

M I HOMES INC  
Form 8-K  
February 04, 2010

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

FORM 8-K

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): February 3, 2010

M/I HOMES, INC.  
(Exact name of registrant as specified in its charter)

Ohio (State or Other Jurisdiction of Incorporation)	1-12434 (Commission File Number)	31-1210837 (I.R.S. Employer Identification No.)
3 Easton Oval, Suite 500, Columbus, Ohio (Address of Principal Executive Offices)	43219 (Zip Code)	

(614) 418-8000  
(Telephone Number)

N/A  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a.12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

SECTION 2 – FINANCIAL INFORMATION

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On February 3 2010, M/I Homes, Inc. issued a press release reporting financial results for the three and twelve months ended December 31, 2009. A copy of this press release, including information concerning forward-looking statements and factors that may affect our future results, is attached hereto as Exhibit 99.1. The information in Exhibit 99.1 is furnished pursuant to Item 2.02 on Form 8-K.

Item 9.01 FINANCIAL STATEMENTS AND EXHIBIBITS.

(c) Exhibits:

Exhibit No.	Description of Documents
99.1	Press release dated February 3, 2010.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 4, 2010

M/I Homes, Inc.

/s/ Ann  
Marie W.

By: Hunker  
Ann Marie  
W. Hunker  
Vice  
President  
and  
Corporate  
Controller  
(Principal  
Accounting  
Officer)

Index to Exhibits

Exhibit No.	Description of Documents
99.1	Press release dated February 3, 2010.

2px;padding-right:2px;">

204.3

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204.3

Reacquired perpetual license rights  
10.4

—

10.4

10.8

—

10.8

Total indefinite-lived intangible assets  
3,016.1

—

3,016.1

3,048.5

—

3,048.5

Total intangible assets  
\$  
3,929.7

\$  
(283.3  
)

\$  
3,646.4

\$  
4,024.6

\$  
(243.0  
)

\$  
3,781.6

The difference in the gross carrying amount of certain intangible assets from February 1, 2015 to January 31, 2016 was due to changes in foreign currency exchange rates.

Amortization expense related to the Company's amortizable intangible assets was \$40.3 million and \$45.1 million for 2015 and 2014, respectively.

Assuming constant foreign currency exchange rates and no change in the gross carrying amount of the intangible assets, amortization expense for the next five years related to the Company's intangible assets as of January 31, 2016 is expected to be as follows:

(In millions)	
Fiscal Year	Amount
2016	\$39.0
2017	39.0
2018	39.0
2019	39.0
2020	39.0

## 6. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

### Karl Lagerfeld

The Company acquired an interest in Kingdom Holding 1 B.V., the parent company of the Karl Lagerfeld brand ("Karl Lagerfeld"), during 2014 for \$18.9 million, which represented a 10% economic interest as of January 31, 2016. An employee of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the Company, who is also a former director, owns approximately 35% of Karl Lagerfeld. The Company has significant influence as defined under FASB guidance with respect to this investment, which is being accounted for under the equity method of accounting.

Calvin Klein, Tommy Hilfiger, and Heritage Brands Australia

The Company formed a joint venture, PVH Brands Australia Pty. Limited (“PVH Australia”), in 2013 in which the Company owns a 50% economic interest. The joint venture licenses from a subsidiary of the Company the rights to distribute and sell certain Calvin Klein brand products in Australia, New Zealand and other island nations in the South Pacific. As part of the transaction, the Company contributed to PVH Australia its subsidiaries that were operating the Calvin Klein Jeans businesses in Australia and New Zealand. In connection with this contribution, which took place on the first day of 2014, the Company deconsolidated the contributed subsidiaries and recognized a net gain of \$2.1 million during the first quarter of 2014, which was recorded in selling, general and administrative expenses. The gain was measured as the difference between the fair value of the Company’s 50% interest in PVH Australia and the carrying value of the net assets and cash contributed. The fair value of PVH Australia was determined by a third party valuation firm using the discounted cash flow method, based on net sales projections for the Calvin Klein business in Australia, New Zealand, and other island nations in the South Pacific and was discounted using a rate of return that accounted for the relative risks of the estimated future cash flows.

During the first quarter of 2015, the Company completed a transaction in which the Tommy Hilfiger and Van Heusen trademarks in Australia were licensed for certain product categories to subsidiaries of PVH Australia for use in Australia, New Zealand and, in the case of Tommy Hilfiger, other island nations in the South Pacific. The Tommy Hilfiger trademarks had previously been licensed to a third party and the Van Heusen trademarks had previously been licensed to the Company’s joint venture partner in PVH Australia.

The Company made net payments of \$21.0 million (of which \$20.2 million was placed into an escrow account prior to the end of 2014), \$7.3 million and \$0.7 million to PVH Australia during 2015, 2014 and 2013 respectively, representing its 50% share of the joint venture funding. This investment is being accounted for under the equity method of accounting.

Calvin Klein India

The Company acquired a 51% economic interest in CK India as part of the Warnaco acquisition. The joint venture licenses from a Company subsidiary the rights to the Calvin Klein trademarks in India for certain product categories. Beginning with the first quarter of 2014, this investment has been accounted for under the equity method of accounting. Please see Note 7, “Redeemable Non-Controlling Interest,” for a further discussion. The Company made payments of \$4.0 million to CK India during 2015 to contribute its 51% share of the joint venture funding.

Tommy Hilfiger Brazil

The Company formed a joint venture, Tommy Hilfiger do Brasil S.A. (“TH Brazil”), in Brazil in 2012, in which the Company owns a 40% economic interest. The joint venture licenses from a Company subsidiary the rights to the Tommy Hilfiger trademarks in Brazil for certain product categories. The Company made payments of \$1.6 million and \$2.8 million, to TH Brazil during 2015 and 2013, respectively, to contribute its 40% share of the joint venture funding. This investment is being accounted for under the equity method of accounting.

Tommy Hilfiger China

The Company formed a joint venture, TH Asia Ltd. (“TH Asia”), in China in 2010, in which the Company owns a 45% economic interest. The joint venture began operating the Tommy Hilfiger wholesale and retail distribution businesses in China in 2011. The joint venture licenses from a Company subsidiary the Tommy Hilfiger trademarks for use in connection with these businesses. This investment is being accounted for under the equity method of accounting.

Subsequent to the end of 2015, the Company announced that it had entered into a definitive agreement to acquire the 55% interest in TH Asia that it does not already own. Please see Note 23, “Subsequent Events (Unaudited),” for a further discussion.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

#### Tommy Hilfiger India

The Company acquired in 2011 a 50% economic interest in a company that has since been renamed Tommy Hilfiger Arvind Fashion Private Limited (“TH India”). TH India licenses from a Company subsidiary the rights to the Tommy Hilfiger trademarks in India for certain product categories. This investment is being accounted for under the equity method of accounting. Arvind, the Company’s joint venture partner in CK India, is also the Company’s joint venture partner in TH India.

Included in other assets in the Company’s Consolidated Balance Sheets as of January 31, 2016 and February 1, 2015 is \$140.7 million and \$108.3 million, respectively, related to these investments in unconsolidated affiliates.

#### 7. REDEEMABLE NON-CONTROLLING INTEREST

CK India was consolidated in the Company’s financial statements during 2013. During the first quarter of 2014, Arvind purchased the Company’s prior joint venture partners’ shares in CK India and, as a result of the entry into a shareholders agreement with different governing arrangements between the Company and Arvind from the arrangements with the prior minority shareholders, the Company no longer is deemed to hold a controlling interest in the joint venture. CK India was deconsolidated as a result and the Company began reporting its 51% interest as an equity method investment in the first quarter of 2014. The Company recognized a net gain of \$5.9 million in connection with the deconsolidation of CK India during the first quarter of 2014 that was recorded in selling, general and administrative expenses in the Company’s Consolidated Income Statement. The gain was measured as the difference between the fair value of the Company’s 51% interest in CK India and the carrying value. The fair value of CK India was determined by a third party valuation firm using the discounted cash flow method, based on net sales projections for the Calvin Klein business in India and was discounted using a rate of return that accounted for the relative risks of the estimated future cash flows. Please see Note 6, “Investments in Unconsolidated Affiliates,” for a further discussion.

#### 8. DEBT

##### Short-Term Borrowings

One of the Company’s Asian subsidiaries has a yen-denominated overdraft facility with a Japanese bank that provides for borrowings of up to ¥1,000.0 million (approximately \$8.3 million based on exchange rates in effect on January 31, 2016) and is utilized primarily to fund working capital needs. Borrowings under this facility are unsecured and bear interest at the one-month Japanese interbank borrowing rate plus 0.30%. Such facility renews automatically unless the Company gives notice of termination. As of January 31, 2016, the Company had \$8.3 million of borrowings outstanding under this facility. The weighted average interest rate on the funds borrowed at January 31, 2016 was 0.43%. The maximum amount of borrowings outstanding during 2015 was equal to the maximum amount of borrowings available under this facility.

