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DIXON TICONDEROGA CO  
Form SC 13D  
December 22, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 13D  
Under the Securities Exchange Act of 1934

Dixon Ticonderoga Company

-----  
(Name of Issuer)

Common Stock, \$1.00 par value

-----  
(Title of Class of Securities)

255860108

-----  
(CUSIP Number)

Richard F. Joyce  
195 International Parkway  
Heathrow, FL 32746  
(407) 829-9000

-----  
(Name, Address and Telephone Number of Person  
Authorized to Receive Notices and Communications)

Copy to:

Philip M. Shasteen, Esq.  
Johnson, Pope, Bokor, Ruppel & Burns, LLP  
403 East Madison Street, Suite 400  
Tampa, Florida 33602

December 16, 2004

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(Date of Event which requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of ss.ss. 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box .

SCHEDULE 13D

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CUSIP No. CUSIP #  
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Page 2 of 5  
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1 NAME OF REPORTING PERSON  
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

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Richard F. Joyce

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2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a)  |  
 (b)  |

-----

3 SEC USE ONLY

-----

4 SOURCE OF FUNDS\*

not applicable

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5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO  
 ITEMS 2(d) or 2(e)  |

-----

6 CITIZENSHIP OR PLACE OF ORGANIZATION

U.S.

-----

	7	SOLE VOTING POWER
		69,000
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	8	SHARED VOTING POWER
		0
	9	SOLE DISPOSITIVE POWER
		69,000
	10	SHARED DISPOSITIVE POWER
		251,255 (1)

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11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

251,255 (1)

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12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES\*

-----

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

7.7%

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14 TYPE OF REPORTING PERSON\*

IN

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(1) The Shares with respect to which Mr. Joyce shares dispositive power include 3,310 shares owned jointly with his wife, Deborah P. Joyce, 2,900 shares owned by his wife, 97,420 shares owned by his wife as trustee, 33,160 shares owned by his wife as custodian for their children, 3,320 shares owned by their child, and 69,000 shares subject to options exercisable within 60 days.

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otherwise expressly provided herein.

Item 1. Security and Issuer.

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This statement (the "Statement") relates to shares of the common stock, \$1.00 par value per share (the "Shares"), of Dixon Ticonderoga Company, a Delaware corporation (the "Issuer"). The principal executive offices of the Issuer are located at 195 International Parkway, Heathrow, FL 32746.

Item 2. Identity and Background.

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This Schedule 13D is filed by Richard F. Joyce (the "Reporting Person"). The principal occupation of the Reporting Person is Co-CEO of the Issuer. The business address of the Reporting Person is 195 International Parkway, Heathrow, FL 32746. Mr. Joyce is a citizen of the United States of America.

During the last five years, the Reporting has not been (i) convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration.

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This Schedule is filed as a result of the Reporting Person entering into the Stock Purchase Agreement. The Reporting Person did not receive any funds in connection with entering into the Stock Purchase Agreement.

Item 4. Purpose of the Transaction

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This Schedule 13D is filed to report the execution by the Reporting Person, certain other stockholders of the Issuer ("Stockholders") and Pencil Acquisition Corp., a Delaware corporation ("Purchaser") of a Stock Purchase Agreement dated December 16, 2004 (the "Stock Purchase Agreement"), in connection with an Agreement and Plan of Merger entered into on December 16, 2004 (the "Merger Agreement") by the Issuer, the Purchaser and Fila - Fabbrica Italiana Lapis ed Affini S.p.A., an Italian corporation ("Fila"). Pursuant to the Merger Agreement, among other things, Purchaser will commence an offer to purchase for cash all of the Issuer's issued and outstanding shares of common stock, par value \$1.00 per share, at a price of \$7.00 per share. Purchaser's obligation to accept the tendered shares for purchase is subject to, among other conditions set forth in Annex I of the Merger Agreement, there being validly tendered and not withdrawn prior to the expiration of the tender offer, at least 66 2/3% of the outstanding shares of the Issuer's common stock. Because the obligations of

the Reporting Person under the Stock Purchase Agreement are related to the Merger Agreement, the Merger Agreement is annexed hereto as Exhibit 1.

Pursuant to the Stock Purchase Agreement, the Reporting Person and the Stockholders (i) agreed to sell their Shares to Purchaser (or, at Purchaser's request, to tender their Shares to Purchaser), (ii) appointed designees of Purchaser as proxies with respect to voting all Shares beneficially owned by the

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Reporting Person, (iii) agreed to vote their Shares in favor of the proposed merger and the Merger Agreement and in opposition to any transaction inconsistent with the proposed merger and the Merger Agreement, and (iv) authorized the proxies to execute and deliver consents with respect to their Shares upon any and all such matters as each such proxy or its substitute shall in its sole discretion deem proper. The Stock Purchase Agreement terminates in the event the Merger Agreement is terminated. The number of Shares beneficially owned by the Reporting Person and subject to the Stock Purchase Agreement is 178,935.

Purchaser did not pay any additional consideration to the Reporting person or the Stockholders in connection with the execution and delivery of the Stock Purchase Agreement. The purpose of the Stock Purchase Agreement is to increase the likelihood that the tender offer and the merger provided for in the Merger Agreement will be consummated. The Stock Purchase Agreement terminates in the event the Merger Agreement is terminated. Shares subject to the Stock Purchase Agreement represent approximately 28% of the outstanding shares of Dixon common stock.

The Stock Purchase Agreement is annexed hereto as Exhibit 2. The foregoing description of the Merger Agreement and the Stock Purchase Agreement is qualified by the full text of the Merger Agreement and the Stock Purchase Agreement.

Item 5. Interest in Securities of the Issuer.  
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The amount of shares beneficially owned by the Reporting Person on the date hereof is as follows:

	Aggregate Number	Percent of Class
Beneficially Owned.....	251,255	7.7%
Sole Voting Power.....	69,000 1	2.1%
Shared Voting Power.....	0	0
Sole Dispositive Power.....	69,000 1	2.1%
Shared Dispositive Power.....	251,255 2	7.7%

As a result of entering in the Stock Purchase Agreement, the Purchaser may be deemed to beneficially own 178,935 Shares which are also beneficially owned by the Reporting person, constituting approximately 5.6% of the outstanding

1 Represents shares subject to options exercised within 60 days.

2 The Shares with respect to which Mr. Joyce shares dispositive power include 3,310 shares owned jointly with his wife, Deborah P. Joyce, 2,900 shares owned by his wife, 97,420 shares owned by his wife as trustee, 33,160 shares owned by his wife as custodian for their children, 3,320 shares owned by their child, and 69,000 shares subject to options exercisable within 60 days.

Shares. If the merger is consummated, the Reporting Person will not own beneficially or of record any Shares of the Issuer. Other than the Stock Purchase Agreement, the Reporting Person did not effect any transactions in the class of securities reported hereby during the past 60 days.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to  
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Securities of the Issuer  
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None, except for the provisions of the Stock Purchase Agreement.

Item 7. Material to be Filed as Exhibits  
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1. Merger Agreement dated December 16, 2004 between Dixon Ticonderoga Corporation, Pencil Acquisition Corp., and the Issuer, the Purchaser and Fila - Fabbrica Italiana Lapis ed Affini S.p.A.
2. Stock Purchase Agreement dated December 16, 2004 between Richard F. Joyce, certain other stockholders of the Issuer, and Pencil Acquisition Corp.

SIGNATURE  
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After reasonable inquiry and to the best of its knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Date: December 22, 2004.

/s/ Richard F. Joyce  
-----

Richard F. Joyce

Merger Agreement, Exhibit 1  
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AGREEMENT AND PLAN OF MERGER

BY AND AMONG

FILA - FABBRICA ITALIANA LAPIS ED AFFINI S.P.A.,

PENCIL ACQUISITION CORP

AND

DIXON TICONDEROGA COMPANY

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dated as of December 16, 2004

## AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger, dated as of December 16, 2004 (this "Agreement"), is by and among Fila - Fabbrica Italiana Lapis Ed Affini S.p.A., an Italian corporation (the "Parent"), Pencil Acquisition Corp, a newly formed Delaware corporation and wholly-owned subsidiary of the Parent (the "Merger Sub"), and Dixon Ticonderoga Company, a Delaware corporation (the "Company").

## RECITALS

WHEREAS, the respective boards of directors of the Parent, Merger Sub and the Company have each determined that it is in the best interests of their respective corporations and stockholders to approve the acquisition of the Company by the Parent upon the terms and subject to the conditions set forth herein;

WHEREAS, in furtherance thereof, this Agreement provides for Merger Sub to commence a cash tender offer (the "Offer") to acquire all of the issued and outstanding shares of common stock, par value \$1.00 per share, of the Company (the "Company Common Stock") for \$7.00 per share in cash (such price, or any such higher price per share as may be paid in the Offer, referred to herein as the "Offer Price");

WHEREAS, the respective boards of directors of the Parent, Merger Sub, and the Company have each approved, and have each declared advisable the merger of Merger Sub with and into the Company, following consummation of the Offer, upon the terms and subject to the conditions set forth in this Agreement, whereby each issued and outstanding share of Company Common Stock, other than shares owned by the Parent, the Parent's Affiliates (including Merger Sub), the Company or the Company's Subsidiaries, and other than Dissenting Shares (as defined below), will be converted into the right to receive the Merger Consideration (as defined below);

WHEREAS, the respective boards of directors of the Parent, Merger Sub, and the Company have each determined that the Offer and the Merger (as defined below) are consistent with, and in furtherance of, their respective business strategies and goals;

WHEREAS, simultaneously with the execution of this Agreement Merger Sub and certain of the Company's stockholders have entered into a stock purchase agreement (the "Stock Purchase Agreement"); and

WHEREAS, the board of directors of the Company has determined that this Agreement and the consideration to be paid for each share of Company Common Stock in the Offer and the Merger are fair to the Company's stockholders and has recommended that the stockholders accept the Offer, tender their shares of Company Common Stock pursuant thereto, and vote in favor of the Merger and the adoption of the Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements in this Agreement, the parties, intending to be legally bound, agree as follows:

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## ARTICLE I THE OFFER AND THE MERGER

