hold, all and singular, unto Buyer, its successors and assigns for its and their own use forever.

B. This Bill of Sale is executed pursuant to the Purchase Agreement and is entitled to the benefits and subject to the provisions of the Purchase Agreement and of the Sale Order, and shall be binding upon and inure to the benefit of the parties thereto and hereto and their respective successors and permitted assignees. Nothing in this Bill of Sale shall effect any impairment, termination, waiver or release of any of the terms and provisions set forth in the Purchase Agreement, including any representation, warranties and covenants therein. If there is a conflict between this Bill of Sale and the



Purchase Agreement or the Sale Order, the Purchase Agreement and Sale Order, as applicable, shall govern.

C. Nothing in this Bill of Sale, expressed or implied, is intended to confer on any person other than Buyer and its successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Bill of Sale.

D. Sellers hereby agree that, at the request of Buyer, and without further consideration, Sellers will from time to time after the date hereof, execute and deliver such reasonably requested further instruments of transfer and assignment and take such further action as Buyer may reasonably request to consummate the transactions contemplated by the Purchase Agreement and Bill of Sale.

E. This Bill of Sale may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same instrument.

F. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE BANKRUPTCY CODE AND TO THE EXTENT NOT INCONSISTENT WITH THE BANKRUPTCY CODE, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH JURISDICTION.

G. Transfer Free and Clear of Liens. The Bill of Sale hereby conveyed to the Assignee is transferred with all the benefits intended, described or otherwise contemplated by the Purchase Agreement and Sale Order, including but not limited to those provisions stating such conveyance is made free and clear of any liens, claims, co-ownership rights, encumbrances, defenses, setoffs and/or other rights, duties or interests of whatever type or character pursuant to and in accordance with §§363 and 365 of the federal Bankruptcy Code, except for the Permitted Liens.

IN WITNESS WHEREOF, this Bill of Sale is executed below and delivered by an authorized representative of each Seller.

**SELLERS:**

**THE ART STORE, INC.**

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

**ADAR ASSOCIATES, LLC**

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

**THE ART STORE OF NEW YORK  
REALTY CORP.**

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

**EXHIBIT B**

RECORDING REQUESTED BY  
WHEN RECORDED MAIL TO

**CORPORATION GRANT DEED**

The undersigned grantor declares:

Documentary transfer tax is \$ \_\_\_\_\_

- computed on full value of property conveyed, or  
 computed on full value less value of liens and encumbrances remaining at time of sale.  
 Unincorporated area:  City of Oakland, California.  
 Realty not sold.

FOR A VALUABLE CONSIDERATION, receipt and legal sufficiency of which is hereby acknowledged, ADAR ASSOCIATES, LLC, hereby GRANTS to Dick Blick Holdings, Inc., a Delaware corporation, that certain real property more particularly described on Exhibit A attached hereto and made a part hereof (the "Property").

Mail Tax Statements to \_\_\_\_\_.

Date: \_\_\_\_\_, 2004.

In Witness Whereof, said corporation has caused its corporate name and seal to be affixed hereto and this instrument to be executed by its duly authorized officers.

ADAR ASSOCIATES, LLC

By: \_\_\_\_\_  
George M. Granoff, Manager

THE STATE OF \_\_\_\_\_  
COUNTY OF \_\_\_\_\_

On \_\_\_\_\_, 2004 before me, the undersigned, a Notary Public in and for said State, personally appeared George M. Granoff, as Manager of Adar Associates, LLC, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the entity upon behalf of which the person acted executed the instrument.

\_\_\_\_\_  
Notary Public

Print Name:

My commission expires: \_\_\_\_\_

**Exhibit A**

**Legal Description  
(Alameda County)**

That certain real property located in the City of Oakland, County of Alameda, State of California, having a street address of 5301 Broadway, more particularly described as follows:

**PARCEL ONE:**

**LOT 5 AND THE SOUTHWESTERN 20 FEET OF LOT 6, BLOCK H, MAP OF BROADWAY TERRACE, FILED OCTOBER 2, 1890, MAP BOOK 9, PAGE 63, ALAMEDA COUNTY RECORDS.**

**PARCEL TWO:**

**PORTIONS OF LOT 6 AND 7, BLOCK H, MAP OF BROADWAY TERRACE, FILED OCTOBER 2, 1890 MAP BOOK 9, PAGE 63, ALAMEDA COUNTY RECORDS, DESCRIBED AS FOLLOWS:**

**BEGINNING AT A POINT ON THE NORTHWESTERN LINE OF BROADWAY, DISTANCE THEREON 283.50 FEET NORTHEASTERLY FROM THE INTERSECTION THEREOF WITH THE NORTHERN LINE OF PLOT NO. 13 OF THE V. & D. PERALTA RANCHO, AS SAID WAY AND LINE ARE SHOWN ON SAID MAP; RUNNING THENCE NORTHWESTERLY AND AT RIGHT ANGLES TO SAID NORTHWESTERN LINE OF BROADWAY, 77.51 FEET TO A POINT; THENCE NORTH 11° 50' EAST 41.30 FEET, MORE OR LESS TO A POINT ON THE NORTHEASTERN LINE OF LOT 7, BLOCK H, AS SAID LOT AND BLOCK ARE SHOWN ON SAID MAP, DISTANCE THEREON 87.80 FEET FROM THE SAID NORTHWESTERN LINE OF BROADWAY; RUNNING THENCE SOUTHEASTERLY AND AT RIGHT ANGLES TO THE SAID LINE OF BROADWAY, AND THENCE SOUTHWESTERLY ALONG THE LAST NAMED LINE 40 FEET TO THE POINT OF THE BEGINNING.**

**ASSESSOR'S PARCEL NUMBER: 014-1248-011-01**

EXHIBIT C

ASSIGNMENT AND ASSUMPTION AGREEMENT

This ASSIGNMENT AND ASSUMPTION AGREEMENT (this "Agreement") is entered into by and between THE ART STORE, INC., a Delaware corporation, ADAR ASSOCIATES, LLC, a Delaware limited liability company, and THE ART STORE OF NEW YORK REALTY CORP., a New York corporation (collectively the "Sellers", and any individually, a "Seller"), and Dick Blick Holdings, Inc., a Delaware Corporation (the "Assignee") as of the \_\_\_\_ day of \_\_\_\_\_, 2004. Sellers and Assignee are referred to collectively herein as the "Parties."

WHEREAS, Sellers and Assignee are parties to that certain Asset Purchase Agreement, dated June 10, 2004 (the "Purchase Agreement"), which provides for the sale by Sellers to, and the purchase by, Assignee of the Purchased Assets (capitalized terms used but not defined herein shall have the respective meanings ascribed to them in the Purchase Agreement);

WHEREAS, Sellers have, pursuant to the terms and subject to the conditions of the Purchase Agreement, agreed to sell, assign, transfer, convey and deliver to Assignee all of Sellers' right, title and interest, as of the Closing Date, in, to and under the Purchased Assets, including without limitation the Assumed Contracts;

WHEREAS, Assignee has, pursuant to the terms and subject to the conditions of the Purchase Agreement, agreed to assume, pay, perform and discharge when due the Assumed Liabilities, including without limitation all liabilities and obligations under the Assumed Contracts as and to the extent set forth therein; and

WHEREAS, the Bankruptcy Court entered an order on \_\_\_\_\_, 2004, with respect to the transactions contemplated the Purchase Agreement (the "Sale Order").

NOW, THEREFORE, for and in consideration of the premises, terms and conditions set forth herein and other good and valuable consideration, including, without limitation, the consideration referred to in the Purchase Agreement the receipt and legal sufficiency of which are hereby acknowledged, the Parties, each of them intending to be legally bound, hereby agree as follows:

1. Assignment. Effective as of the date hereof, as approved by the Bankruptcy Court and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Sellers do hereby sell, assign, transfer, convey and deliver unto Assignee all of their right, title and interest in, to and under the Purchased Assets and Assumed Liabilities, including without limitation the Assumed Contracts.

2. Assumption. Effective as of the date hereof, as approved by the Bankruptcy Court and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignee hereby accepts the foregoing assignment and assumes and agrees to pay, perform and discharge when due all of the Assumed Liabilities including without limitation the Assumed Contracts arising, accruing or first coming due on or after the date hereof.