One of the Company’s European subsidiaries has short-term revolving notes with a number of banks at various interest rates, as well as euro-denominated overdraft facilities, that provide for borrowings of up to €60.0 million (approximately \$65.5 million based on exchange rates in effect on January 31, 2016). These facilities are used primarily to fund working capital needs. There were no borrowings outstanding under these facilities as of or during the year ended January 31, 2016.



One of the Company's European subsidiaries has a United States dollar-denominated short-term line of credit facility with a Turkish bank that provides for borrowings of up to \$3.7 million and is utilized primarily to fund working capital needs. Borrowings under this facility bear interest at the Turkish overnight lending rate plus 3.00%. As of January 31, 2016, the Company had \$1.3 million of borrowings outstanding under this facility. The weighted average interest rate on the funds borrowed at January 31, 2016 was 13.75%. The maximum amount of borrowings outstanding during 2015 was \$3.3 million.

One of the Company's European subsidiaries has Turkish lira-denominated short-term line of credit facilities with a number of Turkish banks that provide for borrowings of up to lira 6.0 million (approximately \$2.0 million based on exchange rates in effect on January 31, 2016) and are utilized primarily to fund working capital needs. Borrowings under these facilities bear interest at the Turkish overnight lending rate plus 4.00%. There were no borrowings outstanding under these facilities as of or during the year ended January 31, 2016.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

One of the Company's Mexican subsidiaries has peso-denominated short-term line of credit facilities with a number of banks at various interest rates that provide for borrowings of up to 279.8 million (approximately \$15.3 million based on exchange rates in effect on January 31, 2016) and are utilized primarily to fund working capital needs. As of January 31, 2016, the Company had \$7.5 million of borrowings outstanding under these facilities. The weighted average interest rate on the funds borrowed at January 31, 2016 was 4.57%. The maximum amount of borrowings outstanding during the year ended January 31, 2016 was \$14.5 million.

One of the Company's Mexican subsidiaries has a peso-denominated short-term revolving credit facility with a Mexican bank that provides for borrowings up to 161.1 million (approximately \$8.8 million based on exchange rates in effect on January 31, 2016) and is utilized primarily to fund working capital needs. Borrowings under this facility bear interest at the Interbank Equilibrium Interest Rate plus 0.90%. As of January 31, 2016, the Company had \$8.8 million of borrowings outstanding under this facility. The weighted average interest rate on the funds borrowed at January 31, 2016 was 4.51%. The maximum amount of borrowings outstanding during 2015 was equal to the maximum amount of borrowings available under this facility.

One of the Company's Asian subsidiaries has a United States dollar-denominated short-term revolving credit facility with a bank that provides for borrowings up to \$10.0 million and is utilized primarily to fund working capital needs. Borrowings under this facility bear interest at the one-month London interbank borrowing rate ("LIBOR") plus 1.50%. At the end of each month, amounts outstanding under this facility may be carried forward for additional one-month periods for up to one year. This facility is subject to certain terms and conditions and may be terminated at any time at the discretion of the bank. There were no borrowings outstanding under this facility as of or during the year ended January 31, 2016.

One of the Company's Latin American subsidiaries has Brazilian real-denominated short-term revolving credit facilities with a number of banks that provide for total available borrowings of R\$83.0 million (approximately \$20.5 million based on exchange rates in effect on January 31, 2016) and are utilized primarily to fund working capital needs. Borrowings under these facilities bear interest at various interest rates. There were no borrowings outstanding under these facilities as of or during the year ended January 31, 2016.

The Company also has the ability to draw revolving borrowings under its senior secured credit facilities as discussed in the section entitled "2014 Senior Secured Credit Facilities" below. There were no borrowings outstanding under these facilities as of January 31, 2016. The maximum amount of revolving borrowings outstanding under these facilities during 2015 was \$151.2 million.

#### Long-Term Debt

The carrying amounts of the Company's long-term debt were as follows:

(In millions)	2015	2014
Senior secured Term Loan A facility due 2019	\$1,807.7	\$1,905.5
Senior secured Term Loan B facility due 2020	583.5	832.8
4 1/2% senior unsecured notes due 2022	700.0	700.0
7 3/4% debentures due 2023	99.7	99.7
Total	3,190.9	3,538.0
Less: Current portion of long-term debt	136.6	99.3
Long-term debt	\$3,054.3	\$3,438.7

Please see Note 11, "Fair Value Measurements," for the fair value of the Company's long-term debt as of January 31, 2016 and February 1, 2015.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

As of January 31, 2016, the Company's mandatory long-term debt repayments for the next five years were as follows:

(In millions)

2016	\$136.6
2017	186.2
2018	198.6
2019	1,291.1
2020	586.9

Total debt repayments for the next five years exceed the carrying balance of the Company's term loan facilities as of January 31, 2016 because the carrying balance reflects a portion of the original issue discount.

As of January 31, 2016, after taking into account the effect of the Company's interest rate swap and cap agreements discussed in the section below entitled "2014 Senior Secured Credit Facilities," which were in effect as of such date, approximately 70% of the Company's long-term debt had a fixed or capped interest rate, with the remainder at uncapped variable interest rates.

#### 2011 Senior Secured Credit Facilities

On May 6, 2010, the Company entered into senior secured credit facilities, which it amended and restated on March 2, 2011 (the "2011 facilities"). The 2011 facilities consisted of a Euro-denominated Term Loan A facility, a United States dollar-denominated Term Loan A facility, a Euro-denominated Term Loan B facility, a United States dollar-denominated Term Loan B facility, a United States dollar-denominated revolving credit facility and two multi-currency (one United States dollar and Canadian dollar, and the other Euro, Japanese Yen and British Pound) revolving credit facilities. The 2011 facilities provided for initial borrowings of up to an aggregate of approximately \$1,970.0 million (based on applicable exchange rates on March 2, 2011), consisting of (i) an aggregate of approximately \$1,520.0 million of term loan facilities; and (ii) approximately \$450.0 million of revolving credit facilities.

In connection with the Warnaco acquisition, the Company modified and extinguished the 2011 facilities and repaid all outstanding borrowings thereunder, as discussed in the following section.

#### 2013 Senior Secured Credit Facilities

On February 13, 2013, simultaneously with and related to the closing of the Warnaco acquisition, the Company entered into senior secured credit facilities (the "2013 facilities"), the proceeds of which were used to fund a portion of the acquisition, repay all outstanding borrowings under the 2011 facilities and repay all of Warnaco's previously outstanding long-term debt. The 2013 facilities consisted of a \$1,700.0 million United States dollar-denominated Term Loan A facility (recorded net of an original issue discount of \$7.3 million as of the acquisition date), a \$1,375.0 million United States dollar-denominated Term Loan B facility (recorded net of an original issue discount of \$6.9 million as of the acquisition date) and senior secured revolving credit facilities in an aggregate principal amount of \$750.0 million (based on the applicable exchange rates on February 13, 2013), consisting of (a) a \$475.0 million United States dollar-denominated revolving credit facility, (b) a \$25.0 million United States dollar-denominated revolving credit facility available in United States dollars or Canadian dollars and (c) a €185.9 million Euro-denominated revolving credit facility available in euro, pounds sterling, Japanese yen or Swiss francs. In connection with entering into the 2013 facilities and repaying all outstanding borrowings under the 2011 facilities and

all of Warnaco's previously outstanding long-term debt, the Company paid debt issuance costs of \$67.4 million (of which \$34.6 million was expensed as debt modification and extinguishment costs and \$32.8 million was being amortized over the term of the related debt agreement) and recorded additional debt modification and extinguishment costs of \$5.8 million to write-off previously capitalized debt issuance costs.

The Company made payments of \$500.2 million on its term loans under the 2013 facilities during 2013.

On March 21, 2014, the Company amended and restated the 2013 facilities, as discussed in the following section.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 2014 Senior Secured Credit Facilities

On March 21, 2014 (the “Restatement Date”), the Company entered into an amendment (the “Amendment”) to the 2013 facilities (as amended by the Amendment, the “2014 facilities”). The Amendment provided for an additional \$350.0 million principal amount of loans under the Term Loan A facility and an additional \$250.0 million principal amount of loans under the Term Loan B facility and extended the maturity of the Term Loan A and the revolving credit facilities from February 13, 2018 to February 13, 2019. The maturity of the Term Loan B facility remains at February 13, 2020. On the Restatement Date, the Company borrowed the additional principal amounts described above and used the proceeds to redeem all of its outstanding 7 3/8% senior notes, as discussed below in the section entitled “7 3/8% Senior Notes Due 2020.” In connection with entering into the Amendment, the Company paid debt issuance costs of \$13.3 million (of which \$8.0 million was expensed as debt modification and extinguishment costs and \$5.3 million is being amortized over the term of the related debt agreement) and recorded additional debt modification and extinguishment costs of \$3.2 million to write-off previously capitalized debt issuance costs.