1.1 The Offer. (a) Provided that this Agreement shall not have been terminated in accordance with Section 6.1 of this Agreement and none of the events set forth in Annex I shall have occurred and be continuing, then as promptly as reasonably practicable following the execution of this Agreement (but in no event later than fifteen (15) Business Days following the date hereof), Merger Sub shall, and Parent shall cause Merger Sub to, commence (within the meaning of Rule 14d-2 under the Exchange Act) the Offer to purchase for cash all the shares of Company Common Stock at the Offer Price; provided, however, that Merger Sub shall not commence the Offer prior to the tenth Business Day following the date hereof without the prior written consent of the Company. The obligations of Merger Sub to, and of Parent to cause Merger Sub to, accept for payment, and pay for, shares of Company Common Stock validly tendered pursuant to the Offer on or prior to the final expiration of the Offer and not withdrawn shall be subject only to (i) there being validly tendered and not withdrawn prior to the final expiration of the Offer that number of shares of Company Common Stock which, together with the shares of Company Common Stock then beneficially owned by the Parent or Merger Sub (including, without limitation, the shares of Company Common Stock to be sold to Merger Sub pursuant to the Stock Purchase Agreement), represents at least 66-2/3% of the outstanding shares of Company Common Stock (the "Minimum Condition") and (ii) the other conditions set forth in Annex I hereto. Subject to the terms of the Offer and this Agreement, and the prior satisfaction or waiver by Parent or Merger Sub of the Minimum Condition and the other conditions set forth in Annex I hereto as of any expiration date of the Offer, Merger Sub shall, in accordance with the terms of the Offer, promptly after the expiration of the Offer, consummate the Offer and accept for payment and pay for, and Parent shall cause Merger Sub to accept for payment and pay for, all shares of Company Common Stock validly tendered and not withdrawn pursuant to the Offer (subject to the applicable provisions of Rule 14d-11 under the Exchange Act, to the extent applicable). The Offer shall be made by means of an offer to purchase (the "Offer to Purchase") containing the terms set forth in this Agreement and having only the Minimum Condition and the other conditions set forth in Annex I hereto. Each of Parent and Merger Sub agrees that the Offer to Purchase will provide a statement in all appropriate places therein to the effect that Merger Sub's obligation to purchase shares of Company Common Stock pursuant to the Offer is not conditioned on any financing arrangements or subject to any financing condition. Unless extended in accordance with this Section 1.1(a), the Offer shall provide for an initial expiration date of twenty (20) Business Days following the commencement of the Offer (the "Initial Expiration Date"). Parent and Merger Sub shall have the right to extend the Offer for one ten Business Day period for any reason in their sole discretion. The latest time and date at which the Offer, as may be extended beyond the Initial Expiration Date as permitted or required by this Section 1.1(a), shall expire shall not be later than the Outside Date (except as may otherwise be required by rule, regulation, interpretation, or position of the SEC or its staff) and is herein referred to as the "Expiration Date." Merger Sub expressly reserves the right to waive or modify the terms of the Offer, except that, without the prior written consent of the Company (such consent to be authorized by the board of directors of the Company or a duly authorized committee thereof), neither Parent nor Merger Sub shall (i) amend or waive satisfaction of the Minimum Condition, (ii) decrease the Offer Price, (iii) change the form of consideration payable in the Offer, (iv) decrease the number of shares of Company Common Stock sought in the Offer, (v) impose additional conditions to the Offer, (vi) amend any of the conditions set forth in Annex I

in any manner adverse to the holders of the shares of Company Common Stock, (vii) amend any other term of the Offer in a manner that is adverse to the

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holders of the shares of Company Common Stock, or (viii) extend the Offer except as expressly permitted or required by this Section 1.1(a). Each of Parent and Merger Sub agree that they shall not terminate or withdraw the Offer unless, at the Initial Expiration Date, the Minimum Condition shall not have been satisfied or the other conditions to the Offer described in Annex I shall not have been satisfied or earlier waived. Notwithstanding the foregoing:

(1) without limiting the right of Parent and Merger Sub to extend the Offer as permitted by this Section 1.1(a), provided that this Agreement shall not have been terminated in accordance with Section 6.1 hereof, at the request of the Company, Merger Sub will, and Parent will cause Merger Sub to, extend the Offer for one or more periods of ten (10) Business Days each, but in no event beyond the Outside Date, if the conditions set forth in Annex I hereto are not satisfied or, to the extent permitted by this Agreement, waived at or prior to the time the Offer otherwise would expire, except to the extent any such conditions that have not been waived are incapable of being satisfied.

(2) Parent and Merger Sub may (but shall not be obligated to), without the consent of the Company, provided that this Agreement shall not have been terminated in accordance with Section 6.1 hereof, extend the Offer

(A) beyond the Initial Expiration Date from time to time, for such period or periods of time, no later than the Outside Date, as Parent or Merger Sub reasonably believes are necessary to cause the conditions to be satisfied if, at or prior to the time the Offer otherwise would expire, any conditions to the Offer shall not have been satisfied or, to the extent permitted by this Agreement, waived;

(B) for any period required by any rule, regulation, interpretation, or position of the SEC or the staff thereof applicable to the Offer; and

(C) beyond the latest Expiration Date that would otherwise be permitted by this Section 1.1(a) on up to two occasions for periods of ten (10) Business Days each, but in no event beyond the Outside Date, if, on such Expiration Date, all of the conditions to the Merger Sub's obligation to accept for payment and pay for shares of Company Common Stock validly tendered pursuant to the Offer are satisfied or, to the extent permitted by this Agreement, waived, but the number of shares of Company Common Stock validly tendered (and not withdrawn) pursuant to the Offer, together with the Company Common Stock then beneficially owned by Parent and Merger Sub (including, without limitation, the shares of Company Common Stock to be sold to Merger Sub pursuant to the Stock Purchase Agreement), represents less than ninety percent (90%) of the outstanding shares of Company Common Stock; provided, however, that Merger Sub's decision to extend the Offer in the case of this clause (C) shall constitute a waiver of the conditions set forth in clauses (b) and (d) of Section (ii) of Annex I and of its right to terminate the Agreement under Section 6.1(f) of the Agreement (except, in the case of Section 6.1(f), any failure by the Company to perform a covenant or agreement), but, in each case, such waiver shall apply

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only to the extent that any Material Adverse Effect or any breach of representation or warranty giving rise to the failure of such condition or to such termination right resulted from events that occurred after the time of such extension.

In the event the Minimum Condition is satisfied and Merger Sub purchases the



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shares of Company Common Stock tendered pursuant to the Offer, Merger Sub may, in its sole discretion, provide a subsequent offering period in accordance with Rule 14d-11 promulgated under the Exchange Act (a "Subsequent Offering Period"). In addition, Merger Sub may increase the Offer Price (but not change any other condition to the Offer) and extend the Offer to the extent required by law in connection with such increase, in each case in its sole discretion and without the consent of the Company.

(b) As soon as practicable on the date the Offer is commenced, Parent and Merger Sub shall file with the SEC, a Tender Offer Statement on Schedule TO with respect to the Offer (together with all amendments and supplements thereto and including the exhibits thereto, the "Schedule TO"). The Schedule TO will comply as to form in all material respects with the provisions of all applicable federal securities Laws and will contain or incorporate by reference the summary term sheet required thereby and, as exhibits, the Offer to Purchase, forms of the related letters of transmittal, and summary advertisement, and all other ancillary Offer documents (which documents, together with any amendments and supplements thereto, and any other SEC schedule or form which is filed in connection with the Offer and related transactions, are referred to collectively herein as the "Offer Documents"). Parent and Merger Sub further agree to take all steps necessary to cause the Offer Documents to be filed with the SEC and to be disseminated to the holders of the Company Common Stock, together with the Schedule 14D-9, in each case, as and to the extent required by applicable federal securities Laws. The Company shall provide Parent and Merger Sub with any information regarding the Company or its Subsidiaries that may be required by applicable Law or reasonably requested by Parent or Merger Sub in order to effectuate the preparation and filing of the Offer Documents. Parent and Merger Sub agree promptly to correct the Schedule TO or the Offer Documents if and to the extent that any information shall have become false or misleading in any material respect or as otherwise required by Law (and the Company, with respect to written information supplied by it specifically for use in the Schedule TO or the Offer Documents, shall promptly notify Parent of any required corrections of such information and shall cooperate with Parent and Merger Sub with respect to correcting such information). Parent and Merger Sub further agree to take all steps necessary to cause the Schedule TO, as so corrected, to be filed with the SEC and the Offer Documents, as so corrected, to be disseminated to the holders of the Company Common Stock as required by applicable federal securities Laws. Parent and Merger Sub shall consult with the Company and its counsel with respect to the Offer Documents and shall afford the Company and its counsel a reasonable opportunity to review and comment on the Offer Documents and all documents required to be furnished by Parent or Merger Sub under Rules 14d-2(b) and 14a-12 of the Exchange Act before they are transmitted to or filed with the SEC or disseminated to the Company's stockholders, and Parent and Merger Sub shall consider any such comments in good faith. In addition, Parent and Merger Sub agree to provide in writing to the Company and its counsel any comments or communications, written or oral, that Parent, Merger Sub or their counsel may receive from time to time from the SEC or its staff with respect to the Offer Documents promptly after Parent's or Merger Sub's, as the case may be, receipt of such comments. Prior to responding to any such comments, Parent and Merger Sub shall consult with the Company and

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its counsel and provide them with a reasonable opportunity to review and participate in any response to any such comments. Parent and Merger Sub shall consider in good faith any suggestions from the Company or its counsel with respect to such comments or response. Parent and Merger Sub shall provide the Company and its counsel with copies of all correspondence between the Parent, Merger Sub, their counsel, or their representatives, on the one hand, and the SEC or its staff, on the other hand.

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(c) Parent shall provide or cause to be provided to Merger Sub on a timely basis all of the funds necessary to purchase all of the shares of Company Common Stock that Merger Sub becomes obligated to purchase pursuant to the Offer. Prior to the time the Offer expires, the Parent shall appoint a bank or trust company in the United States reasonably acceptable to the Company to act as the paying agent hereunder (the "Paying Agent") to receive in trust the funds to which stockholders of the Company shall become entitled upon validly tendering and not withdrawing prior to the final expiration of the Offer their shares pursuant to the Offer. At or prior to the time the Offer expires, Parent shall cause to be deposited with the Paying Agent the aggregate amount necessary for payment in full of all consideration that holders of Company Common Stock are entitled to receive pursuant to the Offer.

(d) If this Agreement has been terminated pursuant to Section 6.1 of this Agreement, Merger Sub shall, and the Parent shall cause Merger Sub to, promptly terminate the Offer without accepting any of the shares of Company Common Stock for payment.

### 1.2 Company Actions.

(a) Simultaneously with the filing of the Offer Documents with the SEC, the Company shall file with the SEC a Solicitation/Recommendation Statement on Schedule 14D-9 with respect to the Offer (together with all amendments, supplements, and exhibits thereto, the "Schedule 14D-9"). The Schedule 14D-9 will comply as to form in all material respects with the provisions of all applicable federal securities Laws. The Schedule 14D-9 shall, subject to the provisions of Section 4.3(e) of this Agreement, contain the recommendation of the Company's board of directors that the stockholders of the Company accept the Offer, tender their shares of Company Common Stock to Merger Sub pursuant to the Offer, and approve and adopt this Agreement and the Merger (the "Company Recommendation"). The Parent and Merger Sub shall provide the Company with any information regarding Parent, Merger Sub, or their Affiliates that may be required by applicable Law or reasonably requested by the Company in order to effectuate the preparation and filing of the Schedule 14D-9. The Company agrees to cause the Schedule 14D-9 to be filed with the SEC and disseminated to the holders of shares of Company Common Stock, together with the Offer Documents, in each case as and to the extent required by applicable federal securities Laws. The Company, on the one hand, and Parent and Merger Sub, on the other hand, agree promptly to correct any information provided by it for use in the Schedule 14D-9 if it shall have become false or misleading in any material respect or as otherwise required by Law. The Company further agrees to take all steps necessary to cause the Schedule 14D-9 as so corrected to be filed with the SEC and disseminated to the holders of the Company Common Stock as required by applicable federal securities Laws. The Company shall consult with Parent, Merger Sub, and their counsel with respect to the Schedule 14D-9 and shall afford Parent, Merger Sub, and their counsel a reasonable opportunity to review and comment on the Schedule 14D-9 before it is filed with the SEC. The Company shall consider any such comments in good faith. In addition, the Company agrees to provide in writing to Parent, Merger Sub and their counsel any comments or communications, written or oral, that the Company or its counsel may

receive from time to time from the SEC or its staff with respect to the Schedule 14D-9 promptly after the Company's receipt of such comments. Prior to responding to any such comments, the Company shall consult with Parent, Merger Sub and their counsel and provide them with a reasonable opportunity to review and participate in any response to such comments. The Company shall consider in good faith any suggestions from Parent, Merger Sub or their counsel with respect to such comments or response. The Company shall provide the Parent, Merger Sub, and

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their counsel with copies of all correspondence between the Company, its counsel, or its representatives, on the one hand, and the SEC or its staff, on the other hand.