3. Term of the Purchase Agreement. This Agreement is executed pursuant to the Purchase Agreement and is entitled to the benefits and subject to the provisions of the Purchase Agreement (including the representations, warranties and covenants contained therein) and of the Sale Order, and shall be binding upon and inure to the benefit of the parties thereto and hereto and their respective successors and permitted assignees. If there is a conflict or in the event of any ambiguity between the terms of this Agreement and the Purchase Agreement or Sale Order, the Purchase Agreement and Sale Order, as applicable, shall govern.

4. Third Parties. Nothing express or implied in this Agreement is intended to enlarge any rights of third parties under contracts or arrangements with Assignee and Sellers and nothing herein shall prevent the Parties from contesting in good faith with any third party any of the Assumed Liabilities.

5. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE BANKRUPTCY CODE AND TO THE EXTENT NOT INCONSISTENT WITH THE BANKRUPTCY CODE, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH JURISDICTION.

6. Further Assurances. Sellers and Assignee, any time and from time to time, each shall execute, acknowledge, deliver and perform or cause to be executed, acknowledged, delivered and performed, such further acts, assignments, transfers, conveyances, powers of attorney, assurances or otherwise as may be reasonably necessary or proper to carry out the provisions and intent of the Purchase Agreement and this Agreement.

7. Headings. The headings preceding the text of this Agreement are for convenience of reference only and shall not be deemed part of or in any way affect the meaning or interpretation of this Agreement.

8. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same instrument.

9. Transfer Free and Clear of Liens. The Purchased Assets and Assumed Liabilities hereby conveyed to the Assignee are transferred with all the benefits intended, described or otherwise contemplated by the Purchase Agreement and Sale Order, including but not limited to those provisions stating such conveyance is made free and clear of any liens, claims, co-ownership rights, encumbrances, defenses, setoffs and/or other rights, duties or interests of whatever type or character pursuant to and in accordance with §§363 and 365 of the federal Bankruptcy Code, except for the Permitted Liens.

IN WITNESS WHEREOF, this Assumption Agreement is executed below by an authorized representative of each Party.

**SELLERS:**

**THE ART STORE, INC.**

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

Name:

Title:

**ADAR ASSOCIATES, LLC**

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

Name:

Title:

**THE ART STORE OF NEW YORK  
REALTY CORP.**

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

Name:

Title:

**ASSIGNEE:**

\_\_\_\_\_

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

Name:

Title:



## EXHIBIT D

### TRADEMARK ASSIGNMENT AGREEMENT

This TRADEMARK ASSIGNMENT AGREEMENT ("Agreement") is entered into by and between THE ART STORE, INC., a Delaware corporation (the "Seller"), and Dick Blick Holdings, Inc., a Delaware corporation (the "Assignee") as of the \_\_\_\_ day of \_\_\_\_\_, 2004. Seller and Assignee are referred to collectively herein as the "Parties."

WHEREAS, Seller is the owner of all rights, title and interests in and to the following trademarks: (a) "The Art Store" and U.S. Trademark Registration No. 2,102,359 therefor, (b) "The Art Store" and U.S. Trademark Registration No. 2,097,947 therefor, (c) "As The Art Store" and U.S. Trademark Registration No. 1,225,587 therefor, and (d) "By Hand and Foot, Ltd." and U.S. Trademark Registration No. 1,273,956 therefor (collectively, the "Trademarks"), and any and all related trademark applications and registrations; and

WHEREAS, Seller, certain affiliates of Seller and Assignee are parties to that certain Asset Purchase Agreement, dated June 10, 2004 (the "Purchase Agreement"), which provides for the sale by Seller to, and the purchase by, Assignee of the Purchased Assets including without limitation the Trademarks (capitalized terms used but not defined herein shall have the respective meanings ascribed to them in the Purchase Agreement);

WHEREAS, Seller has, pursuant to the terms and subject to the conditions of the Purchase Agreement, agreed to sell, assign, transfer, convey and deliver to Assignee all of Seller's right, title and interest in, to and under the Trademarks;

WHEREAS, Assignee has, pursuant to the terms and subject to the conditions of the Purchase Agreement, agreed to purchase all of Seller's right, title and interest in, to and under the Trademarks; and

WHEREAS, the Bankruptcy Court entered an order on \_\_\_\_\_, 2004, with respect to the transactions contemplated the Purchase Agreement (the "Sale Order").

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, including, without limitation, the consideration referred to in the Purchase Agreement the receipt and legal sufficiency of which are hereby acknowledged, the Parties, each of them intending to be legally bound, hereby agree as follows:

1. Assignment. Effective as of the date hereof, as approved by the Bankruptcy Court and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller hereby sells, assigns, transfers, conveys and delivers unto Assignee all of its right, title and interest in, to and under the Trademarks including all rights to sue and recover for past infringement thereof and all goodwill associated therewith. Seller hereby agrees to furnish Assignee for filing such notices of assignment with the United States Patent and Trademark Office and shall submit such documents (such as registrant name change agreements) as are necessary to effect the assignment and transfer of the Trademarks to Assignee, with all costs to be borne by Assignee.

2. Term of the Purchase Agreement. This Agreement is executed pursuant to the Purchase Agreement and is entitled to the benefits and subject to the provisions of the Purchase Agreement (including the representations, warranties and covenants contained therein) and of the Sale Order, and shall be binding upon and inure to the benefit of the parties thereto and hereto and their respective successors and assignees. If there is a conflict or in the event of any ambiguity between the terms of this

Agreement and the Purchase Agreement or Sale Order, the Purchase Agreement and Sale Order, as applicable, shall govern.

3. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE BANKRUPTCY CODE AND TO THE EXTENT NOT INCONSISTENT WITH THE BANKRUPTCY CODE, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH JURISDICTION, EXCLUDING ITS CONFLICT OF LAWS PROVISIONS.

4. Further Assurances. Seller and Assignee, any time and from time to time, each shall execute, acknowledge, deliver and perform or cause to be executed, acknowledged, delivered and performed, such further acts, assignments, transfers, conveyances, powers of attorney, assurances or otherwise as may be reasonably necessary or proper to carry out the provisions and intent of the Purchase Agreement and this Agreement.

5. Headings. The headings preceding the text of this Agreement are for convenience of reference only and shall not be deemed part of or in any way affect the meaning or interpretation of this Agreement.

6. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same instrument.

7. Transfer Free and Clear of Liens. The Trademarks hereby conveyed to the Assignee are transferred with all the benefits intended, described or otherwise contemplated by the Purchase Agreement and Sale Order, including but not limited to those provisions stating such conveyance is made free and clear of any liens, claims, co-ownership rights, encumbrances, defenses, setoffs and/or other rights, duties or interests of whatever type or character pursuant to and in accordance with §§363 and 365 of the federal Bankruptcy Code, except for the Permitted Liens.

IN WITNESS WHEREOF, this Agreement is executed below by an authorized representative of each Party.

**SELLER:**

**THE ART STORE, INC.**

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

Name:

Title:

**ASSIGNEE:**

\_\_\_\_\_

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

Name:

Title:

**EXHIBIT E**

**TRANSFER OF RIGHTS  
IN INTERNET DOMAIN NAME REGISTRATIONS**

This TRANSFER OF DOMAIN NAMES AGREEMENT ("Agreement") is entered into by and between THE ART STORE, INC., a Delaware corporation (the "Transferor"), and Dick Blick Holdings, Inc., a Delaware corporation (the "Transferee") as of the \_\_\_\_ day of \_\_\_\_\_, 2004. Transferor and Transferee are referred to collectively herein as the "Parties."

WHEREAS, Transferor desires to transfer the entire ownership of all rights, including but not limited to copyrights, trademarks, royalty rights and all other rights and interests (including but not limited to ".com" and ".net") in the domain names listed on Exhibit A - DM attached hereto (the "Domain Names"); and

WHEREAS, Transferor, certain affiliates of Transferor and Transferee are parties to that certain Asset Purchase Agreement, dated June 10, 2004 (the "Purchase Agreement"), which provides for the sale by Transferor to, and the purchase by, Transferee of the Purchased Assets including without limitation the Domain Names (capitalized terms used but not defined herein shall have the respective meanings ascribed to them in the Purchase Agreement);

WHEREAS, Transferor has, pursuant to the terms and subject to the conditions of the Purchase Agreement, agreed to sell, assign, transfer, convey and deliver to Transferee all of Transferor's right, title and interest, as of the Closing Date, in, to and under the Domain Names;

WHEREAS, Transferee has, pursuant to the terms and subject to the conditions of the Purchase Agreement, agreed to assume the Domain Names; and

WHEREAS, the Bankruptcy Court entered an order on \_\_\_\_\_, 2004, with respect to the transactions contemplated the Purchase Agreement (the "Sale Order").