The 2014 facilities consist of a \$1,986.3 million United States dollar-denominated Term Loan A facility (recorded net of an original issue discount of \$7.8 million), a \$1,188.6 million United States dollar-denominated Term Loan B facility (recorded net of an original issue discount of \$5.7 million) and senior secured revolving credit facilities consisting of (a) a \$475.0 million United States dollar-denominated revolving credit facility, (b) a \$25.0 million United States dollar-denominated revolving credit facility available in United States dollars or Canadian dollars and (c) a €185.9 million euro-denominated revolving credit facility available in euro, pounds sterling, Japanese yen or Swiss francs.

The revolving credit facilities also include amounts available for letters of credit. As of January 31, 2016, the Company had no outstanding revolving credit borrowings and \$28.2 million of outstanding letters of credit. A portion of each of the United States dollar-denominated revolving credit facilities is also available for the making of swingline loans. The issuance of such letters of credit and the making of any swingline loan reduces the amount available under the applicable revolving credit facility. So long as certain conditions are satisfied, the Company may add one or more term loan facilities or increase the commitments under the revolving credit facilities by an aggregate amount not to exceed the sum of (1) the sum of (x) \$1,350.0 million plus (y) the aggregate amount of all voluntary prepayments of term loans under the facilities and the revolving credit facilities (to the extent, in the case of voluntary prepayments of loans under the revolving credit facilities, there is an equivalent permanent reduction of the revolving commitments) plus (z) an amount equal to the aggregate revolving commitments of any defaulting lender (to the extent the commitments with respect thereto have been terminated) and (2) an additional unlimited amount as long as the ratio of the Company’s senior secured net debt to consolidated adjusted earnings before interest, taxes, depreciation and amortization (in each case calculated as set forth in the documentation relating to the 2014 facilities) would not exceed 3 to 1 after giving pro forma effect to the incurrence of such increase. The lenders under the 2014 facilities are not required to provide commitments with respect to such additional facilities or increased commitments.

During 2015 and 2014, the Company made payments of \$350.0 million and \$425.5 million, respectively, on its term loans under the 2014 facilities. As of January 31, 2016, the Company had total term loans outstanding of \$2,391.2 million, net of original issue discounts. The terms of each of Term Loan A and Term Loan B contain a mandatory quarterly repayment schedule. Due to previous voluntary payments, the Company is not required to make any additional scheduled mandatory payments under Term Loan B prior to maturity.

Obligations of the Company under the 2014 facilities are guaranteed by substantially all of the Company's existing and future direct and indirect United States subsidiaries, with certain exceptions. Obligations of the European Borrower under the 2014 facilities are guaranteed by the Company, substantially all of its existing and future direct and indirect domestic subsidiaries (with certain exceptions) and Tommy Hilfiger Europe B.V., a wholly owned subsidiary of the Company. The Company and its domestic subsidiary guarantors have pledged certain of their assets as security for the obligations under the 2014 facilities.

The outstanding borrowings under the 2014 facilities are prepayable at any time without penalty (other than customary breakage costs). The terms of the 2014 facilities require the Company to repay certain amounts outstanding thereunder with (a) net cash proceeds of the incurrence of certain indebtedness, (b) net cash proceeds of certain asset sales or other dispositions (including as a result of casualty or condemnation) that exceed certain thresholds, to the extent such proceeds are not reinvested or committed to be reinvested in the business in accordance with customary reinvestment provisions, and (c) a percentage of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

excess cash flow that exceeds the voluntary debt payments the Company has made during the applicable year, which percentage is based upon the Company's net leverage ratio during the relevant fiscal period.

The United States dollar-denominated borrowings under the 2014 facilities bear interest at a rate equal to an applicable margin plus, as determined at the Company's option, either (a) a base rate determined by reference to the greater of (i) the prime rate, (ii) the United States federal funds rate plus 1/2 of 1.00% and (iii) a one-month adjusted Eurocurrency rate plus 1.00% (provided that, with respect to the Term Loan B facility, in no event will the base rate be deemed to be less than 1.75%) or (b) an adjusted Eurocurrency rate, calculated in a manner set forth in the 2014 facilities (provided that, with respect to the Term Loan B facility, in no event will the adjusted Eurocurrency rate be deemed to be less than 0.75%).

The Canadian dollar-denominated borrowings under the 2014 facilities bear interest at a rate equal to an applicable margin plus, as determined at the Company's option, either (a) a Canadian prime rate determined by reference to the greater of (i) the rate of interest per annum that Royal Bank of Canada establishes at its main office in Toronto, Ontario as the reference rate of interest in order to determine interest rates for loans in Canadian dollars to its Canadian borrowers and (ii) the sum of (x) the average of the rates per annum for Canadian dollar bankers' acceptances having a term of one month that appears on the display referred to as "CDOR Page" of Reuters Monitor Money Rate Services as of 10:00 a.m. (Toronto time) on the date of determination, as reported by the administrative agent (and if such screen is not available, any successor or similar service as may be selected by the administrative agent), and (y) 0.75%, or (b) an adjusted Eurocurrency rate, calculated in a manner set forth in the Amendment.

The borrowings under the 2014 facilities in currencies other than United States dollars or Canadian dollars bear interest at a rate equal to an applicable margin plus an adjusted Eurocurrency rate, calculated in a manner set forth in the Amendment.

The current applicable margin with respect to the Term Loan A facility and each revolving credit facility is 1.50% for adjusted Eurocurrency rate loans and 0.50% for base rate loans, respectively. The current applicable margin with respect to the Term Loan B facility is 2.50% for adjusted Eurocurrency rate loans and 1.50% for base rate loans, respectively. After the date of delivery of the compliance certificate and financial statements with respect to each of the Company's fiscal quarters, the applicable margin for borrowings under the Term Loan A facility, the Term Loan B facility and the revolving credit facilities is subject to adjustment based upon the Company's net leverage ratio.

The 2014 facilities contain customary events of default, including but not limited to nonpayment; material inaccuracy of representations and warranties; violations of covenants; certain bankruptcies and liquidations; cross-default to material indebtedness; certain material judgments; certain events related to the Employee Retirement Income Security Act of 1974, as amended; certain events related to certain of the guarantees by the Company and certain of its subsidiaries, and certain pledges of its assets and those of certain of its subsidiaries, as security for the obligations under the 2014 facilities; and a change in control (as defined in the 2014 facilities).

During the second quarter of 2014, the Company entered into an interest rate cap agreement for an 18-month term commencing on August 18, 2014. The agreement was designed with the intended effect of capping the interest rate on an initial notional amount of \$514.2 million of the Company's variable rate debt obligation under the 2014 facilities, or any replacement facility with similar terms. Such agreement remains outstanding with a notional amount of \$744.1 million as of January 31, 2016. Under the terms of this agreement, the one-month LIBOR that the Company will pay is capped at a rate of 1.50%. Therefore, the maximum amount of interest that the Company will pay on the then-outstanding notional amount will be at the 1.50% capped rate, plus the current applicable margin. The agreement



expired on February 17, 2016.

During the second quarter of 2014, the Company entered into an interest rate swap agreement for a two-year term commencing on February 17, 2016. The agreement was designed with the intended effect of converting an initial notional amount of \$682.6 million of the Company's variable rate debt obligation under the 2014 facilities, or any replacement facility with similar terms, to fixed rate debt. Under the terms of the agreement for the then-outstanding notional amount, the Company's exposure to fluctuations in the one-month LIBOR is eliminated and the Company will pay a weighted average fixed rate of 1.924%, plus the current applicable margin.

During the second quarter of 2013, the Company entered into an interest rate swap agreement for a three-year term commencing on August 19, 2013. The agreement was designed with the intended effect of converting an initial notional amount of \$1,228.8 million of the Company's variable rate debt obligation under its previously outstanding 2013 facilities, or any

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

replacement facility with similar terms, to fixed rate debt. Such agreement remains outstanding with a notional amount of \$577.5 million as of January 31, 2016, and is now converting a portion of the Company's variable rate debt obligation under the 2014 facilities to fixed rate debt. Under the terms of the agreement for the then-outstanding notional amount, the Company's exposure to fluctuations in the one-month LIBOR is eliminated and it will pay a fixed rate of 0.604%, plus the current applicable margin.