(b) In connection with the Offer, the Company will as promptly as practicable furnish or cause to be furnished to Merger Sub any available listing or electronic file containing the names and addresses of the record holders of shares of Company Common Stock as of a recent date, together with copies of security position listings, and shall promptly furnish or cause to be furnished to Merger Sub such information and assistance (including, but not limited to, updated lists of holders of shares of Company Common Stock and updated listings of security positions) as Merger Sub may reasonably request for purposes of communicating the Offer to the Company's stockholders. Except for such steps as are reasonably necessary to disseminate the Offer Documents and any other documents necessary to consummate the Offer, the Parent and Merger Sub shall hold in confidence the information contained in any such listings and files, shall use such information only in connection with the Offer and the Merger and, if this Agreement shall be terminated, shall, upon request, deliver to the Company all copies of such information then in their possession or in the possession of their agents or representatives. Parent and Merger Sub shall take such action as is necessary to disseminate the Offer Documents and Company Recommendation to holders of the Company Common Stock.

(c) Promptly upon the payment by Merger Sub for shares of Company Common Stock pursuant to the Offer and the Stock Purchase Agreement and from time to time thereafter, Merger Sub shall be entitled to designate such number of directors of the Board of Directors of the Company (the "Board"), rounded to the closest whole number, as is equal to the product of the number of directors on the Board, after giving effect to such representation, and the percentage of the outstanding Shares owned by Merger Sub, and the Company, upon request of Merger Sub, subject to applicable law and the Company's Certificate of Incorporation, shall promptly, at the Company's election, either increase the size of the Board or secure the resignation of such number of directors as is necessary to enable Merger Sub's designees to be elected or appointed to the Board and shall use its reasonable best efforts to cause Merger Sub's designees to be so elected or appointed.

(d) The Company's obligations to appoint designees to the Board shall be subject to Section 14(f) of the Exchange Act and Rule 14f-1 thereunder. The Company shall promptly take all actions required pursuant to Section 14 (f) and Rule 14f-1 and shall include in the Schedule 14D-9 such information with respect to the Company and its officers and directors as is required under Section 14 (f) and Rule 14f-1 so long as Parent and Merger Sub have provided the Company on a timely basis all information required to be provided pursuant to the last sentence of this subsection (d). Parent and Merger Sub will provide the Company with all necessary assistance, in order to fulfill the Company's obligations under this Section 1.2(d), and will supply to the Company in writing and be solely responsible for any information with respect to either of them and

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their nominees, officers, directors and affiliates required by Section 14 (f) and Rule 14f-1.

(e) Anything in this Section 1.2 to the contrary notwithstanding, if Merger Sub's designees are elected or appointed to the Company's Board, then until the Effective Time, the Company's Board shall have at least two directors, or such greater number as may be required by the rules of the American Stock Exchange, who are Independent Directors. For purposes of this Agreement, the term "Independent Director" shall mean a member of the Company's Board (i) who

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(except as otherwise provided in this subsection (e)) was a member thereof on the date hereof, (ii) who is not an Affiliate or Associate of Parent or Merger Sub, (iii) who is not an employee of the Company or any of its Subsidiaries, and (iv) who is otherwise considered an independent director within the meaning of the rules of the American Stock Exchange. If the number of Independent Directors shall be reduced below two, or such greater number as may be required by the rules of the American Stock Exchange, the remaining Independent Director(s) shall be entitled to designate persons to fill such vacancies who are not Affiliates or Associates of Parent or Merger Sub and who otherwise are considered independent directors within the meaning of the rules of the American Stock Exchange, and such persons shall be deemed to be Independent Directors for purposes of this Agreement. If there shall be no Independent Directors, then the other directors shall use commercially reasonable efforts to designate two persons, or such greater number as may be required by the rules of the American Stock Exchange, to fill such vacancies who are not Affiliates or Associates of Parent or Merger Sub and who otherwise are considered independent directors within the meaning of the rules of the American Stock Exchange, and such persons shall be deemed to be Independent Directors for purposes of this Agreement. Following the purchase by Merger Sub of shares of Company Common Stock pursuant to the Offer, and prior to the Effective Time, Parent and Merger Sub shall use their reasonable best efforts to ensure that at least two Independent Directors (or such greater number as may be required by the rules of the American Stock Exchange) serve as directors of the Company until the Effective Time and neither Parent nor Merger Sub will take any action to cause any Independent Director to be removed as a director of the Company except for cause. The Independent Directors shall form a committee that, during the period from the time shares of Company Common Stock are accepted for purchase pursuant to the Offer until the Effective Time, shall, to the extent permitted by the General Corporation Law of the State of Delaware (the "DGCL") and this Agreement, have the sole power and authority, by a majority vote of such Independent Directors, to cause the Company to (a) agree to amend this Agreement or to extend the time for the performance of any of the obligations or other acts of the Parent or Merger Sub under the Offer, the Merger or this Agreement, or (b) exercise or waive any of the Company's rights, benefits, or remedies under this Agreement except for the right to terminate the Agreement. In addition, during the period from the time shares of Company Common Stock are accepted for purchase pursuant to the Offer until the Effective Time, any (a) amendment to the Company's Certificate of Incorporation or Bylaws, (b) termination of this Agreement by the Company, (c) other action that could adversely affect the interests of the holders of shares of Company Common Stock (other than the Parent or Merger Sub), and (d) action specified in the immediately preceding sentence with respect to which the DGCL does not permit a committee of the Board to exercise sole power and authority, shall require, in addition to any other affirmative vote required under the DGCL or the Company's Certificate of Incorporation or Bylaws, the affirmative vote of not less than a majority of the entire Board, which majority shall include the concurrence of a majority of the Independent Directors, and neither Parent nor Merger Sub shall approve (either in its capacity as a stockholder or as a party to this Agreement, as applicable), and each shall use its reasonable best

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efforts to prevent the occurrence of, any such actions, unless such action shall have received the concurrence of a majority of the Independent Directors.

1.3 The Merger. Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the DGCL, Merger Sub shall be merged with and into the Company at the Effective Time (the "Merger"). At the Effective Time the separate corporate existence of Merger Sub shall cease, the Company shall be the surviving corporation (sometimes referred to as the "Surviving Corporation") and shall succeed to and assume all the rights and obligations of Merger Sub in accordance with the DGCL.

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1.4 Closing. The closing of the Merger (the "Closing") will take place at a time and on a date to be specified by the parties (the "Closing Date"), which shall be no later than the second Business Day following the later of: (a) the expiration of the Offer (or the expiration of any Subsequent Offering Period if Merger Sub elects to provide such a Subsequent Offering Period) and (b) satisfaction or waiver of all of the conditions set forth in Article V (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions), unless another time or date is agreed to by the parties. The Closing shall take place at the offices of Shapiro Forman Allen & Miller LLP at 380 Madison Avenue, New York, New York 10017, or such other location as agreed to by the parties.

1.5 Effective Time; Filing of Certificate of Merger. Subject to the provisions of this Agreement, on the Closing Date, the parties shall cause the Merger to be consummated by filing a properly executed certificate of merger (the "Certificate of Merger") with the Secretary of State of the State of Delaware in accordance with the DGCL and shall make all other filings or recordings required under the DGCL. The Merger shall become effective at the time of such filing of the Certificate of Merger with the Secretary of State of the State of Delaware, or at such later date or time as the Parent and the Company shall agree and specify in the Certificate of Merger (the "Effective Time").

### 1.6 Effects Of The Merger.

(a) The Merger shall have the effects set forth in this Agreement and in the applicable provisions of the DGCL.

(b) At the Effective Time, (i) the certificate of incorporation of the Company shall be amended and restated to read in its entirety as set forth on Exhibit A hereto and (ii) the bylaws of Merger Sub, as in effect immediately prior to the Effective Time, shall be the bylaws of the Surviving Corporation until thereafter amended in accordance with applicable law.

(c) Immediately prior to the Effective Time, each of the directors of the Company shall resign such position. At the Effective Time, the directors and officers of Merger Sub immediately prior to the Effective Time shall become the initial directors and officers of the Surviving Corporation and shall hold office in accordance with the certificate of incorporation and bylaws of the Surviving Corporation until his or her death, disability, resignation or removal or until his or her successor is duly elected and qualified, as the case may be.

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(d) If, at any time after the Effective Time, the Surviving Corporation shall consider or be advised that consistent with the terms of this Agreement any deeds, bills of sale, assignments, assurances in Law or any other acts or things are necessary or desirable (i) to continue, vest, perfect or confirm, of record or otherwise, the Surviving Corporation's right, title or interest in, to or under any of the rights, properties, privileges, franchises or assets of either of the constituent corporations acquired or to be acquired by the Surviving Corporation by reason of, as a result of, or in connection with, the Merger, or (ii) otherwise to carry out the purposes of this Agreement, the officers and directors of the Surviving Corporation shall be authorized to execute and deliver, in the name and on behalf of either of such constituent corporations, all such deeds, bills of sale, assignments and assurances, and to take and do, in the name and on behalf of each of such constituent corporations or otherwise, all such other actions and things as may be necessary or desirable

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to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties, privileges, franchises or assets in the Surviving Corporation or otherwise to carry out the intent of this Agreement.

### 1.7 The Proxy Statement; Special Meeting; Company Recommendation.

(a) If, after consummation of the Offer, a meeting of the Company's stockholders is necessary to consummate the Merger and the Merger has not become effective without a meeting of stockholders pursuant to Section 1.8(a) hereof and has not been approved by the Stockholders' Written Consent pursuant to Section 1.8(b) hereof, then:

(1) As promptly as practicable after the consummation of the Offer and if required by the Exchange Act, the Company shall prepare and cause to be filed with the SEC a preliminary Proxy Statement in connection with the Special Meeting (as defined below), and shall use reasonable efforts to have the Proxy Statement cleared by the SEC as soon as possible. As promptly as reasonably practicable after the Proxy Statement has been cleared by the SEC, the Company shall mail the definitive Proxy Statement to stockholders of the Company. Except as permitted by Section 4.3(e), the Proxy Statement shall contain the Company Recommendation. The Parent and Merger Sub shall provide the Company with any information regarding Parent, Merger Sub, or their Affiliates that may be required by applicable Law or reasonably requested by the Company in order to effectuate the preparation and filing of the Proxy Statement. The Company shall consult with the Parent and Merger Sub with respect to the Proxy Statement and shall afford the Parent and Merger Sub reasonable opportunity to review and comment thereon prior to its finalization. The Company shall consider any such comments in good faith. If, at any time prior to the Special Meeting, any event shall occur which is required to be set forth in an amendment or supplement to the Proxy Statement, the Company or the Parent, as the case may be, shall promptly notify the other of such event. In such case, the Company, with the cooperation of the Parent and Merger Sub, will promptly prepare and mail such amendment or supplement to its stockholders, and the Company shall consult with the Parent and Merger Sub with respect to such amendment or supplement and shall afford the Parent and Merger Sub reasonable opportunity to comment thereon prior to such mailing. The Company shall consider any such comments in good faith.