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, including, without limitation, the consideration referred to in the Purchase Agreement the receipt and legal sufficiency of which are hereby acknowledged, the Parties, each of them intending to be legally bound, hereby agree as follows:

1. Assignment. Effective as of the date hereof, as approved by the Bankruptcy Court and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Transferor hereby sells, assigns, transfers, conveys and delivers unto Transferee, the entire title, right, interest, registration rights, ownership and all subsidiary rights and interests in and to the Domain Names, including but not limited to any rights to trademarks, service marks, or other intellectual property of any kind, and the right to secure royalties, renewals, reissues, and extensions of any such rights or registrations in the United States of America or any foreign country. Transferor agrees that no rights in the Domain Names are retained by Transferor.

2. Term of the Purchase Agreement. This Agreement is executed pursuant to the Purchase Agreement and is entitled to the benefits and subject to the provisions of the Purchase Agreement (including the representations, warranties and covenants contained therein) and of the Sale Order, and shall be binding upon and inure to the benefit of the parties thereto and hereto and their respective

successors and assignees. If there is a conflict or in the event of any ambiguity between the terms of this Agreement and the Purchase Agreement or Sale Order, the Purchase Agreement and Sale Order, as applicable, shall govern.

3. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE BANKRUPTCY CODE AND TO THE EXTENT NOT INCONSISTENT WITH THE BANKRUPTCY CODE, THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH JURISDICTION, EXCLUDING ITS CONFLICT OF LAWS PROVISIONS.

4. Further Assurances. Transferor and Transferee, any time and from time to time, each shall execute, acknowledge, deliver and perform or cause to be executed, acknowledged, delivered and performed, such further acts, assignments, transfers, conveyances, powers of attorney, assurances or otherwise as may be reasonably necessary or proper to carry out the provisions and intent of the Purchase Agreement and this Agreement.

5. Headings. The headings preceding the text of this Agreement are for convenience of reference only and shall not be deemed part of or in any way affect the meaning or interpretation of this Agreement.

6. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same instrument.

7. Transfer Free and Clear of Liens. The Domain Names hereby conveyed to the Assignee are transferred with all the benefits intended, described or otherwise contemplated by the Purchase Agreement and Sale Order, including but not limited to those provisions stating such conveyance is made free and clear of any liens, claims, co-ownership rights, encumbrances, defenses, setoffs and/or other rights, duties or interests of whatever type or character pursuant to and in accordance with §§363 and 365 of the federal Bankruptcy Code, except for the Permitted Liens.

IN WITNESS WHEREOF, this Agreement is executed below by an authorized representative of each Party.

**TRANSFEROR:**

**THE ART STORE, INC.**

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

Name:

Title:

**TRANSFEEE:**

\_\_\_\_\_

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

Name:

Title:

**EXHIBIT A-DM**

**(DOMAIN NAMES TRANSFERRED IN THIS AGREEMENT)**

artstores.com

artstore.com

**EXHIBIT F**

**TAX ALLOCATION OF PURCHASE PRICE**

**[TO BE COMPLETED PRIOR TO CLOSING]**

## EXHIBIT G

### SALES PROCEDURES

The following procedures (the "Sales Procedures") have been approved and authorized by order dated \_\_\_\_\_ of the United States Bankruptcy Court for the District of Massachusetts, Eastern Division (the "Bankruptcy Court") in the chapter 11 cases of the Art Store, Inc., ADAR Associates, LLC, and The Art Store of New York Realty Corp. (collectively the "Debtors"), under Case Nos. 03-46456-HJB, 03-24458-HJB and 03-46459-HJB respectively and shall govern any auction (the "Auction") conducted by the Debtors in connection with the proposed sale (the "Sale") of substantially all of the assets that Debtors seek to sell to Buyer (the "Assets"), pursuant to the Debtors' Motion to Approve Sale of Business Assets and Assumption and Assignment of Executory Contracts to Buyer or Highest and Best Bidder, Free and Clear of Liens, Claims and Encumbrances Pursuant to 11 U.S.C §§ 353 and 365 (the "Sale Motion") in connection with the Agreement for the Purchase and Sale of Assets (the "Agreement"), dated as of June 10, 2004, between Dick Blick Holdings, Inc., or its nominee or assigns (the "Buyer") and the Debtors:

- 1. Diligence by Prospective Overbidders.** Notwithstanding anything to the contrary in the Agreement, the Debtors may give notice of the Sale to prospective Overbidders, receive and consider offers for the Assets, provide information to any such prospective offeror, and allow any such prospective offeror to conduct due diligence in connection with the consideration of a potential bid for the Assets; provided, however, that any such prospective offeror desiring to conduct due diligence shall (a) demonstrate the financial ability, as determined by the Debtors in their sole discretion, to consummate a transaction for the purchase of the Assets, and (b) execute a confidentiality agreement in a form acceptable to the Debtors in their sole discretion, which shall be no less onerous than the Agreement executed by Buyer.
- 2. Objection/Overbid Deadline.** Any (a) objection (an "Objection") to the Sale Motion, including any objection to the assumption and assignment to the Buyer of any assigned agreements (the "Assigned Agreements"), (b) allegation that defaults exist or must be cured as a condition to the assumption and assignment of any Assigned Agreement, which allegation shall include a precise statement of the nature and amounts of such alleged defaults (a "Statement of Defaults"), and (c) competing "Initial Overbid" (as described below) must be served on counsel for the Debtors, counsel for the Buyer, counsel for Wells Fargo Retail Finance II (the "Lender"), counsel for the Debtors' Official Committee of Unsecured Creditors (the "Committee"), and counsel for the United States Trustee (the "UST"), in a manner such that the Objection, Statement of Defaults, and/or Initial Overbid is actually received by no later than \_\_\_\_\_ p.m. on July \_\_\_\_, 2004 (the "Objection/Overbid Deadline").
- 3. Consent to Assumption and Assignment of Assigned Agreements.** Any entity that fails to file a timely Objection or Statement of Defaults by the Objection/Overbid Deadline shall be deemed to have consented to the relief sought in the Sale Motion.
- 4. Overbid Requirements.** Any entity (other than the Buyer) that is interested in purchasing the Assets (an "Overbidder") must submit to the Debtors an "Initial Overbid" in

conformance with this paragraph by no later than the Objection/Overbid Deadline. Any such Initial Overbid must:

- (a) be served on counsel for the Debtors, counsel for the Buyer, counsel for the Lender, counsel for the UST, and counsel for the Committee (collectively, the "**Limited Notice Parties**"), in a manner such that the Initial Overbid actually is received on or before the Objection/Overbid Deadline;
- (b) include (i) an executed copy of a definitive sale document having, with the exception of the Purchase Price, terms and conditions no less favorable than those contained in the Agreement, including without limitation, assumption of the Assumed Liabilities and contain no other material terms, and (ii) a version of the Overbidder's definitive sale document redlined or otherwise marked to show any and all deviations from the Agreement, (iii) be a bid to purchase all of the Assets, and (iv) a disclosure of all parties participating in the Initial Overbid;
- (c) provide for an Initial Overbid of at least Eleven Million Six Hundred Fifty Thousand Dollars (\$11,650,000.00) in cash;
- (d) be accompanied by evidence, satisfactory to the Debtors of the Overbidder's good faith, within the meaning of section 363(m) of title 11 of the United States Code (the "Bankruptcy Code"), and the Overbidder's ability to provide "adequate assurance of future performance" with respect to any Assigned Agreements, within the meaning of section 365 of the Bankruptcy Code;
- (e) be accompanied by (i) financial statements or evidence satisfactory to the Debtors that the Overbidder is willing, authorized, capable and qualified, financially legally and otherwise, of unconditionally performing all obligations under the Agreement (or its equivalent) in the event that it submits the prevailing overbid at the Sale Hearing, and (ii) evidence that it is duly authorized and entitled to engage in the transaction contemplated by the Initial Overbid without the consent of any entity that has not been obtained; and
- (f) be accompanied by a deposit equal to five percent (5%) of the proposed purchase price (the "**Deposit Amount**") in the form of a cashier's check payable to the Debtors and to be held in an interest bearing escrow account by the Debtors' counsel pending completion of the Auction.