In addition, the Company entered into an interest rate swap agreement for a three-year term commencing on June 6, 2011. The agreement was designed with the intended effect of converting an initial notional amount of \$632.0 million of the Company's variable rate debt obligation under its previously outstanding 2011 facilities, or any replacement facility with similar terms, to fixed rate debt. The agreement expired on June 6, 2014.

The notional amount of each interest rate swap and cap will be adjusted according to a pre-set schedule during the term of each swap and cap agreement such that, based on the Company's projections for future debt repayments, the Company's outstanding debt under the Term Loan A facility is expected to always equal or exceed the combined notional amount of the then-outstanding interest rate swaps and cap.

The 2014 facilities also contain covenants that restrict the Company's ability to finance future operations or capital needs, to take advantage of other business opportunities that may be in its interest or to satisfy its obligations under its other outstanding debt. These covenants restrict the Company's ability to, among other things:

- incur or guarantee additional debt or extend credit;
- make restricted payments, including paying dividends or making distributions on, or redeeming or repurchasing, the Company's capital stock or certain debt;
- make acquisitions and investments;
- dispose of assets;
- engage in transactions with affiliates;
- enter into agreements restricting the Company's subsidiaries' ability to pay dividends;
- create liens on the Company's assets or engage in sale/leaseback transactions; and
- effect a consolidation or merger, or sell, transfer, or lease all or substantially all of the Company's assets.

The 2014 facilities require the Company to comply with certain financial covenants, including minimum interest coverage and maximum net leverage. A breach of any of these operating or financial covenants would result in a default under the applicable facility. If an event of default occurs and is continuing, the lenders could elect to declare all amounts then outstanding, together with accrued interest, to be immediately due and payable which would result in acceleration of the Company's other debt. If the Company was unable to repay any such borrowings when due, the lenders could proceed against their collateral, which also secures some of the Company's other indebtedness.

#### 4 1/2% Senior Notes Due 2022

On December 20, 2012, the Company issued \$700.0 million principal amount of 4 1/2% senior notes due December 15, 2022 in connection with the Warnaco acquisition. The Company paid \$16.3 million of fees during 2013 in connection with the issuance of these notes, which are amortized over the term of the notes. The Company may redeem some or all of these notes at any time prior to December 15, 2017 by paying a "make whole" premium plus any accrued and unpaid interest. In addition, the Company may redeem some or all of these notes on or after December 15, 2017 at specified redemption prices plus any accrued and unpaid interest. The Company's ability to pay cash dividends and make other restricted payments is limited, in each case, over specified amounts as defined in the

indenture governing the notes.

7 3/4% Debentures Due 2023

The Company has outstanding \$100.0 million of debentures due November 15, 2023 with a yield to maturity of 7.80%. The debentures accrue interest at the rate of 7 3/4%. Pursuant to the indenture governing the debentures, the Company must maintain a certain level of stockholders' equity in order to pay cash dividends and make other restricted payments, as defined in the indenture governing the debentures.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 7 3/8% Senior Notes Due 2020

On May 6, 2010, the Company issued \$600.0 million principal amount of 7 3/8% senior notes due May 15, 2020. On March 24, 2014, in connection with the amendment and restatement of the 2013 facilities discussed above in the section entitled "2014 Senior Secured Credit Facilities," the Company redeemed all of its outstanding 7 3/8% senior notes and, pursuant to the indenture under which the notes were issued, paid a "make whole" premium of \$67.6 million to the holders of the notes. The Company also recorded costs of \$14.3 million to write-off previously capitalized debt issuance costs associated with these notes.

Substantially all of the Company's assets have been pledged as collateral to secure the Company's obligations under its senior secured credit facilities, the 7 3/4% debentures due 2023 and contingent purchase price payments to Mr. Calvin Klein as discussed in Note 5, "Goodwill and Other Intangible Assets."

Interest paid was \$104.9 million, \$141.7 million and \$170.8 million during 2015, 2014 and 2013, respectively.

## 9. INCOME TAXES

The domestic and foreign components of income (loss) before provision for income taxes were as follows:

(In millions)	2015	2014	2013
Domestic	\$117.5	\$(103.4)	\$98.7
Foreign	530.0	494.8	230.0
Total	\$647.5	\$391.4	\$328.7

Domestic income (loss) before provision for income taxes included an actuarial gain (loss) related to the Company's United States retirement plans of \$20.2 million, \$(138.9) million and \$52.5 million in the fourth quarter of 2015, 2014 and 2013, respectively.

Taxes paid were \$91.5 million, \$102.9 million and \$45.8 million in 2015, 2014 and 2013.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The provision (benefit) for income taxes attributable to income consisted of the following:

(In millions)	2015	2014	2013
Federal:			
Current	\$6.8	\$(35.4)	\$117.0
Deferred	(4.1)	(54.8)	(29.3)
State and local:			
Current	6.4	3.4	5.8
Deferred	(22.2)	(4.3)	(5.2)
Foreign:			
Current	70.6	15.5	124.7
Deferred	17.6	28.1	(27.7)
Total	\$75.1	\$(47.5)	\$185.3

The provision (benefit) for income taxes for the years 2015, 2014 and 2013 was different from the amount computed by applying the statutory United States federal income tax rates to the underlying income as follows:

	2015	2014	2013
Statutory federal tax rate	35.0	% 35.0	% 35.0
State and local income taxes, net of federal income tax benefit	(1.3)	)% (1.1	)% (3.0
Effects of international jurisdictions, including foreign tax credits	(15.0)	)% (23.3	)% (23.9
Change in estimates for uncertain tax positions	(7.6)	)% (24.0	)% 44.3
Change in valuation allowance	(0.2)	)% 1.1	% 5.8
Other, net	0.7	% 0.2	% (1.8
Effective tax rate	11.6	% (12.1	)% 56.4

In 2013, the Company recorded \$145.5 million of tax expense, which increased the 2013 effective tax rate by 44.3% and is displayed in the above table as change in estimates for uncertain tax positions. The majority of this expense related to an increase to the Company's previously established liability for an uncertain tax position related to European and United States transfer pricing arrangements. On May 14, 2014, the Company resolved for \$179.0 million this uncertain tax position, for which it had previously recorded a liability of approximately \$185.0 million. The liability will be settled over three years. Accordingly, in the second quarter of 2014, the Company recognized a tax benefit of approximately \$6.0 million and recorded a reduction of approximately \$185.0 million in its liability for uncertain tax positions.

Effects of international jurisdictions, including foreign tax credits, reflected in the above table for 2015, 2014 and 2013 include not only those taxes at statutory income tax rates but also taxes at special rates levied on income from certain jurisdictional activities. The Company expects to benefit from these special rates until 2023.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The components of deferred income tax assets and liabilities were as follows:

(In millions)	2015	2014
Gross deferred tax assets		
Tax loss and credit carryforwards	\$240.1	\$261.1
Employee compensation and benefits	135.3	140.7
Inventories	24.0	22.3
Accounts receivable	28.5	33.2
Accrued expenses	31.6	31.4
Other, net	37.1	26.0
Subtotal	496.6	514.7
Valuation allowances	(43.8)	(45.6)
Total gross deferred tax assets, net of valuation allowances	\$452.8	\$469.1
Gross deferred tax liabilities		
Intangibles	\$(1,199.2)	\$(1,279.9)
Property, plant and equipment	(77.8)	(71.5)
Total gross deferred tax liabilities	\$(1,277.0)	\$(1,351.4)
Net deferred tax liability	\$(824.2)	\$(882.3)

At the end of 2015, the Company had on a tax effected basis approximately \$240.1 million of net operating loss and tax credit carryforwards available to offset future taxable income in various jurisdictions. This includes net operating loss carryforwards of approximately \$31.1 million for various state and local jurisdictions and \$27.1 million for various foreign jurisdictions. The Company also had federal and state tax credit and other carryforwards of \$181.9 million. The carryforwards expire principally between 2016 and 2035.

The Company does not provide for deferred taxes on the excess of financial reporting over tax basis on its investments in all of its foreign subsidiaries that are essentially permanent in duration. The earnings that are permanently reinvested were \$2.1 billion as of January 31, 2016. It is not practicable to estimate the amount of tax that might be payable if these earnings were repatriated due to the complexities associated with the hypothetical calculation.