(2) Except as otherwise permitted in this Agreement, the Company shall take all action reasonably necessary in accordance with the DGCL, its certificate of incorporation, and its bylaws to cause a

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special meeting of its stockholders to be duly called, noticed and convened to consider the adoption of this Agreement (including any postponement or adjournment thereof, the "Special Meeting"). Subject to applicable Law, the Special Meeting shall be held (on a date selected by the Company in consultation with the Parent) as promptly as reasonably practicable after the acceptance of payment and purchase of Company Common Stock by Merger Sub pursuant to the Offer and the definitive Proxy Statement has been mailed to the stockholders of the Company. Notwithstanding anything to the contrary contained in this Agreement, the Company may adjourn or postpone the Special Meeting (i) to ensure that any supplement or amendment to the Proxy Statement is provided to its stockholders in advance of a vote on this Agreement, or (ii) if as of the time for the Special Meeting as set forth in the Proxy Statement there are insufficient shares of Company Common Stock

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represented (either in person or by proxy) to constitute a quorum necessary to conduct the business of such Special Meeting.

(b) The Parent shall cause all shares of Company Common Stock beneficially owned by the Parent or any Affiliate of the Parent or over which Parent or any of its Affiliates exercise voting control to be voted in favor of the adoption of this Agreement at the Special Meeting.

(c) As soon as practicable after the Special Meeting, the Company shall deliver to Parent a certificate of its corporate secretary setting forth the voting results from the Special Meeting.

### 1.8 Merger Without Meeting of Stockholders.

(a) Notwithstanding anything in Section 1.7 of this Agreement to the contrary, if Merger Sub shall have accepted for payment pursuant to the Offer such number of shares of Company Common Stock which, when aggregated with the shares of Company Common Stock otherwise beneficially owned by the Parent or its Affiliates (including, without limitation, shares of Company Common Stock sold to Merger Sub pursuant to the Stock Purchase Agreement), represents a number of shares sufficient to enable Merger Sub (if all such shares of Company Common Stock were owned by Merger Sub) to cause the Merger to become effective without a meeting of stockholders of the Company pursuant to Section 253 of the DGCL, then the parties will take all necessary and appropriate action to cause the Merger to become effective pursuant to Section 253 of the DGCL as soon as practicable after Merger Sub accepts for payment and pays for shares tendered in the Offer (including, without limitation, causing any shares of Company Common Stock beneficially owned by Parent or any of its Affiliates but not owned directly by Merger Sub to be transferred to Merger Sub).

(b) Notwithstanding anything in Section 1.7 of this Agreement to the contrary, if Merger Sub shall have accepted for payment pursuant to the Offer such number of shares of Company Common Stock which, when aggregated with the shares of Company Common Stock otherwise beneficially owned by the Parent or its Affiliates or over which any of them exercises voting control (including, without limitation, shares of Company Common Stock sold to Merger Sub pursuant to the Stock Purchase Agreement), represents a number of shares equal to not less than 66-2/3% of the then outstanding shares of Company Common Stock but less than that number of shares sufficient to enable Merger Sub (if all such shares of Company Common Stock were owned by Merger Sub) to cause the Merger to

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become effective without a meeting of stockholders of the Company pursuant to Section 253 of the DGCL, Merger Sub shall, and Parent shall cause its Affiliates and any record holder of Company Common Stock over which Parent or any of its Affiliates exercises voting control to, execute and deliver to the Company, in accordance with Section 228 of the DGCL, a consent or consents in writing voting all shares of Company Common Stock beneficially owned by Parent and any of its Affiliates or over which Parent or any of its Affiliates exercises voting control in favor of the approval and adoption of this Agreement and the Merger (the "Stockholders' Written Consent"). Simultaneously with the filing of the Company's Schedule 14D-9, the Company shall file with the SEC an information statement on Schedule 14C pursuant to Section 14(c) of the Exchange Act and the rules and regulations promulgated thereunder (the "Schedule 14C Information Statement"). The Company shall use all reasonable efforts to respond as promptly as practicable to any comments of the SEC or its staff with respect to the Schedule 14C Information Statement. The Company shall promptly notify the Parent upon the receipt of any comments from the SEC or its staff or any request from the SEC or its staff for amendments or supplements to the Schedule 14C Information Statement and shall provide the Parent with copies of all

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correspondence between the Company and its representatives, on the one hand, and the SEC and its staff, on the other hand. Notwithstanding the foregoing, prior to filing or mailing the Schedule 14C Information Statement (or any amendment or supplement thereto) or responding to any comments of the SEC or its staff with respect thereto, the Company (i) shall consult with Parent, Merger Sub, and their counsel and provide them with a reasonable opportunity to review and comment on such document or response and (ii) shall consider any such comments in good faith. Upon Parent's request, if the Offer is consummated but the number of shares of Company Common Stock accepted for payment in the Offer, together with the shares of Company Common Stock then beneficially owned by the Parent or its Affiliates (including, without limitation, shares of Company Common Stock sold to Merger Sub pursuant to the Stock Purchase Agreement) is less than 90% of the Company Common Stock then outstanding, the Company shall cause the Schedule 14C Information Statement to be mailed to the Company's stockholders as promptly as practicable following the Expiration Date and delivery by Merger Sub of the Stockholders' Written Consent.

1.9 Conversion of Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of the Company, the Parent, Merger Sub or the stockholders thereof:

(a) Each share of capital stock, par value \$0.01 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into one fully paid and nonassessable share of common stock, par value \$0.01 per share, of the Surviving Corporation.

(b) Each share of Company Common Stock issued and outstanding immediately prior to the Effective Time, other than shares to be canceled in accordance with Section 1.9(c) and Dissenting Shares, shall be converted into the right to receive \$7.00 in cash, payable to the holder thereof, without any interest thereon (the "Merger Consideration"), as soon as reasonably practicable after the surrender of the certificate(s) representing such Company Common Stock as provided in Section 1.10. Notwithstanding the foregoing, if Parent or Merger Sub increases the Offer Price as permitted by Section 1.1(a) of this Agreement, then the Merger Consideration shall be the same cash amount as the Offer Price paid to holders in connection with consummation of the Offer. At and after the Effective Time, all shares of Company Common Stock shall no longer be

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outstanding and shall automatically be canceled and shall cease to exist, and each holder of a share certificate which immediately prior to the Effective Time represented shares of Company Common Stock shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration to be issued in consideration therefor upon surrender of such certificate in accordance with Section 1.10, or in the case of holders of Dissenting Shares, such rights as are granted pursuant to Section 262 of the DGCL and this Agreement.

(c) Each share of Company Common Stock that is held in the Company's treasury or owned or held by any Subsidiary of the Company, the Parent, or any Affiliate of Parent shall automatically be canceled and retired and shall cease to exist, and no consideration shall be delivered or deliverable in exchange therefor.

1.10 Exchange Of Certificates.

(a) Prior to the Effective Time, the Parent shall appoint the Paying Agent and authorize the Paying Agent to receive in trust the funds to which stockholders of the Company shall become entitled upon surrender of the certificates in accordance with this Section 1.10. At or prior to the Effective



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Time, Parent shall cause to be deposited with the Paying Agent the aggregate amount necessary for payment in full of all consideration that holders of Company Common Stock and Eligible Options are entitled to receive pursuant to Section 1.9 and Section 1.13, respectively, to be held for the benefit of, and distribution to, such holders in accordance with this Agreement. The Paying Agent shall agree to hold such funds (the "Payment Fund") for delivery as contemplated by this Section 1.10. The Payment Fund shall be invested as directed by Parent or the Surviving Corporation pending payment thereof by the Paying Agent to holders of Company Common Stock and Eligible Options. Earnings from such investments in excess of the aggregate Merger Consideration shall be the sole and exclusive property of the Surviving Corporation, and no part of such earnings shall accrue to the benefit of the holders of Company Common Stock or Eligible Options. If for any reason (including losses) the Payment Fund is inadequate to pay the cash amounts to which holders of shares of Company Common Stock and Eligible Options shall be entitled, Parent and the Surviving Corporation shall in all events remain liable for the payment thereof and Parent shall take all steps necessary to enable and cause the Surviving Corporation to provide to the Paying Agent on a timely basis, as and when needed after the Effective Time, cash necessary to pay for the shares of Company Common Stock converted into the right to receive cash pursuant to Section 1.9 and to pay the cash amount due to holders of Eligible Options pursuant to Section 1.13. The Payment Fund shall not be used for any purpose except as expressly provided in this Agreement.

(b) As soon as reasonably practicable after the Effective Time, but in no event later than ten (10) Business Days thereafter, the Paying Agent shall mail to each holder of record of a certificate that immediately prior to the Effective Time represented shares of Company Common Stock (other than Parent, any Affiliate of Parent, the Company, any Subsidiary of the Company and any holder of Dissenting Shares): (i) a letter of transmittal (a "Letter of Transmittal"), which Letter of Transmittal shall specify that delivery shall be effected, and risk of loss and title to each such certificate shall pass, only upon delivery of such certificates to the Paying Agent, and contain such other provisions as the Company and Parent may reasonably specify; and (ii) instructions for use in surrendering such certificates in exchange for Merger Consideration. Thereafter, upon surrender of a certificate representing Company Common Stock for cancellation to the Paying Agent, together with a Letter of Transmittal, duly executed, and such other documents as may reasonably be

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required by the Paying Agent, the holder of such certificate shall (subject to applicable abandoned property, escheat and similar Laws) receive in exchange therefor the amount of cash equal to the product of (x) the Merger Consideration and (y) the number of shares of Company Common Stock represented by such certificate, and the certificate so surrendered shall be canceled. If a transfer of ownership of shares of Company Common Stock has not been registered in the transfer records of the Company, payment may be made to a Person other than the Person in whose name the certificate so surrendered is registered if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such payment shall pay any transfer or other Taxes required by reason of the payment to a Person other than the registered holder of such certificate or establish to the satisfaction of the Parent that such Taxes have been paid or are not applicable.

(c) All cash paid upon the surrender of certificates representing Company Common Stock in accordance with the terms of this Article I shall be deemed to have been paid in full satisfaction of all rights pertaining to the shares of Company Common Stock theretofore represented by such certificates, subject, however, to the Surviving Corporation's obligation to pay any dividends or make any other distributions with a record date prior to the Effective Time

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that may have been declared or made by the Company on such shares of Company Common Stock and that remain unpaid at the Effective Time. If, after the Effective Time, certificates representing Company Common Stock are presented to the Surviving Corporation or the Paying Agent for any reason, they shall be canceled and exchanged as provided in this Article I, except as otherwise provided by Law.