**5. Firm Offers.** All bids shall be "firm offers" and shall not contain any contingencies to the validity, effectiveness, and/or binding nature of the offer, including, without limitation, contingencies for financing due diligence or inspection except for the conditions to closing provided for in the Agreement.

**6. Requirement for Overbidders to Appear at Sale Hearing.** All Overbidders shall appear in person at the Sale Hearing, or through a duly authorized representative.

**7. Non-Conforming Bids Disqualified from Auction.** Any entity that fails to submit a timely, conforming Initial Overbid, as set forth above, shall be disqualified from bidding for



the Assets at the Auction. Also, the Debtors are not required to entertain any bids that are not more favorable to the Debtors than the Agreement. Any question about whether a party is a Qualified Overbidder (as defined below) shall be resolved by the Bankruptcy Court.

**8. No Conforming Overbids.** If no timely, conforming Initial Overbids are submitted, the Debtors shall request at the Sale Hearing that the Court approve the proposed sale of the Assets to the Buyer.

**9. Auction Procedures.** In the event that one or more timely, conforming Initial Overbids are submitted (each person who has submitted such a timely, conforming initial overbid shall be referred to herein as a "Qualified Overbidder"), the Debtors shall conduct the Auction prior to the sale hearing, in which the Buyer and all Qualified Overbidders may participate. The Auction shall be governed by the following procedures:

(a) all bidders shall be deemed to have consented to the core jurisdiction of (and venue in) the Bankruptcy Court and to have waived any right to jury trial in connection with any disputes relating to the Auction and/or the sale of the Assets;

(b) bidding will commence at an amount of the highest bid or otherwise best offer submitted by a Qualified Overbidder, as determined by the Debtors in their sole discretion after consultation with the Lender and the Committee (the "Beginning Auction Bid");

(c) each subsequent bid by a Qualified Overbidder or the Buyer shall be in increments of at least \$50,000 in aggregate consideration above the Beginning Auction Bid;

(d) if, upon the conclusion of the Auction, and consistent with the terms of these bidding procedures, the Buyer has failed to make a bid that the Debtors determine, in their reasonable discretion, to be the highest or otherwise best bid, the Debtors will recommend that the Bankruptcy Court authorize and approve a sale of the Assets (including an assumption and assignment of any Assigned Agreements) to such prevailing Qualified Overbidder;

(e) if, however, the Buyer makes a bid that the Debtors determine, in their reasonable discretion, and consistent with the terms of these Sale Procedures, to be the highest and otherwise best bid, the Debtors will recommend that the Bankruptcy Court approve the Agreement and authorize the Debtors to sell the Assets (including an assumption and assignment of any Assigned Agreements) to the Buyer; and

(f) the Bankruptcy Court shall make the ultimate determination of which bid for the Assets represents the highest and otherwise best bid for the Debtors and chapter 11 estate (the "Prevailing Bidder").

**10. Break Up Fee.** In the event that (a) the Bankruptcy Court enters an order approving the sale of the Assets to an entity other than the Buyer and the Buyer has not committed a material default under the Agreement, or (b) the Bankruptcy Court has not entered an order approving the sale of the Assets to the Buyer on or before August 5, 2004, then the Debtors shall

pay to the Buyer a break-up fee equal to (the "Breakup Fee"): the lesser of: (i) 3% of the Purchase Price or (ii) the reasonable, documented costs and expenses incurred by Buyer in connection with the Agreement and the transactions contemplated thereby, including, without limitation, all expenses incurred by the Buyer in conducting due diligence in connection with the Agreement and the transactions contemplated thereby and any and all professional fees incurred by the Buyer in connection with the Agreement and the transactions contemplated thereby, including, without limitation, any and all attorneys' fees incurred in connection with the bankruptcy proceedings and the sale process. Notwithstanding anything to the contrary contained herein, a return of the Deposit and payment of the Break-Up Fee shall be the sole and exclusive remedy of Buyer against Sellers under this Agreement. If earned pursuant to these Sale Procedures, the Break up Fee shall be payable to the Buyer upon consummation of a sale to the Prevailing Bidder.

**11. Back-up Bidder.** Upon the conclusion of the Auction, the Debtors shall have the right (but not the obligation) to select a bidder other than the Prevailing Bidder and to designate such bidder the "Back-up Bidder," provided, however, that the Buyer shall be bound by its bid only until the Bankruptcy Court has entered an order approving the sale to the Prevailing Bidder unless the Buyer agrees, in writing, to act as the Back-up Bidder. If, for any reason, the Prevailing Bidder is unable or unwilling to timely perform its obligations under the Prevailing Bidder's definitive sale agreement, the Debtors, in the exercise of their business judgment, may sell the Assets to the Back-up Bidder without further notice or a hearing.

**12. Disposition of Deposits.** The deposits submitted by the Buyer and any Overbidders shall be refunded to each unsuccessful bidder other than the Back-up Bidder, if any upon entry of an order approval the sale of the Assets to the Prevailing Bidder. The deposit of the Prevailing Bidder and the Back-up Bidder shall be retained by the Debtors as earnest money to be used in the following ways (a) the deposit of the Prevailing Bidder shall either be (i) applied at closing as a credit toward the purchase price of the Prevailing Bidder, (ii) if the sale to the Prevailing Bidder shall fail to timely close by reason of a breach or default of the Prevailing Bidder, the deposit shall be retained by the Debtors as liquidated damages, or (iii) in the event that the sale to the Prevailing Bidder shall fail to timely close by reason of a breach or default of the Debtors, the deposit shall be returned to the Prevailing Bidder; and (b) the deposit of the Back-up Bidder shall either be (i) returned to the Back up Bidder upon the closing of the transaction with the Prevailing Bidder, or (ii) if the sale to the Prevailing Bidder shall fail to close for any reason applied at closing as a credit toward the purchase price of the Back-up Bidder.

**13. Buyer's/Overbidder's Obligation to Provide Evidence re Any Assigned Agreements.** The Buyer and each Overbidder shall provide the Debtors with evidence in the form satisfactory to the Debtors of the Buyer's and each Overbidder's "adequate assurance of future performance", within the meaning of section 365(f)(2)(B) of the Bankruptcy Code, of any Assigned Agreements.

**14. Headings.** The headings of all sections of these Sale Procedures are inserted solely for the convenience of reference and are not a part of and are not intended to govern, limit or aid in the construction or interpretation of any term or provision hereof.

EXHIBIT H

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MASSACHUSETTS  
(WESTERN DIVISION)

_____	)	
In re:	)	
	)	
THE ART STORE, INC., et al.	)	Chapter 11
	)	Case Nos. 03-46456;
Debtors.	)	03-46458; and
_____	)	03-46459

**ORDER APPROVING DEBTORS' MOTION FOR AUTHORITY TO  
(I) SELL SUBSTANTIALLY ALL OF THEIR ASSETS PURSUANT TO  
SECTION 363 OF THE BANKRUPTCY CODE AND (II) ASSUME AND ASSIGN  
CERTAIN LEASES AND EXECUTORY CONTRACTS PURSUANT TO  
SECTION 365 OF THE BANKRUPTCY CODE**

Upon the motion, dated June \_\_\_\_, 2004 (the "Motion"), of The Art Store, Inc., The Art Store New York Realty Corp. and ADAR Associates LLC (collectively, the "Debtors" or "Sellers") for the entry of an order pursuant to Sections 105, 363(b), 363(f), 363(m), 365 and 1146(c) of title 11 of the United States Bankruptcy Code (the "Bankruptcy Code") and Rules 6004, 6006 and 9014 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules" and each individually a "Bankruptcy Rule") authorizing the Debtors to, *inter alia*, (i) sell substantially all their assets (the "Assets"), said assets being more fully described in the Asset Purchase Agreement<sup>1</sup>, free and clear of all liens, claims, and encumbrances (other than Permitted Liens) with such sale to be substantially in accordance with the terms and conditions of the Asset Purchase Agreement, dated as of June 10, 2004 among Dick Blick Holdings, Inc., or its designee, as Buyer (the "Buyer") and the Sellers, a copy of which is annexed to the Motion as

<sup>1</sup> Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Motion, or, if not defined in the Motion, in the Asset Purchase Agreement attached as Exhibit A to the Motion.