Uncertain tax positions activity for each of the last three years was as follows:

(In millions)	2015	2014	2013
Balance at beginning of year	\$244.5	\$485.7	\$197.9
Increase due to assumed Warnaco positions	—	—	142.8
Increases related to prior year tax positions	4.3	16.8	123.4
Decreases related to prior year tax positions	(12.5)	(239.3)	(3.2)
Increases related to current year tax positions	40.0	38.2	64.1
Lapses in statute of limitations	(44.6)	(36.3)	(38.3)
Effects of foreign currency translation	(4.9)	(20.6)	(1.0)
Balance at end of year	\$226.8	\$244.5	\$485.7

The entire amount of uncertain tax positions as of January 31, 2016, if recognized, would reduce the future effective tax rate under current accounting provisions.

Interest and penalties related to uncertain tax positions are recorded in the Company's income tax provision. Interest and penalties recognized in the Company's Consolidated Income Statements for the years 2015, 2014 and 2013 totaled

an expense of \$0.9 million, a benefit of \$(25.9) million and an expense of \$15.3 million, respectively. Interest and penalties accrued in the Company's Consolidated Balance Sheets as of January 31, 2016, February 1, 2015 and February 2, 2014 totaled \$27.6 million,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

\$28.6 million and \$67.9 million, respectively. The Company recorded its liabilities for uncertain tax positions principally in accrued expenses and other liabilities in its Consolidated Balance Sheets.

The Company files income tax returns in the United States and in various foreign, state and local jurisdictions. With few exceptions, examinations have been completed by tax authorities or the statute of limitations has expired for United States federal, foreign, state and local income tax returns filed by the Company for years through 2005. It is reasonably possible that a reduction of uncertain tax positions in a range of \$20.0 million to \$30.0 million may occur within 12 months of January 31, 2016.

#### 10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has exposure to changes in foreign currency exchange rates related to certain anticipated cash flows principally associated with certain international inventory purchases and certain intercompany transactions. The Company periodically uses foreign currency forward exchange contracts to hedge against a portion of this exposure.

The Company also has exposure to interest rate volatility related to its senior secured term loan facilities. The Company has entered into interest rate swap agreements and an interest rate cap agreement to hedge against this exposure. Please see Note 8, "Debt," for a further discussion of the Company's 2014 facilities and these agreements.

The Company records the foreign currency forward exchange contracts and interest rate contracts at fair value in its Consolidated Balance Sheets, and does not net the related assets and liabilities. Changes in fair value of the foreign currency forward exchange contracts associated with certain international inventory purchases and the interest rate contracts that are designated as effective hedging instruments (collectively referred to as "cash flow hedges") are recorded in equity as a component of AOCI. The cash flows from such hedges are presented in the same category on the Company's Consolidated Statements of Cash Flows as the items being hedged. No amounts were excluded from effectiveness testing. There was no ineffective portion of cash flow hedges in 2015 or 2014. In addition, the Company records immediately in earnings changes in the fair value of hedges that are not designated as effective hedging instruments ("undesignated contracts"), including all of the foreign currency forward exchange contracts related to intercompany loans that are not of a long-term investment nature. Any gains and losses that are immediately recognized in earnings on such contracts related to intercompany loans are largely offset by the remeasurement of the underlying intercompany loan balances. The Company does not use derivative financial instruments for trading or speculative purposes.

The following table summarizes the fair value and presentation in the Consolidated Balance Sheets for the Company's derivative financial instruments:

(In millions)	Asset Derivatives (Classified in Other Current Assets and Other Assets)		Liability Derivatives (Classified in Accrued Expenses and Other Liabilities)	
	2015	2014	2015	2014
Contracts designated as cash flow hedges:				
Foreign currency forward exchange contracts (inventory purchases)	\$24.9	\$79.8	\$1.7	\$0.2
Interest rate contracts	—	0.6	20.6	15.3
Total contracts designated as cash flow hedges	24.9	80.4	22.3	15.5
Undesignated contracts:				



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Foreign currency forward exchange contracts (principally intercompany transactions)	19.3	30.6	0.1	1.1
Total undesignated contracts	19.3	30.6	0.1	1.1
Total	\$44.2	\$111.0	\$22.4	\$16.6

At January 31, 2016, the notional amount outstanding of foreign currency forward exchange contracts was \$929.2 million. Such contracts expire principally between February 2016 and April 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following table summarizes the effect of the Company's hedges designated as cash flow hedging instruments:

(In millions)	Gain (Loss) Recognized in Other Comprehensive (Loss) Income		Gain (Loss) Reclassified from AOCI into Income (Expense)			
	2015	2014	Location	Amount		
			2015	2014		
Foreign currency forward exchange contracts (inventory purchases)	\$36.3	\$114.2	Cost of goods sold	\$92.1	\$10.2	
Interest rate contracts	(9.4	) (16.7	) Interest expense	(3.7	) (6.4	)
Total	\$26.9	\$97.5		\$88.4	\$3.8	

A net gain in AOCI on foreign currency forward exchange contracts at January 31, 2016 of \$41.5 million is estimated to be reclassified in the next 12 months in the Company's Consolidated Income Statement to costs of goods sold as the underlying inventory is purchased and sold. In addition, a net loss in AOCI for interest rate contracts at January 31, 2016 of \$11.8 million is estimated to be reclassified to interest expense within the next 12 months.

The following table summarizes the effect of the Company's foreign currency forward exchange undesignated contracts:

(In millions)	Gain Recognized in Income Location	Amount	
		2015	2014
Foreign currency forward exchange contracts (principally intercompany transactions)	Selling, general and administrative expenses	\$4.7	\$30.1

The Company had no derivative financial instruments with credit risk related contingent features underlying the related contracts as of January 31, 2016.

## 11. FAIR VALUE MEASUREMENTS

FASB guidance for fair value measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a three level hierarchy that prioritizes the inputs used to measure fair value. The three levels of the hierarchy are defined as follows:

Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Observable inputs other than quoted prices included in Level 1, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs reflecting the Company’s own assumptions about the inputs that market participants would use in pricing the asset or liability based on the best information available.

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company’s financial assets and liabilities that are required to be remeasured at fair value on a recurring basis:

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(In millions)	2015				2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets:</b>								
Foreign currency forward exchange contracts	N/A	\$44.2	N/A	\$44.2	N/A	\$110.4	N/A	\$110.4
Interest rate contracts	N/A	—	N/A	—	N/A	0.6	N/A	0.6
<b>Total Assets</b>	<b>N/A</b>	<b>\$44.2</b>	<b>N/A</b>	<b>\$44.2</b>	<b>N/A</b>	<b>\$111.0</b>	<b>N/A</b>	<b>\$111.0</b>
<b>Liabilities:</b>								
Foreign currency forward exchange contracts	N/A	\$1.8	N/A	\$1.8	N/A	\$1.3	N/A	\$1.3
Interest rate contracts	N/A	20.6	N/A	20.6	N/A	15.3	N/A	15.3
Contingent purchase price payments related to reacquisition of the perpetual rights to the Tommy Hilfiger trademarks in India	N/A	N/A	\$2.2	2.2	N/A	N/A	\$4.0	4.0
<b>Total Liabilities</b>	<b>N/A</b>	<b>\$22.4</b>	<b>\$2.2</b>	<b>\$24.6</b>	<b>N/A</b>	<b>\$16.6</b>	<b>\$4.0</b>	<b>\$20.6</b>

The fair value of the foreign currency forward exchange contracts is measured as the total amount of currency to be purchased, multiplied by the difference between (i) the forward rate as of the period end and (ii) the settlement rate specified in each contract. The fair values of the interest rate contracts are based on observable interest rate yield curves and represent the expected discounted cash flows underlying the financial instruments.

Pursuant to the agreement governing the reacquisition of the rights in India to the Tommy Hilfiger trademarks (which the Company entered into in September 2011 in connection with its acquisition of its 50% ownership of TH India), the Company is required to make annual contingent purchase price payments based on a percentage of sales of Tommy Hilfiger products in India in excess of an agreed upon threshold during each of five consecutive 12-month periods (extended to a sixth consecutive 12-month period if the aggregate payments for the five 12-month periods are not at least \$15.0 million, which will be the case). Such payments are subject to a \$25.0 million aggregate maximum and are due within 60 days following each one-year period. The Company made annual contingent purchase price payments of \$0.6 million, \$0.6 million, \$0.4 million and \$0.2 million during 2015, 2014, 2013 and 2012, respectively. The Company is required to remeasure this liability at fair value on a recurring basis and classifies this as a Level 3 measurement. The fair value of such liability was determined using the discounted cash flow method, based on net sales projections for the Tommy Hilfiger apparel and accessories businesses in India, and was discounted using rates of return that account for the relative risks of the estimated future cash flows. Excluding the initial recognition of the liability for the contingent purchase price payments and payments made to reduce the liability, changes in the fair value are included within selling, general and administrative expenses in the Company's Consolidated Income Statements.