(d) None of the Parent, Merger Sub, the Company, the Surviving Corporation or the Paying Agent shall be liable to any Person in respect of any cash delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law. No Person previously entitled to any amounts payable pursuant to this Article I shall have any claim to such amount to the extent such amount has escheated or become the property of, and paid to, any Governmental Entity. At any time following six months after the Effective Time, the Surviving Corporation shall be entitled to require that the Paying Agent deliver to it any funds (including any earnings received with respect thereto) that had been made available to the Paying Agent and that have not been disbursed to holders of certificates representing Company Common Stock or holders of Eligible Options, and thereafter such holders shall be entitled to look only to the Surviving Corporation (subject to abandoned property, escheat or other similar Laws) as general creditors thereof with respect to the Merger Consideration payable upon due surrender of their certificates.

(e) The Paying Agent shall be authorized to pay the Merger Consideration attributable to any certificate(s) representing Company Common Stock that have been lost, stolen or destroyed upon receipt of evidence of ownership of the Company Common Stock represented thereby and of appropriate indemnification and/or bond in each case reasonably satisfactory to the Surviving Corporation.

(f) The Parent, the Surviving Corporation, and the Paying Agent shall be entitled to deduct and withhold from amounts otherwise payable pursuant to this Agreement to any holder of certificates previously representing Company Common Stock or to any holder of Eligible Options such amounts as the Parent, the Surviving Corporation, or the Paying Agent, respectively, reasonably determines is required to be deducted and withheld with respect to the making of such payment under the Internal Revenue Code of 1986, as amended (the "Code"), or any provision of state, local or foreign Tax Law. To the extent that amounts

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are so withheld, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of such certificates or of such Eligible Options in respect of which such deduction and withholding was made by the Parent, the Surviving Corporation, or the Paying Agent.

1.11 No Further Rights or Transfers. Except for the surrender of the certificate(s) in exchange for the Merger Consideration or the perfection of appraisal rights with respect to the Dissenting Shares, at and after the Effective Time, each holder of shares of Company Common Stock issued and outstanding immediately prior to the Merger shall cease to have any rights as a stockholder of the Company, and no transfer of shares of Company Common Stock issued and outstanding immediately prior to the Merger shall thereafter be made on the stock transfer books of the Surviving Corporation.

1.12 Dissenting Shares.

(a) Notwithstanding anything in this Agreement to the contrary and unless otherwise provided by applicable Law, shares of Company Common Stock that are owned by stockholders of the Company who have properly perfected their rights of appraisal in accordance with the provisions of Section 262 of the DGCL

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(the "Dissenting Shares") shall not be converted into the right to receive the Merger Consideration, unless and until such stockholders shall have failed to perfect or shall have effectively withdrawn or lost their rights of appraisal under applicable law, but, instead, the holders thereof shall be entitled only to such rights as are granted pursuant to Section 262 of the DGCL. If any such holder shall have failed to perfect or shall have effectively withdrawn or lost such right of appraisal, each share of Company Common Stock held by such stockholder shall thereupon be deemed to have been converted into the right to receive and become exchangeable for, as of the Effective Time, the Merger Consideration, as provided in Section 1.9(b).

(b) The Company shall notify the Parent of any written demands for appraisal with respect to any shares of Company Common Stock received by the Company in accordance with Section 262 of the DGCL, and any withdrawals of such written demands, and any other instruments served in connection with such written demands pursuant to the DGCL. The Company shall give Parent the opportunity to participate in all negotiations and proceedings with respect to such demands for appraisal under the DGCL consistent with the obligations of the Company thereunder, and shall keep Parent reasonably informed with respect to such negotiations or proceedings. The Company shall not, except with the prior written consent of the Parent, (x) voluntarily make any payment with respect to any such demand for appraisal, (y) offer to settle or settle any such demand for appraisal, or (z) waive any failure to timely deliver a written demand for appraisal in accordance with the DGCL.

### 1.13 Stock Options and Purchase Plan.

(a) As soon as practicable following the date of this Agreement, the Company shall take or cause to be taken such actions as are reasonably required to ensure that (i) each holder (each, an "Optionee") of a Company Stock Option that has not previously expired or been exercised in full as of or prior to the Effective Time, whether vested or unvested (each such option, an "Eligible Option"), shall have the right to irrevocably elect, no later than immediately prior to the consummation of the Merger, to surrender following the consummation of the Merger any Eligible Option then held by the Optionee in exchange for the right to receive a cash payment equal to (x) the excess, if

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any, of (A) the Merger Consideration over (B) the exercise price per share of Company Common Stock subject to such Eligible Option, multiplied by (y) the number of shares of Company Common Stock then issuable pursuant to the unexercised portion of such Eligible Option, payable not later than five days after the Effective Time, (ii) each Optionee shall have the right to purchase, effective no later than immediately prior to the consummation of the Merger, subject to the consummation of the Merger and in accordance with the terms of the relevant plan or document, all or any part of the shares of Company Common Stock subject to any Eligible Option held by the Optionee (that has not been surrendered pursuant to (i) above), and each share of Company Common Stock so purchased shall be converted, as of the Effective Time, into the right to receive the Merger Consideration, all in accordance with Section 1.10 hereof, and (iii) each Eligible Option (with respect to which an Optionee has not exercised one of the rights set forth in subsection (i) or (ii) of this Section 1.13(a)) shall following the Merger confer upon the Optionee only the right to receive upon exercise in accordance with the terms of the relevant plan or document (including payment of the aggregate exercise price), for each share of Company Common Stock that otherwise would be issuable pursuant to the unexercised portion of such Eligible Option, the Merger Consideration.

(b) Prior to the Effective Time, the Company shall take or cause to be taken such actions as are required to cause (i) the Company Stock Plans to

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terminate as of the Effective Time, (ii) the provisions in any other Company Benefit Plan providing for the issuance, transfer or grant of any shares of capital stock of the Company or any interest in respect of any capital stock of the Company to be terminated as of the Effective Time, and (iii) the exemption set forth in Rule 16b-3(e) under the Exchange Act to be applicable to the disposition of the Company Common Stock and Company Stock Options in or in connection with the Merger as contemplated by this Agreement by all persons who are officers or directors of the Company.

1.14 Withholding Rights. The Surviving Corporation shall be entitled to deduct and withhold, or cause to be deducted and withheld, from the consideration payable pursuant to this Agreement to any holder of Company Common Stock or Eligible Options such amounts as are required to be deducted and withheld with respect to the making of such payment under the Code, or any other provision of applicable state, local or foreign Tax Law. To the extent that amounts are so deducted or withheld, such deducted and withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holders in respect of which such deduction and withholding was made.

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### ARTICLE II. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to the Parent and Merger Sub, subject to the exceptions disclosed in writing in the disclosure letter dated as of the date hereof delivered to the Parent by the Company pursuant to, and as an integral part of, this Agreement (the "Company Disclosure Letter"), as follows:

#### 2.1 Organization, Standing and Corporate Power.

(a) Organization. Each of the Company and its Subsidiaries is a corporation or other entity duly organized, validly existing and in good standing under the Laws of the jurisdiction in which it is organized and is qualified to do business as a foreign corporation or similar entity and in good standing in the jurisdictions in which the ownership, leasing, or operation of property or the conduct of its business requires its qualification as a foreign corporation or similar entity, except where the failure so to qualify would not have a Material Adverse Effect on the Company.

(b) Powers. Each of the Company and its Subsidiaries has the requisite corporate or other entity power and authority to carry on its business as it is now conducted.

(c) Certificate of Incorporations and Bylaws. Prior to the date hereof, the Company has made available to the Parent complete and correct copies of its certificate of incorporation and bylaws, as currently in effect.

#### 2.2 Company Recommendation; Rights Agreement; Takeover Statutes.

(a) Recommendation. The board of directors of the Company, at a meeting duly called and held, has (i) determined that each of the Offer, this Agreement, and the Merger contemplated hereby is advisable and in the best interests of the Company and its stockholders and is fair to the Company's stockholders and (ii) resolved to make the Company Recommendation to the Company's stockholders, and none of such determinations, approvals or resolutions has been amended, rescinded, or modified as of the date of this Agreement.

(b) Rights Agreement. Subject to the accuracy of the

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representations and warranties contained in Sections 3.7 and 3.8 of this Agreement, the Company and the board of directors of the Company have taken all necessary action so that the approval, execution or consummation of the Offer, this Agreement, the Stock Purchase Agreement and the Merger do not and will not result in the ability of any Person to exercise any Right issued under the Rights Agreement and do not and will not cause the Rights to separate from the shares of Company Common Stock to which they are attached or to be triggered or to become exercisable. The Company and the board of directors of the Company have taken all actions necessary under the Rights Agreement so that neither the execution of this Agreement or any amendments thereto, nor the consummation of the Offer, the Stock Purchase Agreement or the Merger shall cause (i) Parent and/or Merger Sub or their respective Affiliates or Associates to become an Acquiring Person (as such terms are defined in the Rights Agreement) or (ii) a Distribution Date, a Stock Acquisition Date, or a Triggering Event (as such terms are defined in the Rights Agreement) to occur by reason of the approval, execution, or consummation of this Agreement, the Offer, or the Merger.

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(c) Takeover Law. Subject to the accuracy of the representations and warranties contained in Sections 3.7 and 3.8 of this Agreement, the board of directors of the Company has taken all actions required to be taken by it in order to render the restrictions on business combinations contained in Section 203 of the DGCL inapplicable to the Offer, this Agreement, the Stock Purchase Agreement and the Merger. No other state takeover, anti-takeover, moratorium, fair price, interested stockholder, business combination or similar statute or rule is applicable to the Offer, this Agreement, the Stock Purchase Agreement or the Merger other than those that may be made applicable solely by reason of Parent's or Merger Sub's (as opposed to the Company's or any of its Subsidiaries') participation in the Offer or the Merger.

2.3 Subsidiaries. Section 2.3 of the Company Disclosure Letter sets forth a true and complete list of each of the Company's Subsidiaries and the manner in which the Company's ownership in such Subsidiary is held. Section 2.3 of the Company Disclosure Letter lists all subsidiaries and divisions (it being understood that a group of assets shall not be deemed to have been a "division" unless the Company considered it to be such) of the Company owned and divested by the Company since 1999 and the manner and to whom such subsidiary or division was divested. Except as noted in Section 2.3 of the Company Disclosure Letter, all of the outstanding shares of capital stock of, or other equity interests in, each Subsidiary of the Company have been validly issued, are fully paid and nonassessable and are owned directly or indirectly by the Company, free and clear of all pledges, claims, liens, charges, encumbrances, mortgages, security interests or adverse claims of any kind or nature whatsoever (collectively, "Liens") and free of any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests, except restrictions arising under applicable securities laws. Other than the capital stock of, or other equity interests in, its Subsidiaries, and other than securities held by or through any Company Benefit Plan, the Company does not, directly or indirectly, beneficially own any securities or other beneficial ownership interests in any other entity.