Exhibit A (the "Agreement"), (ii) enter into the Agreement; and (iii) assume and assign certain executory contracts (collectively, the "Assumed Contracts") in connection with such sale; and this Court having entered an order dated June \_\_\_ 2004 authorizing the Debtors to conduct, and approving the terms and conditions of, an auction (the "Auction") and bidding procedures to consider higher and otherwise better offers for the Assets, establishing a date for the Auction, and approving, *inter alia*, (i) procedures for the submission of qualifying bids, (ii) the form and manner of notice of the Auction and (iii) the Break-up Fee (the "Sale Procedures Order"); and the Court having established the date of the Sale Hearing; and the Court having jurisdiction to consider the Motion and the relief requested therein in accordance with 28 U S C §§ 157(b)(2) and 1334, and consideration of the Motion, the relief requested therein, and the responses thereto, if any, being a core proceeding in accordance with 28 U S C § 157(b), venue before this Court is proper pursuant to 28 U.S.C. §§ 1408 and 1409, and the appearance of all interested parties and all responses and objections to the Motion having been duly noted in the record of the Sale Hearing and upon the record of the Sale Hearing and all other pleadings and proceedings in these cases, including the Motion, and after due deliberation and sufficient cause appearing therefor,

**IT IS HEREBY FOUND AND DETERMINED THAT:**

- A. The findings and conclusions set forth herein constitute the Court's findings of fact and conclusions of law pursuant to Bankruptcy Rule 7052, made applicable to this proceeding pursuant to Bankruptcy Rule 9014.
- B. To the extent any of the following findings of fact constitute conclusions of law, they are adopted as such. To the extent any of the following conclusions of law constitute findings of fact, they are adopted as such.
- C. The Art Store, Inc. filed petition a for reorganization under Chapter 11, Title 11 of

the United States Code on November 7, 2003, in the United States Bankruptcy Court for the District of Massachusetts. ADAR Associates, LLC and The Art Store New York Realty Corp. filed petitions for reorganization under Chapter 11, Title 11 of the United States Code on November 10, 2003, in the United States Bankruptcy Court for the District of Massachusetts. The Debtors continue to operate their businesses and manage their property as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

D. Proper, timely, adequate and sufficient notice of the Motion, the Auction, the Sale Hearing, and the assumption and assignment of each Assumed Contract has been provided in accordance with sections 102(1), 363(b), and 365 of the Bankruptcy Code, Bankruptcy Rules 2002, 6004, 6006, 9006, 9007, 9008 and 9014, the local rules of this Court, the procedural due process requirements of the United States Constitution and the Sale Procedures Order. No other or further notice of the Motion, the Auction, the Sale Hearing, the assumption and assignment of the Assumed Contracts or of the entry of this Order is necessary.

E. A reasonable opportunity to object or be heard regarding the requested relief has been afforded to all interested persons and entities, including, without limitation, (i) all entities who claim or have threatened claims against or who have asserted any interest in or lien upon the Assets, (ii) all parties to Assumed Contracts assumed and assigned pursuant to this Order, (iii) all governmental taxing authorities who have, or as a result of the sale of the Assets may have, claims, contingent or otherwise, against the Debtors, (iv) all parties who filed requests for notices under Bankruptcy Rule 9010(b) or were entitled to notice under Bankruptcy Rule 2002, (v) all creditors holding claims (as defined in section 101(5) of the Bankruptcy Code) against the Debtors or any of them, (vi) all current employees of the Debtors and all former employees who are entitled to or have the right to receive or are receiving retiree, medical or other benefits,

including, but not limited to, COBRA; (vii) all interested governmental, pension and environmental entities, (viii) the Office of the United States Trustee; and (ix) all entities that heretofore expressed to Debtors an interest in purchasing the Assets. Other parties interested in bidding on the Assets were provided, upon request, sufficient information by the Debtors to make an informed judgment on whether to bid on the Assets.

F. The Motion was served duly and properly on all required persons and entities in accordance with the Sale Procedures Order.

G. The Debtors have demonstrated a sufficient basis and the existence of exigent circumstances requiring them to sell the Assets and assume and assign any Assumed Contracts under sections 363 and 365 of the Bankruptcy Code, and such actions are appropriate exercises of the Debtors' business judgment and in the best interests of the Debtors, their estates and their creditors.

H. Through the marketing and sale process, the Debtors afforded interested potential Buyers a full, fair and reasonable opportunity to make a higher and better offer to purchase the Assets.

I. The offer of the Buyer to purchase the Assets and any Assumed Contracts is the best offer received by the Debtors and the Purchase Price stated on the record of the Sale Hearing is fair, is in the best interest of the Debtors' estate and constitutes full and adequate consideration and reasonably equivalent value for the Assets.

J. Without an expeditious sale of the Assets free and clear of liens, claims and encumbrances, and the assumption and assignment of any Assumed Contracts, there will be a substantial diminution in the value of the Debtors and their assets to the detriment of their creditors and other parties in interest.

K. The Buyer is not an insider, as that term is defined in section 101(31) of the Bankruptcy Code. The Buyer is a buyer in good faith, as that term is used in the Bankruptcy Code and the decisions thereunder, and is entitled to the protections of sections 363(m) and (n) of the Bankruptcy Code with respect to all of the Assets and the Assumed Contracts. The Agreement was negotiated and entered into in good faith, based upon arm's length bargaining and without collusion. The Auction conducted in accordance with the Sale Procedures Order on July \_\_\_\_, 2004, was conducted in good faith within the meaning of section 363(m) of the Bankruptcy Code. Neither the Debtors nor the Buyer has engaged in any conduct that would prevent the application of section 363(m) of the Bankruptcy Code or cause the application of section 363(n) to the Agreement.

L. The Debtors have full corporate power and authority to execute the Agreement and all other documents contemplated thereby, and the sale of the Assets has been duly and validly authorized by all necessary corporate authority necessary to consummate the transactions contemplated by the Agreement. No consents or approvals, other than as expressly provided for in the Agreement, are required by the Debtors to consummate such transactions.

M. The Debtors have advanced sound business reasons for seeking to enter into the Agreement and to sell the Assets and assume and assign any Assumed Contracts, as more fully set forth in the Motion and as demonstrated at the Sale Hearing, and it is a reasonable exercise of the Debtors' business judgment to sell the Assets and to execute and deliver the Agreement to the Buyer.

N. The terms and conditions of the Agreement, including the total consideration to be realized by the Debtors pursuant to the Agreement, are fair and reasonable and the transactions contemplated by the Agreement are in the best interest of the Debtors' estates and

their creditors.

O. A valid business purpose exists for approval of the transactions contemplated by the Motion pursuant to section 363(b) of the Bankruptcy Code. The transfer of the Assets and any Assumed Contracts from the Debtors to the Buyer is a legal, valid and effective transfer of the Assets and any Assumed Contracts notwithstanding any requirement for approval or consent by any person.

P. The Debtors and the Buyer have, to the extent necessary, satisfied the requirements of Bankruptcy Code section 365, including sections 365(b)(1) and 365(f)(2), in connection with the sale and the assumption and assignment of any Assumed Contracts. The Buyer has demonstrated adequate assurance of future performance with respect to all Assumed Contracts.

Q. The Debtors' sale of the Assets is in furtherance of a subsequent plan of liquidation to be filed by the Debtors.

R. In the absence of a stay pending appeal, the Buyer will be acting in good faith pursuant to section 363(m) of the Bankruptcy Code in closing the transactions contemplated by the Agreement at any time on or after entry of this Order and cause has been shown as to why this order should not be subject to the stay provided by Fed R. Bankr. P. 6004(g) and 6006(d).

S. The sale of the Assets outside of a plan of reorganization pursuant to the Agreement neither impermissibly restructures the rights of the Debtors' creditors nor impermissibly dictates the terms of a liquidating plan of reorganization for the Debtors.

T. Wells Fargo Retail Finance II ("Wells Fargo") has a valid blanket lien against the Assets, and, pursuant to section 363(f) of the Bankruptcy Code, has consented to this Order and the transactions contemplated hereby.



U. All other entities who assert liens against or interests in the Assets have either consented, or, the Purchase Price for the Assets is greater than the aggregate value of all liens against and interests in the Assets.