The following table presents the change in the Level 3 contingent purchase price payment liability during 2015 and 2014:

(In millions)	2015	2014
Balance at beginning of year	\$4.0	\$4.2
Payments	(0.6	) (0.6

Adjustments included in earnings	(1.2	) 0.4
Balance at end of year	\$2.2	\$4.0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Additional information with respect to assumptions used to value the contingent purchase price payment liability as of January 31, 2016 is as follows:

Unobservable Inputs	Amount	
Approximate compounded annual net sales growth rate	35.0	%
Approximate discount rate	15.0	%

A five percentage point increase or decrease in the discount rate would change the liability by approximately \$0.2 million.

A five percentage point increase or decrease in the compounded annual net sales growth rate would change the liability by approximately \$0.2 million.

There were no transfers between any levels of the fair value hierarchy for any of the Company's fair value measurements.

The following table shows the fair value of the Company's non-financial assets and liabilities that were required to be remeasured at fair value on a nonrecurring basis (consisting of property, plant and equipment) during 2015 and 2014, and the total impairments recorded as a result of the remeasurement process:

(In millions)	Fair Value Measurement Using			Fair Value As Of Impairment Date	Total Impairments
	Level 1	Level 2	Level 3		
2015	N/A	N/A	\$1.4	\$1.4	\$11.4
2014	N/A	N/A	\$1.3	\$1.3	\$29.7

Long-lived assets with a carrying amount of \$12.8 million were written down to a fair value of \$1.4 million during 2015 in connection with the financial performance in certain of the Company's retail stores. Fair value was determined based on the estimated discounted future cash flows associated with the assets using current sales trends and market participant assumptions. The impairment charge of \$11.4 million was included in selling, general and administrative expenses, of which \$2.0 million was recorded in the Calvin Klein North America segment, \$3.1 million was recorded in the Calvin Klein International segment and \$6.3 million was recorded in the Tommy Hilfiger International segment.

Long-lived assets with a carrying amount of \$13.3 million were written down to a fair value of \$1.3 million during 2014 in connection with the financial performance in certain of the Company's retail stores. Fair value was determined based on the estimated discounted future cash flows associated with the assets using current sales trends and market participant assumptions. The \$12.0 million impairment charge was included in selling, general and administrative expenses, of which \$0.1 million was recorded in the Calvin Klein North America segment, \$3.8 million was recorded in the Calvin Klein International segment, \$3.4 million was recorded in the Tommy Hilfiger North America segment, \$1.7 million was recorded in the Tommy Hilfiger International segment and \$3.0 million was recorded in the Heritage Brands Retail segment.

Long-lived assets with a carrying amount of \$5.8 million and goodwill of \$11.9 million were written down to a fair value of zero during 2014 in connection with the exit from the Company's Izod retail business. The impairment charge was included in selling, general and administrative expenses in the Heritage Brands Retail segment.

In connection with the sale of substantially all of the assets of the Company's Bass business in the fourth quarter of 2013, the Company guaranteed lease payments for substantially all Bass retail stores included in the sale pursuant to the terms of

noncancelable leases expiring on various dates through 2022. These guarantees include minimum rent payments and relate to

leases that commenced prior to the sale of the Bass assets. In certain instances, the Company's guarantee remains in effect

when an option is exercised to extend the term of the lease. The estimated fair value of these guarantee obligations as of January 31, 2016 and February 1, 2015 was \$1.9 million and \$3.0 million, respectively, which was included in accrued

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

expenses and other liabilities in the Company's Consolidated Balance Sheets. The Company classifies these as Level 3 measurements. The fair value of such guarantee obligations was determined using the discounted cash flow method, based on the guaranteed lease payments, the estimated probability of lease extensions and estimates of the risk of default by the buyer of the Bass assets, and was discounted using rates of return that account for the relative risks of the estimated future cash flows.

The carrying amounts and the fair values of the Company's cash and cash equivalents, short-term borrowings and long-term debt were as follows:

(In millions)	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$556.4	\$556.4	\$479.3	\$479.3
Short-term borrowings	25.9	25.9	8.5	8.5
Long-term debt (including portion classified as current)	3,190.9	3,190.5	3,538.0	3,567.7

The fair values of cash and cash equivalents and short-term borrowings approximate their carrying values due to the short-term nature of these instruments. The Company estimates the fair value of its long-term debt using quoted market prices as of the last business day of the applicable year. The Company classifies the measurement of its long-term debt as a Level 1 measurement.

## 12. RETIREMENT AND BENEFIT PLANS

The Company has five qualified defined benefit pension plans as of January 31, 2016 covering substantially all employees resident in the United States who meet certain age and service requirements. The plans provide monthly benefits upon retirement generally based on career average compensation and years of credited service. Vesting in plan benefits generally occurs after five years of service. The Company refers to these five noncontributory plans as its "Pension Plans." The Company also acquired as part of the Warnaco acquisition a defined benefit pension plan for certain of Warnaco's former employees in Europe. This plan was not considered to be material for disclosure purposes for any period presented.

The Company also has for certain members of Tommy Hilfiger's domestic senior management a supplemental executive retirement plan, which is an unfunded non-qualified supplemental defined benefit pension plan. Such plan is frozen and, as a result, participants do not accrue additional benefits. In addition, the Company has a capital accumulation program, which is an unfunded non-qualified supplemental defined benefit plan. Under the individual participants' agreements, the participants in this plan will receive a predetermined amount during the 10 years following the attainment of age 65, provided that prior to the termination of employment with the Company, the participant has been in the plan for at least 10 years and has attained age 55. The Company also has for certain employees resident in the United States who meet certain age and service requirements an unfunded non-qualified supplemental defined benefit pension plan, which provides benefits for compensation in excess of Internal Revenue Service earnings limits and requires payments to vested employees upon, or shortly after, employment termination or retirement. The Company refers to these three noncontributory plans as its "SERP Plans."

The Company also provides certain postretirement health care and life insurance benefits to certain retirees resident in the United States. Retirees contribute to the cost of this plan, which is unfunded. During 2002, the postretirement plan was amended to eliminate the Company contribution, which partially subsidized benefits, for active participants who, as of January 1, 2003, had not attained age 55 and 10 years of service. As a result of the Company's acquisition of



Warnaco, the Company also provides certain postretirement health care and life insurance benefits to certain Warnaco retirees resident in the United States. Retirees contribute to the cost of this plan, which is unfunded. This plan was frozen on January 1, 2014. The Company refers to these two plans as its "Postretirement Plans."

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Reconciliations of the changes in the projected benefit obligation (Pension Plans and SERP Plans) and the accumulated benefit obligation (Postretirement Plans) for each of the last two years were as follows:

(In millions)	Pension Plans		SERP Plans		Postretirement Plans	
	2015	2014	2015	2014	2015	2014
Balance at beginning of year	\$734.8	\$571.5	\$98.5	\$80.8	\$18.1	\$16.1
Service cost	29.9	19.4	5.6	4.5	—	—
Interest cost	27.8	28.5	3.7	4.0	0.6	0.8
Benefit payments	(49.1	) (29.1	) (10.1	) (4.7	) —	) —
Benefit payments, net of retiree contributions	—	—	—	—	(1.9	) (2.1
Medicare subsidy	—	—	—	—	0.0	0.1
Actuarial (gain) loss	(91.7	) 144.5	(9.1	) 13.9	(1.0	) 3.2
Balance at end of year	\$651.7	\$734.8	\$88.6	\$98.5	\$15.8	\$18.1

In 2015, benefit payments from the Pension Plans reflect an increase in lump sum payments, as certain terminated vested participants were given a one-time opportunity to elect a lump sum payment of their accrued pension benefit from the Pension Plans if the lump sum value of their benefits did not exceed a specified limit. The actuarial gains in 2015 were due principally to increases in the discount rates. The actuarial losses in 2014 were due principally to decreases in the discount rates and updated mortality assumptions.