### 2.4 Capitalization.

(a) Capital Stock. The authorized capital stock of the Company consists of (i) 8,000,000 shares of common stock, par value \$1.00 per share, and (ii) 100,000 shares of preferred stock, par value \$1.00 per share, having such rights and preferences as the Company's board of directors may designate. As of the date hereof, 3,207,894 shares of the Company's common stock, par value \$1.00 per share, are issued and outstanding; 502,415 shares of the Company's common stock, par value \$1.00 per share, are held in treasury; and no shares of the

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Company's preferred stock, par value \$1.00 per share, are outstanding. Section 2.4(a) of the Company Disclosure Letter sets forth all of the Company Stock Options and the number of shares of Company Common Stock that are issuable in respect of the Company Stock Options and the price at which each option is exercisable.

(b) Issuance; Ownership. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and nonassessable and not issued in violation of any preemptive rights. The Company is not a party to any voting agreement with respect to the voting of any such securities. Except for the Company Stock Options and Warrants, there are no options, warrants, conversion rights or other rights to subscribe for or purchase, or other contracts with respect to, any capital stock of the Company or its Subsidiaries and there are no outstanding or authorized stock appreciation, phantom stock, profit participation, or similar rights with respect to the Company or its Subsidiaries.

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(c) Voting Debt; Repurchase Obligations. As of the date hereof, (i) no bonds, debentures, notes or other Indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) are issued or outstanding, and (ii) there are no outstanding contractual obligations of the Company to repurchase, redeem or otherwise acquire any shares of capital stock of the Company.

2.5 Authorization; Enforceability. The execution and delivery by the Company of this Agreement and the performance of this Agreement and consummation of the Merger by the Company are within the corporate power and authority of the Company and have been duly authorized by all necessary corporate action on the part of the Company, subject, in the case of the Merger, to receipt of the Company Stockholder Approval. This Agreement has been duly executed and delivered by the Company and, assuming the due authorization, execution and delivery by each of the Parent and Merger Sub, constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws now or hereafter in effect generally affecting the rights of creditors and subject to general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

2.6 No Violation or Conflict. The execution and delivery of this Agreement by the Company does not, and the performance of this Agreement and consummation of the Merger by the Company will not, except as disclosed in Section 2.6 of the Company's Disclosure Letter (i) result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation under or to the loss of a material benefit under or to the increase of obligations under any Material Contract of the Company or its Subsidiaries, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries, (ii) result in any violation of any provision of the certificate of incorporation or bylaws of the Company or the charter documents of its Subsidiaries, (iii) violate any Existing Permits of the Company or its Subsidiaries or any Law applicable to the Company or its Subsidiaries, other than, in the case of clauses (i) and (iii), any such violations, defaults, rights, losses or Liens that, individually and in the aggregate, would not (x) have a Material Adverse Effect on the Company, (y) reasonably be expected to significantly impair the ability of the Company to perform its obligations under this Agreement or (z) reasonably be expected to prevent or materially delay the consummation of the Merger.

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2.7 Governmental Approvals. The execution and delivery of this Agreement by the Company do not, and the performance of this Agreement and consummation of the Merger by the Company will not, require any consent of, or filing with or notification to, any Governmental Entity, except (i) for applicable requirements, if any, of the Exchange Act, the Securities Act and state securities or "blue sky" Laws, (ii) for the filing of a certificate of merger as required by the DGCL and appropriate documents with the relevant authorities of other states in which the Company is qualified to do business, (iii) where failure to obtain such Consents or make such filings or notifications would not (x) have a Material Adverse Effect on the Company, (y) reasonably be expected to significantly impair the ability of the Company to perform its obligations under this Agreement or (z) reasonably be expected to prevent or materially delay the consummation of the Merger, and (iv) as disclosed in Section 2.7 of the Company Disclosure Letter.

2.8 SEC Documents. The Company has filed with the SEC all forms, reports,

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schedules, statements and other documents (including exhibits and all other information incorporated therein) required to be filed by it since September 30, 2002 (as such documents have been amended since the time of their filing, collectively, the "Company SEC Documents"). As of their respective dates or, if amended, as of the date of the last such amendment, the Company SEC Documents, including, without limitation, any financial statements or schedules included therein: (i) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and (ii) complied in all material respects with the applicable requirements of the Securities Act and the Exchange Act at the time of such filing.

2.9 Financial Statements. (a) The Company's financial statements contained in the Company SEC Documents comply in all respects with the applicable accounting requirements and the published rules and regulations of the SEC with respect thereto and have been prepared in accordance with the applicable generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods involved (except as may be indicated therein). The Company's financial statements fairly present, in all material respects, the consolidated financial position of the Company and its Subsidiaries as of the date thereof and the consolidated results of their operations and cash flows for the periods indicated (subject, in the case of unaudited statements, to the absence of footnotes and year-end adjustments).

(b) The unaudited balance sheet, results of operations and statement of cash flows of the Company for the year ended September 2004, fairly present, in all material respects, the consolidated financial position of the Company and its Subsidiaries as of the date thereof and the consolidated results of their operations and cash flows for the periods indicated (subject to the absence of footnotes and year-end adjustments). The standard cost information for the Company's products delivered to Parent prior to the execution of this Agreement were derived from the Company's accounting books and records maintained in the ordinary course of the Company's business, were prepared in accordance with the Company's past practice with respect to similar information and, on that basis, accurately reflect the cost to manufacture such products.

(c) The Company and its Subsidiaries have no Liabilities having a value individually or in the aggregate in excess of \$400,000, except, (i) to the extent reflected on the September 30, 2004 balance sheet (including the draft footnotes to the September 30, 2004 balance sheet delivered to Parent prior to the execution of this Agreement), (ii) Liabilities incurred in the normal and

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ordinary course of business of the Company since September 30, 2004, or (iii) Liabilities disclosed in Section 2.9(c) of the Company Disclosure Letter. For purposes of this Section 2.9(c), the term "Liabilities" means liabilities of any kind or nature, whether known or unknown, absolute or contingent, other than Liabilities otherwise disclosed in any other representation or warranty made in this Agreement or in any other section of the Company Disclosure Letter.

2.10 Information Supplied; Content of Schedule 14D-9 and Proxy Statement.

(a) Information Supplied. None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in the Offer Documents will, on the date filed with the SEC, or on the date first published or sent to the Company's stockholders, or, if shares of Company Common Stock are accepted for purchase pursuant to the Offer, on the date that the

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Offer expires, or at the time of any amendment or supplement of the Offer Documents, in each case, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) Content of Schedule 14D-9 and Proxy Statement. The Schedule 14D-9, on the date it is filed with the SEC and, if shares of Company Common Stock are accepted for purchase pursuant to the Offer, on the date that the Offer expires, and at the time of any amendment or supplement of the Schedule 14D-9 will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation is made by the Company with respect to statements made or incorporated by reference therein based on information supplied by Parent or Merger Sub. The Proxy Statement, on the date it is mailed to the stockholders of the Company, at the time of the Special Meeting, and at the time of any amendment or supplement thereof will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation is made by the Company with respect to statements made or incorporated by reference therein based on information supplied by Parent or Merger Sub. The Schedule 14D-9 and the Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act.

2.11 Absence of Certain Changes or Events. Except for changes set forth in Section 2.11 of the Company Disclosure Letter, since June 30, 2004, the Company and its Subsidiaries have conducted their businesses only in the ordinary course consistent with past practices, and since such date (i) there has not been any Material Adverse Change to the Company and (ii) no action or event listed in Section 4.1 has occurred.

2.12 Legal Proceedings. (a) Except as disclosed in Section 2.12(a) of the Company Disclosure Letter, (i) there are no suits, actions, proceedings, investigations, arbitrations or claims (collectively, "Legal Proceedings") pending or threatened in writing against or affecting the Company or any of its Subsidiaries that, individually or in the aggregate, would, if decided adversely to the Company, have a Material Adverse Effect on the Company; and (ii) there are no material judgments, settlements, decrees, injunctions, rules or orders of any Governmental Entity or arbitrator outstanding against the Company or any of its Subsidiaries that would, individually or in the aggregate, have a Material



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Adverse Effect on the Company.

(b) The Company has delivered to Parent a complete list of all actions pending as of the date hereof and of which the Company has received notice, against the Company or any of its current or former Subsidiaries or divisions alleging injury from exposure to silica, asbestos or mixed dust, which list includes the name of the plaintiff, date of filing, and court in which each case is pending. To date, the Company's out of pocket expenditure with respect to the defense of all such claims has been less than \$5,000, it being understood that such amount does not include (i) fees paid to the Company's registered agents in connection with service of process or (ii) fees and related expenses paid to Kleinbard, Bell & Brecker LLP.

(c) The Company has made available to Parent all material information in the Company's possession concerning the corporate history of New Castle Refractories from the time of its acquisition in July 1963 by the Company until its disposition on July 31, 2003.

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2.13 Existing Permits and Violations of Law. The Company and each of its Subsidiaries have all permits, licenses, variances, exemptions, orders, registrations and approvals of all Governmental Entities (the "Existing Permits") required by Law which are material for the conduct of the business of the Company and its Subsidiaries as currently conducted. The business of the Company and its Subsidiaries is being conducted in material compliance with applicable Law. No Governmental Entity has notified the Company or any of its Subsidiaries of its intention to conduct an investigation or review with respect to the Company or any of its Subsidiaries.

2.14 Environmental. Except as set forth in Section 2.14 of the Company Disclosure Letter, (i) the Company and its Subsidiaries are in compliance in all material respects with all applicable Environmental Laws, (ii) the Company and its Subsidiaries have obtained, and are in compliance in all material respects with, all material permits, licenses, authorizations, registrations and other governmental consents required by applicable Environmental Laws, (iii) neither the Company nor any of its Subsidiaries has within the last five years received any written communication from a governmental authority or third party that alleges that the Company or any of its Subsidiaries is not in compliance with applicable Environmental Law, (iv) neither the Company nor any of its Subsidiaries has received any written communication from a governmental authority or third party that alleges that the Company or any of its current or former Subsidiaries is a potentially responsible party under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, or subject to corrective actions requirements under the Resource Conservation and Recovery Act, or other similar laws of any state or country, (v) neither the Company nor its Subsidiaries have received notice that any claims for personal injury or property damage relating to Hazardous Materials have been asserted against the Company or any of its Subsidiaries, (vi) neither the Company nor any of its Subsidiaries has assumed or otherwise agreed to be responsible for any liabilities arising under any Environmental Law, and (vii) the Company has provided to Parent and Merger Sub copies of all legal opinions, environmental reports and documents listed or referred to in Section 2.14 of the Company Disclosure Letter. The representations and warranties in this Section 2.14 are the Company's exclusive representations and warranties relating to environmental matters.

2.15 Real Estate. All real property owned or leased by the Company or its Subsidiaries is listed in Section 2.15 of the Company Disclosure Letter (the "Real Estate"). The Company has valid fee simple title to or valid leaseholder interests in (as the case may be) its Real Estate, free and clear of any Liens,

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and the Real Estate is not subject to any leases, tenancies, encumbrances or encroachments of any kind, excluding Permitted Liens, except as set forth in Section 2.15 of the Company Disclosure Letter.