**NOW, THEREFORE, IT IS HEREBY ORDERED, ADJUDGED AND DECREED**

1. The Motion is granted in its entirety.
2. The Agreement and the transactions contemplated thereby be, and hereby are, approved and the Debtors are hereby authorized and empowered and directed to enter into, and to perform their obligations under, the Agreement and to execute and perform such agreements or documents and take such other actions as are necessary or desirable to effectuate the terms of the Agreement.
3. All objections, responses, and requests for continuance concerning the Motion are resolved in accordance with the terms of this Order and as set forth in the record of the Sale Hearing. To the extent any such objection, response or request for continuance was not otherwise withdrawn, waived, or settled, it, and all reservations and rights contained therein, is overruled and denied.
4. The Debtors shall be, and hereby are, authorized, empowered and directed, pursuant to sections 105 and 363(b) of the Bankruptcy Code, to sell the Assets to the Buyer upon delivery of the consideration specified in the Agreement (or the price determined by the Auction) and completing all other deliveries required under the Agreement. Except as otherwise provided in the Agreement, such sale of the Assets shall vest the Buyer with good title to the Assets, and shall be free and clear of any and all liens, claims, encumbrances, liabilities, obligations, licenses, covenants, pledges, security interests, charges, and interests of any kind, including, without limitation, (i) option rights, rights of first refusal or similar agreements with respect to the Real Property), (ii) competing claims to title to the Assets and (iii) claims of taxing

authorities (collectively, "Claims"), whether secured or unsecured, choate or inchoate, filed or unfiled, scheduled or unscheduled, noticed or unnoticed, recorded or unrecorded, contingent or non-contingent, liquidated or unliquidated, matured or unmatured, disputed or undisputed, or known or unknown, whether arising prior to or subsequent to the Petition Date, whether imposed by agreement, understanding, law, equity or otherwise. All such Claims on the Assets shall attach to the proceeds of the sale, with the same force, validity and effect as they now may have. The sale proceeds shall be delivered to Wells Fargo for application by Wells Fargo against the Debtors' obligations in accordance with the provisions of the Agreed Order Regarding Use of Cash Collateral dated June 1, 2004. Wells Fargo will apply such proceeds upon receipt thereof in full and complete satisfaction of its Claim against the Debtors.

5. Each of the Debtors' creditors is authorized and directed to execute such documents and take all other actions as may be necessary to release any Claims of any kind against the Assets as such Claims may have been recorded or may otherwise exist. If any person or entity that has filed financing statements or other documents or agreements evidencing liens and encumbrances or other Claims on the Assets shall not have delivered to the Debtors prior to the Closing, in proper form for filing and executed by the appropriate parties, termination statements, instruments of satisfaction, or releases of all such liens, encumbrances, or other Claims which the person or entity has with respect to the Assets, the Debtors are hereby authorized and directed to execute and file such statements, instruments, releases and other documents on behalf of the person or entity with respect to such Assets immediately prior to the Closing.

6. This Order shall be binding upon and govern the acts of all persons or entities, including without limitation, all filing agents, recording agencies, secretaries of state, utility

providers, providers of telephone and/or telecommunication services and all other persons and entities who may be required by operation of law to accept, file, register or otherwise record or release any documents or instruments.

7. Subject to the delivery of the consideration specified in the Agreement (or the price determined by the Auction) and completing all other deliveries required under the Agreement, effective as of the Closing, (a) the sale of the Assets by the Debtors to the Buyer shall constitute a legal, valid and effective transfer of the Assets notwithstanding any requirement for approval or consent by any person and shall vest the Buyer with all right, title and interest of the Debtors in and to the Assets, free and clear of all Claims (other than the Permitted Liens) pursuant to section 363(f) of the Bankruptcy Code, and (b) the assumption of any Assumed Liabilities by Buyer shall constitute a legal, valid and effective delegation of any Assumed Liabilities to Buyer and shall divest the Debtors of all liability with respect to any Assumed Liabilities.

8. All persons or entities, presently or on or after the Closing Date in possession of some or all of the Assets are directed to surrender possession of the Assets to the Buyer on the Closing Date or at such time thereafter as the Buyer may request.

9. The sale of the Assets to the Buyer under the Agreement will constitute a transfer for reasonably equivalent value and fair consideration under the Bankruptcy Code and all applicable law.

10. The Buyer is hereby granted and is entitled to the protections provided to a good faith buyer under section 363(m) of the Bankruptcy Code, including with respect to any transfer of any Assumed Contracts as part of the sale of the Assets pursuant to section 365 of the Bankruptcy Code and this Order.

11. Each of the Assumed Contracts set forth on Schedule 1 to this Order constitute executory contracts or unexpired leases within meaning of section 365 of the Bankruptcy Code.

12. The Buyer has satisfied all requirements under sections 365(b)(1)(A) and 365(f)(2)(B) of the Bankruptcy Code to provide adequate assurance of future performance of any Assumed Contracts. Pursuant to section 365(b)(1)(B) of the Bankruptcy Code, the Debtors shall pay to the parties to any Assumed Contracts the Cure Amounts, if any, set forth on Exhibit A hereto, on the Closing Date or such other amounts as the parties to such contracts shall have agreed to accept in lieu of such Cure Amounts and/or at such time after the Closing as such parties shall have agreed. The assumption by the Debtors of any Assumed Contracts and the assignment of such Assumed Contracts to the Buyer, as provided for or contemplated by the Agreement, is hereby authorized and approved subject to the occurrence of the Closing Date under the Agreement, and any existing defaults in these Assumed Contracts shall be deemed cured by the payment of the aforementioned Cure Amounts, and any Assumed Contracts are, and shall remain, in full force and effect and assumed by the Debtors and assigned and sold to the Buyer pursuant to sections 363 and 365 of the Bankruptcy Code. All defaults under any Assumed Contracts are hereby deemed cured. Pursuant to section 365(k) of the Bankruptcy Code, from and after the assignment of any Assumed Contracts, neither the Debtors nor their bankruptcy estates shall have any liabilities under any Assumed Contracts for breach or otherwise and the Debtors and their estates shall be relieved of any liability for any breach of any Assumed Contracts occurring after such assignment. The Assumed Contracts shall remain in full force and effect for the benefit of the Buyer, its successors and assigns, notwithstanding any provision in such Assumed Contract that prohibits such assignment.

13. Each non-debtor party to an Assumed Contract shall, as of the Closing Date, be

forever barred and enjoined from asserting against the Buyer, any of the Assets, the Debtors, or their bankruptcy estates: (a) any default existing as of the Closing Date if such default was not raised or asserted in a timely manner prior to the entry of this Order or (b) any objection to the assumption and assignment of such non-debtor party's Assumed Contracts. The assignment of an Assumed Contract to the Buyer will not cause a default or otherwise allow the non-debtor party thereto to terminate or adversely affect the Debtors' or the Buyer's rights thereunder.

14. This Order and the Agreement shall be binding upon, and shall inure to the benefit of, the Debtors and the Buyer, and their respective successors and assigns, including without limitation, any chapter 11 trustee hereinafter appointed for the Debtors' estate or any trustee appointed in a Chapter 7 case if this case is converted from Chapter 11.

15. This Court shall retain exclusive jurisdiction to enforce the provisions of this Order and the Agreement and to resolve any dispute concerning this Order, the Agreement, or the rights and duties of the parties hereunder or thereunder or any issues relating to the Agreement and this Order, including, but not limited to, the interpretation of the terms, conditions and provisions hereof and thereof, the status, nature and extent of the Assets and any Assumed Contracts and all issues and disputes arising in connection with the relief authorized herein.

16. Notwithstanding Bankruptcy Rules 6004(g) and 6006(d), this Order shall be effective and enforceable immediately upon entry and its provisions shall be self-executing. In the absence of any entity obtaining a stay pending appeal the Debtors and the Buyer are free to close under the Agreement at any time. In the absence of any entity obtaining a stay pending appeal, if the Debtors and the Buyer close under the Agreement, the Buyer shall be deemed to be acting in "good faith" and shall be entitled to the protection of section 363(m) of the Bankruptcy

Code as to all aspects of the transactions pursuant to the Agreement if this Order or any authorization contained herein is reversed or modified on appeal.