2.16 Title to Tangible Assets. Each of the Company and its Subsidiaries has valid title to or leases each of the tangible assets used in the conduct of, and that are material to, the business of the Company and its Subsidiaries as presently conducted, free and clear of any Liens, except for Permitted Liens or Liens listed on Section 2.16 of the Company Disclosure Letter.

### 2.17 Intellectual Property.

(a) The Company and its Subsidiaries have such ownership of or such rights by license or otherwise in all patents and patent applications, mask works, trademarks and service marks, trademark and service mark registrations and applications, trade names, logos, brands, titles, copyrights, subsidiary rights, copyright registrations and applications, trade secrets, names and

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likenesses, know-how, proprietary processes, compositions of matter, formulae, designs, computer software programs and other proprietary rights (collectively, the "Intellectual Property Rights") as are necessary to conduct and permit the conduct of the business of the Company and its Subsidiaries as currently conducted, except where the failure to have such Intellectual Property Rights, individually or in the aggregate, would not have a Material Adverse Effect on the Company.

(b) Section 2.17(b) of the Company Disclosure Letter sets forth a list of all (i) registered or applied for Intellectual Property Rights owned by the Company and (ii) material Intellectual Property Rights licensed or otherwise used by the Company in the conduct of its business.

(c) The manufacture, advertising, sale, distribution, promotion, or offering of any products or services material to the Company now being manufactured, offered or sold by the Company did not and does not infringe the Intellectual Property Rights of others. Except as set forth on Section 2.17(c) of the Company Disclosure Letter, during the period from November 1, 2003 to the date of this Agreement, no third party has notified the Company or its Subsidiaries in writing of any claim that any activities of the Company infringe or constitute the unauthorized use of the Intellectual Property Rights of any third party.

(d) Except as disclosed in Section 2.17(d) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is a party to or bound by any Contract (i) pursuant to which the Company or any of its Subsidiaries has assigned, transferred, licensed or granted to a third party any Intellectual Property Right on an exclusive basis or agreed to forego using or asserting rights to any Intellectual Property Rights or (ii) that contains any "most favored nation" pricing provision in favor of a third-party in connection with any Intellectual Property Right.

(e) Except as disclosed in Section 2.17(e) of the Company Disclosure Letter, no third party is infringing on any material Intellectual Property Rights of the Company or its Subsidiaries.

(f) The Company owns or has the right to use all software used in the conduct of its business.

(g) To the Company's Knowledge, the Intellectual Property Rights of the Company and its Subsidiaries that are registered in any jurisdictions are

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not invalid or unenforceable, and those Intellectual Property Rights constituting trade secrets used in the conduct of the business of the Company and its Subsidiaries are non-public and have not been disclosed to third parties without commercially reasonable restrictions on further disclosure.

### 2.18 Agreements; Documents; Minute Books.

(a) Material Contracts. Section 2.18(a) of the Company Disclosure Letter sets forth the following written Contracts to which the Company or any of its Subsidiaries is a party (the "Material Contracts"):

(i) any Contract (or group of related Contracts) not terminable upon notice within one hundred eighty (180) days (other than purchase contracts and orders for inventory in the ordinary course of business consistent

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with past practice) that (A) contemplates or involves the payment or delivery of cash or other consideration in an amount or having a value in excess of \$100,000 in the aggregate in any twelve month period, or (B) contemplates or involves the furnishing, performance, or receipt of services or the delivery of products or materials by or to the Company or any of its Subsidiaries having a value in excess of \$100,000 in the aggregate in any twelve month period;

(ii) any Contract under which the consequences of a default or termination would have a Material Adverse Effect on the Company;

(iii) any Contract (or group of related Contracts) for the lease of personal property from or to third parties providing (A) for lease payments in excess of \$50,000 per annum, or (B) for a term of more than one year;

(iv) any Contract establishing a partnership or joint venture involving the Company or any of its Subsidiaries;

(v) any Contract (or group of related Contracts) under which the Company or any of its Subsidiaries had a Lien imposed on any of their assets;

(vi) any Contract for the sale of any asset or related group of assets of the Company or any of its Subsidiaries (other than sales in the ordinary course of business) having a sales value in excess of \$100,000;

(vii) any Contract by which the Company has agreed to indemnify and hold harmless any Person for any material liability or any liability that would be material to the Company if it became required to indemnify and hold harmless any such Person;

(viii) any Contract allowing an employee to terminate his employment with the Company and receive payments from the Company upon a change in control; and

(ix) any Contract with any consultant or independent contractor for professional services having a remaining term of at least one year and requiring payments of base salary or fee in excess of \$75,000 per year or aggregate payments of base salary in excess of \$100,000.

Other than as set forth in Section 2.18(a) of the Company Disclosure Letter, the Company is not party to any Material Contract. None of the Company or any of its Subsidiaries is in violation of or in default under (nor does there exist any condition that with the passage of time or the giving of notice or both would

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cause such a violation of or default under) any Material Contract to which it is a party or by which it or any of its properties or assets is bound, except for violations or defaults that have not and would not, individually or in the aggregate, result in a Material Adverse Effect on the Company. Each Material Contract is in full force and effect, and is a legal, valid and binding obligation of the Company or one of its Subsidiaries, enforceable in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws now or hereafter in effect generally affecting the rights of creditors and subject to general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law). Neither the Company nor any of

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its Subsidiaries is a party to any oral contract that, if reduced to written form, would be required to be listed in 2.18(a) of the Company Disclosure Letter under the terms of this Section 2.18(a).

(b) Debt Instruments. Set forth in Section 2.18(b) of the Company Disclosure Letter is (i) a list of all loan or credit agreements, notes, bonds, mortgages, indentures and other agreements and instruments under which the Company or any of its Subsidiaries has incurred, assumed, or guaranteed any Indebtedness in excess of \$200,000, and (ii) the respective principal amounts currently outstanding thereunder.

(c) Guarantees. Except as set forth in Section 2.18(c) of the Company Disclosure Letter and other than guarantees by Subsidiaries of the Company of the Company's obligations or liabilities, none of the material obligations or liabilities of the Company or any of its Subsidiaries is guaranteed by any Person. The Company has not guaranteed the obligations of any Person other than any current Subsidiary.

(d) Related Party Agreements. Except as disclosed in Section 2.18(d) of the Company Disclosure Letter, there are no outstanding loans or advances from the Company or any of its Subsidiaries currently owed by directors, officers, employees, or stockholders of the Company or any of its Subsidiaries, or by any Affiliate of any director or officer of the Company or any of its Subsidiaries, other than advances in the ordinary and usual course of business to officers and employees for reimbursable business expenses. The Company has possession of the stock certificates securing the loans made to the Company's directors, officers, and employees described in Section 2.18(d) of the Company Disclosure Letter.

(e) Documents Provided. All documents listed or described in the Company Disclosure Letter have been previously furnished or made available to Parent or its representatives. All such documents furnished to Parent are correct and complete copies, and there are no amendments or modifications thereto, except as expressly noted in the Company Disclosure Letter.

(f) Minute Books. The minute books of the Company and each of its Subsidiaries contain accurate records of all corporate actions taken by the directors and stockholders of the Company and each of its Subsidiaries since January 1, 2001.

2.19 Insurance. Section 2.19 of the Company Disclosure Letter sets forth a list of all current material policies or binders of fire, liability, product liability, workmen's compensation, vehicular, directors' and officers' and other insurance held by or on behalf of the Company or its Subsidiaries. Such policies and binders are in full force and effect, are reasonably adequate for the businesses engaged in by the Company or any of its Subsidiaries and are in conformity in all material respects with the requirements of all Material

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Contracts to which the Company or any of its Subsidiaries is a party and are valid and enforceable in accordance with their terms. Neither the Company nor any of its Subsidiaries is in default with respect to any provision contained in any such policy or binder nor has the Company or any of its Subsidiaries failed to give any notice or present any claim under any such policy or binder in due and timely fashion. Except as set forth in Section 2.19 of the Company Disclosure Letter, there are no outstanding unpaid claims under any such policy or binder. Neither the Company nor any of its Subsidiaries has received notice of cancellation or non-renewal of any such policy or binder. The Company has given proper notice to its insurer of all claims that individually or in the aggregate are material to the Company and its Subsidiaries. Except as disclosed

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in Section 2.19 of the Company Disclosure Letter, the Company has not received any notice from its insurers disclaiming coverage for any material claim of which it has provided notice to its insurers.

### 2.20 Benefit Plans.

(a) Company Benefit Plans. Section 2.20(a) of the Company Disclosure Letter contains a complete list of all "employee benefit plans" as defined in Section 3(3) of ERISA (the "Company Employee Benefit Plans"), "employee pension benefit plans" as defined in Section 3(2) of ERISA (the "Company Employee Pension Plans"), and "employee welfare benefit plans" as defined in Section 3(1) of ERISA (together with the Company Employee Benefit Plans and the Company Pension Plans, the "Company Benefit Plans"), sponsored, maintained or contributed to, or required to be contributed to, by the Company. All Company Benefit Plans have been administered in compliance in all material respects with their terms and the applicable provisions of ERISA and the Code. With respect to each such Company Benefit Plan, (i) each Company Benefit Plan which is intended to be qualified within the meaning of Section 401(a) of the Code operates in all material respects in accordance with the requirements for such qualifications and is the subject of a favorable determination letter as to its qualification, and to the Company's Knowledge, nothing has occurred, whether by action or failure to act, that could reasonably be expected to cause the loss of such qualification; (ii) all contributions, premiums or other payments required under the terms of the Company Benefit Plans or Other Plans (as defined below) or under applicable Law have been made within the time required by Law and the terms of the Company Benefit Plans or Other Plans; (iii) there have been no "prohibited transactions" (as described in Section 4975 of the Code or in Part 4 of Subtitle B of Title I of ERISA) with respect to any Company Benefit Plan; and (iv) there are no inquiries, proceedings, claims or suits pending or, to the Company's Knowledge, threatened by any Governmental Entity or by any participant or beneficiary against any of the Company Benefit Plans, the assets of any of the trusts under such Company Benefit Plans or the Company Benefit Plan sponsor or the Company Benefit Plan administrator, or against any fiduciary of any of such Company Benefit Plans with respect to the design or operation of the Company Benefit Plans, other than routine claims for benefits.

(b) Multiemployer Plans. Neither the Company nor any entity required to be aggregated with the Company under Section 414(b), (c), (m), or (o) of the Code ("ERISA Affiliate") contributes (or is obligated to contribute) to a "multiemployer plan" as such term is defined in ERISA Section 3(37) and, except as set forth in Section 2.20(b) of the Company Disclosure Letter, neither the Company nor any ERISA Affiliate has contributed or been obligated to contribute to such a plan during the six-year period ending on the Closing Date.

(c) Unsatisfied Liabilities. There are no unsatisfied liabilities to participants, the IRS, the United States Department of Labor ("DOL"), the Pension Benefit Guaranty Corporation ("PBGC") or to any other Person that have

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been incurred as a result of the termination of any Company Benefit Plan maintained by the Company or any ERISA Affiliate since January 1, 2001. With respect to each Company Benefit Plan maintained by the Company or any ERISA Affiliate which is subject to the minimum funding requirements of Part 3 of Subtitle B of Title I of ERISA or subject to Section 412 of the Code, (i) there does not exist any "accumulated funding deficiency" within the meaning of Section 302 of ERISA or Section 412 of the Code, whether or not waived; (ii) no "reportable event," as defined in Section 4043(c) of ERISA for which notice has

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not been waived by the regulations issued under such Section has occurred; and (iii) all premiums to the PBGC have been timely paid in full.