17. The sale approved by this Order is not subject to avoidance pursuant to Section 363(n) of the Bankruptcy Code.

18. The Debtors and the Buyer are authorized and empowered to take all actions and execute and deliver any and all documents and instruments that either the Debtors or the Buyer deem necessary or appropriate to implement and effectuate the terms of the Agreement and this Order. The Debtors and each other person having duties or responsibilities under the Agreement, any agreements related thereto or this Order, and their respective directors, officers, managing partners or members, general partners, agents, representatives, and attorneys, are authorized and empowered – subject to the terms and conditions contained in the Agreement and the schedules annexed thereto – to carry out all of the provisions of the Agreement and any related agreements, to issue, execute, deliver, file and record, as appropriate, the documents evidencing and consummating the Agreement, and any related agreements, to take any and all actions contemplated by the Agreement, any related agreements or this Order and to issue, execute, deliver, file and record, as appropriate, such other contracts, instruments, releases, indentures mortgages, deeds, bills of sale, assignments, leases, or other agreements or documents and to perform such other acts, and execute and deliver such other documents, as are consistent with, and necessary or appropriate to implement, effectuate, and consummate, the Agreement, any related agreements and this Order and the transactions contemplated thereby and hereby, all without further application to or order of the Court or further action by their respective directors, stockholders, or partners, and with like effect as if such actions had been taken by unanimous action of the respective directors, stockholders, and partners of such entities. All such additional

agreements, documents, and instruments shall be deemed to be "related agreements" for purposes of this Order. The Debtors are further authorized and empowered to cause to be filed with the Secretary of State of any state or other applicable officials of any applicable governmental units any and all certificates, agreements, or amendments necessary or appropriate to effectuate the transactions contemplated by the Agreement, any related agreements and this Order, including amended and restated certificates or articles of incorporation and by-laws or certificates or articles of amendment, and all such other actions, filings, or recordings as may be required under appropriate provisions of the applicable laws of all applicable governmental units or as any of the officers or managers of the Debtors may determine are necessary or appropriate. The execution of any such document or the taking of any such action shall be, and hereby is, deemed conclusive evidence of the authority of such person to so act. Without limiting the generality of the foregoing, this Order shall constitute all approvals and consents, if any, required by the corporation laws of the States of Delaware and New York and all other applicable business corporation, trust, and other laws of the applicable governmental units with respect to the implementation and consummation of the Agreement, any related agreements and this Order, and the transactions contemplated thereby and hereby.

19. Nothing in this Order purports to excuse the Buyer or any other person or entity from compliance with any and all applicable state and federal regulatory laws.

20. The sale of the Assets to the Buyer is exempt from any and all laws imposing a stamp or similar tax in accordance with Section 1146(c) of the Bankruptcy Code. Each and every federal, state and local government agency or department is hereby directed to accept any and all documents and instruments necessary and appropriate to consummate the transfer of any of the Assets, all without imposition or payment of any stamp tax, transfer tax or similar tax.

21. Pursuant to sections 105 and 363 of the Bankruptcy Code, any and all persons are hereby barred, estopped and forever enjoined from taking any action of any kind against the Buyer or the Assets on account of any claim against the Debtors or against any Asset sold, or Assumed Contracts assigned to Buyer.

22. The Buyer is not a successor to the Debtors or their estates by reason of any theory of law or equity and the Buyer shall not assume, nor be deemed to assume, or in any way be responsible for any liability or obligation of any of the Debtors and/or their estates except as otherwise expressly provided in the Agreement.

23. Notwithstanding anything to the contrary in the Agreement, effective upon the Closing, all entities, including, but not limited to, the Debtors' creditors, employees, former employees and shareholders, administrative agencies, governmental departments, secretaries of state, federal, state and local officials, including such officials maintaining any authority relating to environmental, labor and health and safety laws, and their respective successors or assigns, shall be permanently and forever barred, restrained and enjoined from commencing or continuing in any manner any action or other proceeding of any kind that seeks to impose liability upon the Buyer or any affiliate, successor or assign thereof under the laws of the United States, any state, territory or possession thereof or the District of Columbia based, in whole or in part, directly or indirectly, on any theory of law, including, without limitation, any theory of successor or transferee liability or any liability for pre- or postpetition Claims against any of the Debtors by reason of the transfer of the Assets to the Buyer, including, without limitation, pre- and postpetition Claims of the Pension Benefit Guaranty Corporation or successor thereof ("PBGC"), the United States Department of Labor, the Internal Revenue Service, or other federal, state or local governmental entities, of any current or former employee for claims arising



out of employment and termination of employment, including, without limitation, claims for wages, bonuses, commissions, accrued vacation, severance, continuation of coverage under COBRA, or pension, welfare, fringe benefits or any other benefits of any kind (including, without limitation, obligations in respect of retiree medical coverage or benefits. Without limiting the generality of the foregoing, Buyer shall have no responsibility for or liability regarding the Retained Liabilities.

24. The Agreement and any related agreements may be waived, modified, amended, or supplemented by agreement of the Debtors and the Buyer without further action of the Court; provided, however, that any such waiver modification amendment, or supplement is not material and substantially conforms to and effectuates the Agreement.

25. The failure specifically to include any particular provisions of the Agreement or any related agreements in this Order shall not diminish or impair the effectiveness of such provision, it being the intent of the Court, the Debtors and the Buyer that the Agreement and any related agreements are authorized and approved in their entirety with such amendments thereto as may be made by the parties in accordance with this Order prior to Closing.

26. No bulk sale law or any similar law of any state or other jurisdiction shall apply in any way to the transaction contemplated by the Agreement.

27. The Business Employees' employment with the Debtors shall not be deemed to have been terminated solely for purposes of the Worker Adjustment and Retraining Notification ("WARN") Act.

28. Following the Closing Date, the Debtors shall not directly or indirectly, on their own account or for the account of any other person, firm, corporation or other business entity (i) engage in the Business (as defined in the Motion),(ii) acquire or possess control of, or manage or

operate, any other person or entity engaged in the Business; or (iii) invest in, own, operate, manage or participate in the ownership, operation or management of, or render management services to any other person or entity engaged in the Business.

29. To the extent any provisions of this Order conflict with the terms and conditions of the Agreement, this Order shall govern and control.

Dated:

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Henry J. Boroff  
United State Bankruptcy Judge

**SCHEDULE A – Acquired Stores**

1. Unit #1  
1-5 Bond Street  
New York, New York
2. 811 University Avenue  
Units 1A and 1B  
Berkeley, California
3. 7301 W. Beverly Blvd  
Los Angeles, California
4. 44 South Raymond Ave  
Pasadena, California
5. 11660 Santa Monica Blvd  
Los Angeles, California
6. 1844 India Street  
San Diego, California
7. 5201 Broadway  
Oakland, California
8. 1414 Van Ness Avenue  
San Francisco, California
9. Landmark Center  
201 Brookline Ave  
Boston, Massachusetts

10. 3019 M Street, N.W.

Washington, DC

11. 1025 W. North Avenue

Chicago, Illinois

12. Church Street Plaza

Evanston, Illinois

**SCHEDULE B – Assumed Contracts**

**Real Property Leases—The Art Store**

1-9 Bondst Realty, Inc.  
c/o Win Restaurant Supply, Inc.  
318 Lafayette Street  
New York, NY 10012

Real Estate Lease dated August 5, 1997 - lease of Unit #1, 1-5 Bond Street Condominium, 1-5 Bond Street, New York, NY. Debtor has assigned its rights to The Art Store New York Realty Corp. Sublease dated August 23, 2001.

Abbey Landmark Operating LLC  
c/o The Abbey Group  
575 Boylston Street  
Boston, MA 02116

Real Estate Lease dated June 22, 1998 - Lease of The Landmark Center, 201 Brookline Avenue, Boston, MA. Debtor is Lessee.

AMS Group, LLC  
781 E. San Bernardino Rd  
Covina, CA 91723

Real Estate Lease dated December 15, 1999. - Lease of 44 South Raymond Avenue, Pasadena, CA. Debtor is Lessee.

B & B Associates, LLC  
Attn: Betty Benezra  
10380 Wilshire Boulevard  
LA Tour Bldg., Suite 1104  
Los Angeles, CA 90024

Real Estate Lease dated October 18, 1999 - Lease of 7301 W. Beverly Boulevard, Los Angeles, CA. Debtor is Lessee.

California College of Arts and Crafts  
5212 Broadway  
Oakland, CA 94618

Real Estate Lease dated September 1, 1989 - lease of 5301 Broadway, Oakland, California. Debtor is landlord.

Church Street Plaza, LLC  
c/o AHC Evanston LLC  
Five Revere Drive, Suite 300  
Northbrook, IL 60062

Real Estate Lease dated August 3, 1999 - Lease of Church Street Plaza, Evanston, IL. Debtor is Lessee.

H. G. Daniels Company  
c/o Michael G. Daniels  
1675 Via Corona  
La Jolla, CA 92037

Real Estate Lease dated September 4, 1996 - Lease of  
1844 India Street, San Diego, CA. Debtor is Lessee.

LMS Associates, LLC  
c/o The Levy Group, Ltd.  
132 1/2 Wisconsin Ave, NW  
Washington, D.C. 20007

Real Estate Lease dated September 1, 1999 - Lease of  
3019 M Street, N.W., Washington D.C. Debtor is  
Lessee.

North Kingsbury, LLC  
400 West Huron  
Chicago, IL 60610

Real Estate Lease dated July 2, 1999 - Lease of 1025  
W. North Avenue, Chicago, IL. Debtor is Lessee

Property Development Associates  
618 Michillinda Avenue  
Arcadia, CA 91007-1734

Real Estate Lease dated April 19, 2000. Lease of  
11660 Santa Monica Blvd, Los Angeles, CA. Debtor  
is Lessee.

Rue-Ell Enterprises, Inc.  
2437 Durant Avenue  
Berkeley, CA 94704

Real Estate Lease dated January 14, 1998 - Lease of  
811 University Avenue Units 1A and 1B, Berkeley,  
CA 94710. Debtor is Lessee.

The Art Store New York Realty Corp.  
Birchwood Business Park  
25 Birch Street, Bldg. B  
Milford, MA 01757

Real Estate Sublease dated August 23, 2001 by and  
between The Art Store New York Realty Corp., and  
The Art Store, Inc. Sublease of Unit No. 1, 1-5 Bond  
Street, New York, New York.

Van Ness Avenue Partners  
660 Woodside Drive  
Woodside, CA 94062

Real Estate Lease dated March 10, 1999 - Lease of  
1414 Van Ness Avenue, San Francisco, CA. Debtor  
is Lessee.

**Real Property Leases--The Art Store New York Realty Corp.**

1-9 Bondst Realty, Inc.  
c/o Win Restaurant Supply  
318 Lafayette Street  
New York, NY 10012

Assignee under Real Estate Lease dated August 5,  
1997. Assignor: The Art Store, Inc. Assignment of  
Lease dated August 23, 2001. Sublease dated  
August 25, 2001.

The Art Store, Inc.  
Birchwood Business Park  
25 Birch Street, Bldg. B  
Milford, MA 01757

Real Estate Sublease dated August 23, 2001 by and  
between The Art Store New York Realty Corp., and  
The Art Store, Inc. Sublease of Unit No. 1, 1-5 Bond  
Street, New York, New York.

#### **Real Property Leases—ADAR Associates LLC**

The Art Store, Inc.  
Birchwood Business Park  
25 Birch Street, Bldg. B  
Milford, MA 01757

Unwritten lease for property located at 5301  
Broadway, Oakland, CA

#### **Equipment Leases**

Boston Financial & Equity Corporation  
20 Overland Street  
Boston, MA 02215

Equipment Lease and Software Licenses - Lease  
Schedule No. 1 to Master Equipment Lease No. 1351.  
Equipment located in CA, NY, MA, IL, and  
Washington D.C. Debtor is Lessee.

GE Capital Colonial Pacific Leasing  
P.O. Box 642752  
Pittsburgh, PA 15264-2752

GE Equipment Lease No. 354766001 - Key Lease No.  
GE35476601. Lease assigned to Key Equipment  
Finance. Debtor is Lessee.

GreatAmerica Leasing Corp  
625 First Street SE  
Cedar Rapids, IA 52401

Phone Equipment Lease - Lease No. 157976 -  
equipment located at 11660 Santa Monica Blvd, Los  
Angeles, CA. Debtor is Lessee.

Phone Equipment Lease - Lease No. 154951 -  
equipment located at 1755 Maple Avenue, Evanston,  
IL. Debtor is Lessee.

Information Leasing Corporation  
1023 W. Eighth Street  
Cincinnati, OH 45203

Equipment Lease - Lease No. 321080001. Equipment  
located at The Store, Inc., MA. Debtor is Lessee.

Information Leasing Corporation  
 1023 W. Eighth Street  
 Cincinnati, OH 45203

Jules and Associates, Inc  
 515 S. Figueroa Street  
 Suite 1950  
 Los Angeles, CA 90071

Key Equipment Finance  
 P.O. Box 1865  
 Albany, NY 12201-1865

Lease Agreement No. 357650002 (security equipment). Equipment located at 3019 M. Street, NW, Washington, DC. Debtor is Lessee.

Master Equipment Lease Agreement dated September 3, 2002 - Master Lease Agreement No. A03292002. Debtor is Lessee. Lease assigned to Colonial Pacific Leasing Corporation November 1, 2002.

Equipment Lease - GE Capital Lease No. 354766001 assigned to Key Equipment - Key Equipment Lease No. GE35476601. Debtor is Lessee.

**Other**

Integrated Systems Development, Inc. 11335 James Street Holland, MI 49424	Software License Agreement and Annual Support Agreement both dated March 8, 2002 (license and support for software financed by Jules and Associates listed in Equipment Leases section)
JDA Software, Inc. 11811 North Tatum Blvd., Suite 2000 Phoenix, AZ 85028	Software License Agreement and Software Support Agreement each dated June 29, 1997
Direct Systems Support 9020 Kenamar Drive San Diego, CA 92121	Hardware Maintenance Agreement dated 2/10/04
MCI WorldCom Marketing Sale Contract Administration 500 Clinton Center Drive, Bldg 4 Clinton, MS 39056	(1) On-Net Service Agreement dated 2/7/01 (#32166700) (2) Internet Colocation Service Contract dated 9/27/02 (#396189-00) (3) On-Net Service Agreement dated 11/7/02 (#39745100) (4) Service Agreement dated 5/13/04 (#44328901)
Wells Fargo Bank, N.A.	Business Bank Card Service and Security Agreement (Amendment dated as of 4/16/02)
United Parcel Service	Carrier Agreement dated as of 9/15/03



**SCHEDULE C – Trademarks**

The Art Store (Reg. #2,097,947)

The Art Store (Reg. #2,102,359)

As The Art Store (Reg. #1,225,587)

By Hand and Foot, Ltd. (Reg. #1,273,956)

**SCHEDULE D – Domain Names**

artstores.com

artstore.com

**SCHEDULE E – Financial Statements**

**THE ART STORE, INC.  
INCOME STATEMENT  
YEAR TO DATE DECEMBER  
2003**

	ACTUAL	% SALES
Sales	39,984,683	
Cost of Sales	22,821,212	57.1
<b>Gross Margin</b>	<b>17,163,471</b>	<b>42.9</b>
Direct Store Expenses	12,687,039	31.7
Store Contribution	4,476,432	11.2
Total Home Office Expense	3,854,208	9.6
Operating Income	622,224	1.6
Other Income/(Expense)	253,615	0.6
<b>EBITDA</b>	<b>875,839</b>	<b>2.2</b>
Depreciation & Amortization	1,603,178	4.0
Interest Expense	993,301	2.5
Corporate Incentive Accrual	0	0.0
New Store Opening Expense	177,847	0.8
Straight Line Rent	146,511	0.6
Reorganization Expense	2,979,875	13.1
<b>Net Income Before Taxes</b>	<b>(5,024,873)</b>	<b>(12.6)</b>

THE ART STORE, INC.  
INCOME STATEMENT  
YEAR TO DATE APRIL  
2004

	ACTUAL	% SALES
Sales	12,509,574	
Cost of Sales	7,287,912	58.3
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Gross Margin	5,221,662	41.7
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Direct Store Expenses	3,772,527	30.2
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Store Contribution	1,449,135	11.6
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Total Home Office Expense	943,775	7.5
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Operating Income	505,360	4.0
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Other Income/(Expense)	76,082	0.6
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EBITDA	581,442	4.6
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Depreciation & Amortization	421,986	3.4
Interest Expense	121,575	1.0
KERP	0	0.0
New Store Opening Expense	0	0.0
Straight Line Rent	36,528	0.5
Reorganization Expense	438,929	6.0
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Net Income Before Taxes	(437,576)	(3.5)
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**SCHEDULE F – COBRA Recipients**

Name	Store	Date of Hire	Date of Termination	
Florence Amoroso	000999	8/14/1995	4/6/2003	
Amber Bailey	000255	7/8/2002	12/8/2003	
Iain Barnes	000301	10/7/2002	11/18/2003	
Claire Evans	000255	1/4/1999	4/12/2003	
Judith Friedlander-Bell	000450	11/15/2002	currently employed	(hrs reduced to part-time)
Sarah Llanos	000262	10/14/1996	3/14/2003	
James Mizouni	000999	9/3/2002	11/5/2003	
Arlene Strom	000999	5/17/2000	11/14/2003	