(d) Consummation of the Transactions. Except as disclosed in Section 2.20(d) of the Company Disclosure Letter, neither the execution of this Agreement nor the consummation of the Merger will, either alone or in combination with another event, (i) entitle any current or former employee, officer, director, consultant or agent of the Company to severance pay, unemployment compensation or any other payment, or (ii) accelerate the time of payment or vesting of, or increase the amount of, compensation or benefits due to any such individual.

(e) Continuing Coverage. The Company and its ERISA Affiliates are in compliance in all material respects with respect to the "continuation coverage requirement" of "group health plans" as set forth in Section 4980B of the Code and Part 6 of Subtitle B of Title I of ERISA (sometimes referred to as "COBRA") with respect to any Company Benefit Plan maintained by the Company or any ERISA Affiliate to which such continuation coverage requirements apply. The Company and its ERISA Affiliates are in compliance in all material respects with respect to the health insurance obligations imposed by Section 9801 of the Code and Part 7 of Subtitle B of Title I of ERISA with respect to any Company Benefit Plan to which such insurance obligations apply. Neither the Company nor any ERISA Affiliate has contributed to a nonconforming group health plan (as defined in Section 5000(c) of the Code) and no ERISA Affiliate has incurred a Tax under Section 5000(a) of the Code that is or is reasonably expected to become a liability of the Company or an ERISA Affiliate. Other than such health continuation coverage as required by Section 4980B of the Code or Part 6 of Title I of ERISA and except as disclosed in Section 2.20(e) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries maintains retiree life or retiree health plans providing for continuing coverage for any employee or any beneficiary of an employee after the employee's termination of employment.

(f) Other Plans. Section 2.20(f) to the Company Disclosure Letter lists each other employee benefit plan, program or arrangement of any kind maintained by the Company or any of its Subsidiaries that is not a Company Benefit Plan (the "Other Plans") to which the Company contributes or has any obligation to contribute, or with respect to which the Company has any liability or potential liability. Each Other Plan (and each related trust, insurance contract, or fund) of the Company has been maintained, funded and administered in all material respects in accordance with the terms of such Other Plan and the terms of any applicable collective bargaining agreement and complies in form and in operation in all material respects with the requirements of all applicable Laws.

(g) Title IV Plans. Except as disclosed in Section 2.20(g) of the Company Disclosure Letter, neither the Company nor any ERISA Affiliate maintains, contributes to, has any obligation to contribute to, or has any liability, whether direct or indirect (including withdrawal liability as defined in Section 4201 of ERISA) under or with respect to any plan covered by Title IV

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of ERISA, nor has the Company nor any ERISA Affiliate maintained, contributed to, had any obligation to contribute to, or had any liability, whether direct or indirect (including withdrawal liability as defined in Section 4201 of ERISA) under or with respect to any plan covered by Title IV of ERISA in the past seven years. Except as disclosed in Section 2.20(g) of the Company Disclosure Letter, no Company Benefit Plan of the Company or any ERISA Affiliate has been completely or partially terminated under Title IV of ERISA; nor has any Plan

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covered by Title IV of ERISA been the subject of a reportable event (as defined in ERISA and PBGC regulations) in the past seven years. The Company and any ERISA Affiliates have not incurred, and to the Company's Knowledge do not have any reason to expect that they will incur, any liability to the PBGC or any other violation under Title IV of ERISA (including any withdrawal liability as defined in ERISA ss.4201) or under the Code with respect to any Plan or under COBRA. There are no Liens with respect to any Plan, including Liens pursuant to Sections 302 and 4068 of ERISA and Section 412 of the Code.

(h) International Plans. Each compensation and benefit plan required to be maintained or contributed to by the Law or applicable rule of the relevant jurisdiction outside of the United States (the "Company International Plans") is listed in Section 2.20(h) of the Company Disclosure Letter. As regards each such Company International Plan, unless disclosed in Section 2.20(h) of the Company Disclosure Letter, (i) each of the Company International Plans is in compliance in all material respects with the provisions of the Laws of each jurisdiction in which each such Company International Plan is maintained, to the extent those Laws are applicable to the Company International Plans; (ii) all contributions to, and payments from, the Company International Plans which may have been required to be made in accordance with the terms of any such Company International Plan, and, when applicable, the Law of the jurisdiction in which such Company International Plan is maintained, have been timely made or shall be made by the Closing Date, and all such contributions to the Company International Plans, and all payments under the Company International Plans, for any period ending before the Closing Date that are not yet, but will be, required to be made, are reflected as an accrued liability in the most recent audited financial statements in the Company SEC Documents; (iii) there are no pending investigations by any Governmental Entity involving the Company International Plans of which the Company has received notice, and no pending claims (except for claims for benefits payable in the normal operation of the Company International Plans), suits or proceedings against any Company International Plan or asserting in writing any rights or claims to benefits under any Company International Plan; and (iv) the consummation of the Merger will not by itself create or otherwise result in any liability with respect to any Company International Plan, other than the triggering of payment to participants.

### 2.21 Labor Matters.

(a) Agreements; Employee Relations. Except as set forth in Section 2.21(a) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is a party to, or bound by, any collective bargaining agreement with employees or other Material Contract with a labor union or labor organization. There are no strikes or lockouts by or with respect to any employee of the Company or any of its Subsidiaries. To the Knowledge of the Company, there is no union organizing effort pending or threatened against the Company or any of its Subsidiaries.

(b) Proceedings. Except as disclosed in Section 2.21(b) of the Company Disclosure Letter, there is no litigation pending or threatened in writing against the Company or any of its Subsidiaries, at law or in equity,

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alleging a violation of any applicable Law, rule or regulation respecting employment and employment practices, terms and conditions of employment and wages and hours, or unfair labor practice. Except as disclosed in Section 2.21(b) of the Company Disclosure Letter, there is no unfair labor practice or labor arbitration proceeding pending or, to the Knowledge of the Company, threatened against the Company or any of its Subsidiaries relating to their

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business. Neither the Company nor any of its Subsidiaries has any liabilities under the Worker Adjustment and Retraining Notification Act as a result of any action taken by the Company.

(c) Compliance with Laws. The Company and its Subsidiaries are in compliance in all material respects with all applicable Laws respecting (i) employment and employment practices, (ii) terms and conditions of employment and wages and hours, and (iii) unfair labor practices. All of the Company's products were produced in compliance in all material respects with all applicable requirements of (x) Sections 6, 7 and 12 of the Fair Labor Standards Act, as amended (the "FLSA"), and all regulations and orders of the DOL issued under Section 14 thereof; (y) state and local Laws pertaining to child labor, minimum wage and overtime compensation; and (z) with respect to merchandise (including components thereof) manufactured outside the United States, the wage and hour Laws of the country of manufacture and without the use of child, prison or slave labor. The Company has in effect a program of monitoring any sub-contractors who performed work for it in connection with the production of merchandise for compliance with the FLSA and comparable state, local and foreign Laws.

(d) Current Compensation. Section 2.21(d) of the Company Disclosure Letter sets forth the current salary and benefits of the executive officers listed in Section 2.21(d) of the Company Disclosure Letter.

### 2.22 Taxes.

(a) Tax Returns. For all years for which the applicable statutory period of limitations has not expired, the Company and each of its Subsidiaries have filed all material Tax Returns (including, but not limited to, income, franchise, sales, payroll, employee withholding and social security and unemployment) which were required to be filed by them and all such returns are complete and correct in all material respects, or requests for extensions to file such Tax Returns have been timely filed, granted and have not expired. The Company and each of its Subsidiaries have paid (or caused to be paid) all Taxes shown as due on such Tax Returns. The most recent financial statements contained in Company SEC Documents reflect an adequate reserve (in addition to any reserve for deferred Taxes established to reflect timing differences between book and Tax income) for all Taxes not yet due and payable by the Company and its Subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements.

(b) Deliveries. The Company has made available to Parent correct and complete copies of all Tax Returns and Tax reports of the Company filed for all periods not barred by the applicable statute of limitations, through the date hereof.

(c) Audits. To the Company's Knowledge, no Tax Return of the Company or any of its Subsidiaries is under audit or examination by any Taxing authority, and no written notice of such an audit or examination has been received by the Company or any of its Subsidiaries. There is no material deficiency, refund litigation, proposed adjustment or matter in controversy with respect to any Taxes due and owing by the Company or any of its Subsidiaries. Except as set forth in Section 2.22(c) of the Company Disclosure Letter, the



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federal income Tax Returns of the Company and each of its Subsidiaries consolidated in such Tax Returns have been either examined by and settled with the IRS or closed by virtue of the applicable statute of limitations, and no

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requests for waivers of the time to assess any such Taxes are pending.

(d) Liens. There are no Tax Liens upon any assets or properties of the Company or any of its Subsidiaries necessary for the conduct of their respective businesses as currently conducted, except for Liens for current Taxes not yet due and payable and except for such claims which, individually or in the aggregate, do not exceed \$200,000.

(e) Income After the Effective Time. Except as disclosed in Section 2.22(e) of the Company Disclosure Letter, for federal income tax purposes, neither the Company nor any of its Subsidiaries will be required to include in a taxable period ending after the Effective Time taxable income attributable to income that accrued (for purposes of the financial statements of the Company included in Company SEC Documents) in a prior taxable period but was not recognized for tax purposes in any prior taxable period as a result of the installment method of accounting, the completed contract method of accounting, the long-term contract method of accounting, the cash method of accounting or Section 481 of the Code or for any other reason.

2.23 Vote Required. If the Merger is not approved pursuant to Section 253 of the DGCL as provided in Section 1.8(a) hereof, then subject to the accuracy of the representations and warranties of Parent and Merger Sub in Sections 3.7 and 3.8 of this Agreement, following consummation of the Offer, the affirmative vote or consent of the holders of not less than 66-2/3 percent of the voting power of all outstanding shares of Company Common Stock entitled to vote with respect to the Merger in favor of the Merger (the "Company Stockholder Approval") is the only vote of the holders of any class or series of the Company's capital stock necessary to approve this Agreement and the Merger.

2.24 Brokers' and Finders' Fees. Except as described in Section 2.24 of the Company Disclosure Letter, the Company has not incurred any brokers', finders', investment bankers' or any similar fee in connection with the Offer or the Merger. Prior to the date of this Agreement, the Company has made available to the Parent correct and complete copies of all agreements under which any such fees are payable and all indemnification and other agreements related to the engagement of the Persons to whom such fees are payable.

2.25 Fairness Opinion. The Company has received the written opinion of Sheldrick, McGehee & Kohler, Inc. to the effect that, as of the date of this Agreement, based upon and subject to the assumptions and limitations set forth in such opinion, the cash consideration to be received in the Offer and the Merger by the Company's stockholders (other than Parent and its Affiliates) is fair from a financial point of view to such stockholders.

2.26 Interests of Officers and Directors. None of