Reconciliations of the fair value of the assets held by the Pension Plans and the funded status for each of the last two years were as follows:

(In millions)	2015	2014
Fair value of plan assets at beginning of year	\$654.8	\$615.6
Actual (loss) return, net of plan expenses	(39.8	) 65.6
Benefit payments	(49.1	) (29.1
Company contributions	1.5	2.7
Fair value of plan assets at end of year	\$567.4	\$654.8
Funded status at end of year	\$(84.3	) \$(80.0

Amounts recognized in the Company's Consolidated Balance Sheets were as follows:

(In millions)	Pension Plans		SERP Plans		Postretirement Plans	
	2015	2014	2015	2014	2015	2014
Current liabilities	\$—	\$—	\$(7.5	) \$(7.1	) \$(1.9	) \$(2.1
Non-current liabilities	(84.3	) (80.0	) (81.1	) (91.4	) (13.9	) (16.0
Net amount recognized	\$(84.3	) \$(80.0	) \$(88.6	) \$(98.5	) \$(15.8	) \$(18.1

Pre-tax amounts in AOCI that, as of the end of each applicable fiscal year, had not yet been recognized as components of net benefit cost were as follows:

(In millions)	Pension Plans		SERP Plans		Postretirement Plans	
	2015	2014	2015	2014	2015	2014
Prior service (cost) credit	\$(0.0	) \$(0.0	) \$0.1	\$0.1	\$0.3	\$0.6



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Pre-tax amounts in AOCI as of January 31, 2016 expected to be recognized as components of net benefit cost in 2016 were as follows:

(In millions)	Pension Plans	SERP Plans	Postretirement Plan
Prior service (cost) credit	\$(0.0	) \$0.1	\$0.3

The assets of the Pension Plans are invested with the objective of being able to meet current and future benefit payment needs, while controlling future contributions. The assets of the Pension Plans are diversified among United States equities, international equities, fixed income investments and cash. The strategic target allocation for the majority of the Pension Plans as of January 31, 2016 was approximately 40% United States equities, 20% international equities and 40% fixed income investments and cash. Equity securities primarily include investments in large-, mid- and small-cap companies located in the United States and abroad. Fixed income securities include corporate bonds of companies from diversified industries, municipal bonds, collective funds and United States Treasury bonds. Actual investment allocations may vary from the Company's target investment allocations due to prevailing market conditions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

In accordance with the fair value hierarchy described in Note 11, "Fair Value Measurements," the following tables show the fair value of the total assets of the Pension Plans for each major category as of January 31, 2016 and February 1, 2015:

(In millions)		Fair Value Measurements as of January 31, 2016 <sup>(8)</sup>		
Asset Category	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
United States equities <sup>(1)</sup>	\$155.9	\$155.9	\$—	\$—
International equities <sup>(1)</sup>	13.2	13.2	—	—
United States equity fund <sup>(2)</sup>	34.1	—	34.1	—
International equity funds <sup>(3)</sup>	101.8	68.4	33.4	—
Fixed income securities:				
Government securities <sup>(4)</sup>	64.1	—	64.1	—
Corporate securities <sup>(4)</sup>	176.2	—	176.2	—
Short-term investment funds <sup>(5)</sup>	13.8	—	13.8	—
Total return mutual fund <sup>(6)</sup>	5.1	5.1	—	—
Subtotal	\$564.2	\$242.6	\$321.6	\$—
Other assets and liabilities <sup>(7)</sup>	3.2			
Total	\$567.4			

(In millions)		Fair Value Measurements as of February 1, 2015 <sup>(8)</sup>		
Asset Category	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
United States equities <sup>(1)</sup>	\$192.5	\$192.5	\$—	\$—
International equities <sup>(1)</sup>	22.0	22.0	—	—
United States equity fund <sup>(2)</sup>	22.0	—	22.0	—
International equity funds <sup>(3)</sup>	115.0	77.2	37.8	—
Fixed income securities:				
Government securities <sup>(4)</sup>	57.5	—	57.5	—
Corporate securities <sup>(4)</sup>	219.9	—	219.9	—
Short-term investment funds <sup>(5)</sup>	17.2	—	17.2	—
Total return mutual fund <sup>(6)</sup>	5.8	5.8	—	—
Subtotal	\$651.9	\$297.5	\$354.4	\$—
Other assets and liabilities <sup>(7)</sup>	2.9			
Total	\$654.8			

(1) Valued at the closing price or unadjusted quoted price in the active market in which the individual securities are traded.

(2)

Valued at the net asset value of the fund, as determined by a pricing vendor or the fund family. The Company has the ability to redeem this investment at net asset value within the near term and therefore classifies this investment within Level 2. This commingled fund invests in United States large cap equities that track the Russell 1000 Index.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Valued at the net asset value of the funds, either as determined by the closing price in the active market in which  
 (3) the individual fund is traded and classified within Level 1, or as determined by a pricing vendor or the fund family and classified within Level 2. This category includes funds that invest in equities of companies outside of the United States.

Valued with bid evaluation pricing where the inputs are based on actual trades in active markets, when available,  
 (4) as well as observable market inputs that include actual and comparable trade data, market benchmarks, broker quotes, trading spreads and/or other applicable data.

Valued at the net asset value of the funds, as determined by a pricing vendor or the fund family. The Company has  
 (5) the ability to redeem these investments at net asset value within the near term and therefore classifies these investments within Level 2. These funds invest in high-grade, short-term, money market instruments.

(6) Valued at the net asset value of the fund, as determined by the closing price in the active market in which the individual fund is traded. This fund invests in both equity securities and fixed income securities.

(7) This category includes other pension assets and liabilities such as pending trades and accrued income.

The Company uses third party pricing services to determine the fair values of the financial instruments held by the Pension Plans. The Company obtains an understanding of the pricing services' valuation methodologies and related  
 (8) inputs and validates a sample of prices provided by the pricing services by reviewing prices from other pricing sources and analyzing pricing data in certain instances. The Company has not adjusted any prices received from the third party pricing services.

The Company believes that there are no significant concentrations of risk within the plan assets as of January 31, 2016.

In 2015 and 2014, all of the Pension Plans had projected benefit obligations and accumulated benefit obligations in excess of plan assets. The balances were as follows:

(In millions, except plan count)	2015	2014
Number of plans with projected benefit obligations in excess of plan assets	5	5
Aggregate projected benefit obligation	\$651.7	\$734.8
Aggregate fair value of related plan assets	\$567.4	\$654.8
Number of plans with accumulated benefit obligations in excess of plan assets	5	5
Aggregate accumulated benefit obligation	\$610.7	\$694.3
Aggregate fair value of related plan assets	\$567.4	\$654.8

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The components of net benefit cost and other pre-tax amounts recognized in other comprehensive (loss) income in each of the last three years were as follows:

## Net Benefit Cost Recognized in Selling, General and Administrative Expenses

(In millions)	Pension Plans			SERP Plans			Postretirement Plans		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Service cost, including plan expenses	\$30.6	\$20.0	\$19.2	\$5.6	\$4.5	\$4.4	\$—	\$—	\$0.1
Interest cost	27.8	28.5	26.4	3.7	4.0	3.6	0.6	0.8	0.9
Actuarial (gain) loss	(10.1 )	121.8	(51.4 )	(9.1 )	13.9	2.1	(1.0 )	3.2	(1.0 )
Expected return on plan assets	(42.5 )	(43.5 )	(39.5 )	—	—	—	—	—	—
Amortization of prior service cost (credit)	0.0	0.0	0.0	(0.1 )	(0.1 )	(0.1 )	(0.4 )	(0.8 )	(0.8 )
Curtailment gain	—	—	—	—	—	—	—	—	(2.2 )
Total	\$5.8	\$126.8	\$(45.3 )	\$0.1	\$22.3	\$10.0	\$(0.8 )	\$3.2	\$(3.0 )

## Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Loss) Income

(In millions)	Pension Plans			SERP Plans			Postretirement Plans		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Prior service cost	\$—	\$0.0	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Amortization of prior service (cost) credit (Income) loss	(0.0 )	(0.0 )	(0.0 )	0.1	0.1	0.1	0.4	0.8	0.8
recognized in other comprehensive (loss) income	\$(0.0 )	\$(0.0 )	\$(0.0 )	\$0.1	\$0.1	\$0.1	\$0.4	\$0.8	\$0.8

Currently, the Company expects to make contributions of approximately \$6.4 million to the Pension Plans in 2016. The Company's actual contributions may differ from planned contributions due to many factors, including changes in tax and other benefit laws, or significant differences between expected and actual pension asset performance or interest rates. The expected benefit payments associated with the Pension Plans and SERP Plans, and expected benefit payments, net of retiree contributions, associated with the Postretirement Plans are as follows:

Fiscal Year	Pension Plans	SERP Plans	Postretirement Plans	
			Excluding Medicare Subsidy Receipts	Expected Medicare Subsidy Receipts
2016	\$29.0	\$7.4	\$1.9	\$0.0
2017	29.8	7.5	1.8	0.0
2018	30.7	7.1	1.7	0.0
2019	31.8	7.4	1.6	0.0
2020	32.9	8.3	1.5	0.0
2021-2025	183.7	49.1	5.9	0.1



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The medical health care cost trend rate assumed for 2016 is 6.74% and is assumed to decrease by approximately 0.19% per year through 2028. Thereafter, the rate assumed is 4.48%. If the assumed health care cost trend rate increased or decreased by 1%, the aggregate effect on the service and interest cost components of the net postretirement benefit cost for 2015 and on the accumulated postretirement benefit obligation at January 31, 2016 would be as follows:

(In millions)	1% Increase	1% Decrease
Impact on service and interest cost	\$0.0	\$(0.0 )
Impact on year end accumulated postretirement benefit obligation	1.0	(0.9 )

Significant weighted average rate assumptions used in determining the projected and accumulated benefit obligations at the end of each year and benefit cost in the following year were as follows:

	2015	2014	2013	
Discount rate (applies to Pension Plans and SERP Plans)	4.72	% 3.94	% 5.07	%
Discount rate (applies to Postretirement Plans)	4.28	% 3.53	% 5.07	%
Rate of increase in compensation levels (applies to Pension Plans)	4.22	% 4.28	% 4.33	%
Long-term rate of return on assets (applies to Pension Plans)	6.50	% 6.75	% 7.25	%

To develop the expected weighted average long-term rate of return on assets assumption, the Company considered the historical level of the risk premium associated with the asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The Company has savings and retirement plans and a supplemental savings plan for the benefit of its eligible employees in the United States who elect to participate. The Company matches a portion of employee contributions to the plans. The Company also has a defined contribution plan for certain employees associated with certain businesses acquired in the Tommy Hilfiger acquisition, whereby the Company pays a percentage of the contribution for the employee. The Company's contributions to these plans were \$18.2 million, \$20.3 million and \$21.8 million in 2015, 2014 and 2013, respectively.

### 13. STOCKHOLDERS' EQUITY

#### Acquisition of Treasury Shares

The Company's Board of Directors authorized a \$500.0 million three-year stock repurchase program effective June 3, 2015. Repurchases under the program may be made from time to time over the period through open market purchases, accelerated share repurchase programs, privately negotiated transactions or other methods, as the Company deems appropriate. Purchases are made based on a variety of factors, such as price, corporate requirements and overall market conditions, applicable legal requirements and limitations, restrictions under the Company's debt arrangements, trading restrictions under the Company's insider trading policy and other relevant factors. The program may be modified, including to increase or decrease the repurchase limitation or extend, suspend, or terminate the program, at any time, without prior notice.

During 2015, the Company purchased approximately 1.3 million shares of its common stock in open market transactions for \$126.2 million under the program. As of January 31, 2016, the repurchased shares were held as treasury stock and \$373.8 million of the authorization remained available for future share repurchases.

Treasury stock activity also includes shares that were withheld in conjunction with the settlement of vested restricted stock, restricted stock units and performance share units to satisfy tax withholding requirements.

#### Common Stock Issuance

On February 13, 2013, the Company issued 7.7 million shares of its common stock, par value \$1.00 per share, as part of the consideration paid to the former stockholders of Warnaco in connection with the acquisition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

#### Common Stock Dividends

During each of 2015, 2014 and 2013, the Company paid four \$0.0375 per share cash dividends on its common stock.

#### 14. STOCK-BASED COMPENSATION

The Company grants stock-based awards under its 2006 Stock Incentive Plan (the “2006 Plan”). The 2006 Plan replaced the Company’s 2003 Stock Option Plan (the “2003 Plan”) and certain other prior stock option plans. The 2003 Plan and these other plans terminated upon the 2006 Plan’s initial stockholder approval in June 2006, other than with respect to outstanding options, which continued to be governed by the applicable prior plan. Only awards under the 2003 Plan continue to be outstanding insofar as these prior plans are concerned. Shares issued as a result of stock-based compensation transactions generally have been funded with the issuance of new shares of the Company’s common stock.

The Company may grant the following types of incentive awards under the 2006 Plan: (i) non-qualified stock options (“NQs”); (ii) incentive stock options (“ISOs”); (iii) stock appreciation rights; (iv) restricted stock; (v) restricted stock units (“RSUs”); (vi) performance shares and performance share units (“PSUs”); and (vii) other stock-based awards. Each award granted under the 2006 Plan is subject to an award agreement that incorporates, as applicable, the exercise price, the term of the award, the periods of restriction, the number of shares to which the award pertains, performance period(s) and performance measure(s), and such other terms and conditions as the plan committee determines.

Through January 31, 2016, the Company has granted under the 2006 Plan (i) service-based NQs, RSUs and restricted stock; (ii) contingently issuable PSUs; and (iii) RSUs that are intended to satisfy the performance-based condition for deductibility under Section 162(m) of the Internal Revenue Code. According to the terms of the 2006 Plan, for purposes of determining the number of shares available for grant, with the exception of the Warnaco employee replacement awards discussed below, each share underlying a stock option award reduces the number available by one share and each share underlying a restricted stock award, RSU or PSU reduces the number available by two shares. Each share underlying a Warnaco employee replacement stock option, restricted stock, RSU or PSU reduces the number available by one share. The per share exercise price of options granted under the 2006 Plan cannot be less than the closing price of the common stock on the date of grant (the business day prior to the date of grant for awards granted prior to September 21, 2006).

The Company currently has service-based NQs outstanding under the 2003 Plan. Such stock options were granted with a per share exercise price equal to the closing price of the Company’s common stock on the business day immediately preceding the date of grant.

Under the terms of the merger agreement in connection with the Warnaco acquisition, each outstanding award of stock options, restricted stock and restricted stock units made by Warnaco was assumed by the Company and converted into an award of the same type, and subject to the same terms and conditions, but payable in shares of Company common stock. The replacement stock options are generally exercisable in three equal annual installments commencing one year after the date of original grant and the replacement RSUs and restricted stock awards generally vest three years after the date of original grant, principally on a cliff basis. The Company accounted for the replacement awards as a modification of the existing awards. As such, a new fair value was assigned to the awards, a portion of which was included as part of the merger consideration. The merger consideration of \$39.8 million was determined by multiplying the estimated fair value of the Warnaco awards outstanding at the effective time of the Warnaco acquisition, net of the estimated value of awards to be forfeited, by the proportionate amount of the vesting period that

had lapsed as of the acquisition date. The remaining fair value, net of estimated forfeitures, was expensed over the awards' remaining vesting periods.

Net income for 2015, 2014 and 2013 included \$42.0 million, \$48.7 million and \$58.0 million, respectively, of pre-tax expense related to stock-based compensation, with recognized income tax benefits of \$10.7 million, \$12.7 million and \$17.0 million, respectively.

Stock options currently outstanding, with the exception of the Warnaco employee replacement awards discussed above, are generally exercisable in four equal annual installments commencing one year after the date of grant. The vesting of such options outstanding is also generally accelerated upon retirement (as defined in the applicable plan). Such options are granted with a 10-year term.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The Company estimates the fair value of stock options granted at the date of grant using the Black-Scholes-Merton model. The estimated fair value of the options, net of estimated forfeitures, is expensed over the options' vesting periods. At January 31, 2016, there was \$11.5 million of unrecognized pre-tax compensation expense, net of estimated forfeitures, related to non-vested stock options, which is expected to be recognized over a weighted average period of 1.6 years.

The following summarizes the assumptions used to estimate the fair value of service-based stock options granted during 2015, 2014 and 2013 (with the exception of the Warnaco employee replacement stock options):

	2015	2014	2013	
Weighted average risk-free interest rate	1.54	% 2.15	% 1.05	%
Weighted average expected option term (in years)	6.25	6.25	6.22	
Weighted average Company volatility	36.26	% 44.12	% 45.20	%
Expected annual dividends per share	\$0.15	\$0.15	\$0.15	
Weighted average grant date fair value per option	\$40.20	\$56.21	\$51.51	

The risk-free interest rate is based on United States Treasury yields in effect at the date of grant for periods corresponding to the expected option term. The expected option term represents the weighted average period of time that options granted are expected to be outstanding, based on vesting schedules and the contractual term of the options. Company volatility is based on the historical volatility of the Company's common stock over a period of time corresponding to the expected option term. Expected dividends are based on the Company's common stock cash dividend rate at the date of grant.

The Company has continued to utilize the simplified method to estimate the expected term for its "plain vanilla" stock options granted due to a lack of relevant historical data resulting, in part, from changes in the pool of employees receiving option grants, mainly due to acquisitions. The Company will continue to evaluate the appropriateness of utilizing such method.

The following summarizes the assumptions used to estimate the fair value of the Warnaco employee stock options that were replaced on February 13, 2013:

Weighted average risk-free interest rate	0.24	%
Weighted average expected option term (in years)	1.70	
Weighted average Company volatility	29.40	%
Expected annual dividends per share	\$0.15	
Weighted average grant date fair value per option	\$40.60	

Service-based stock option activity for the year was as follows:

(In thousands, except years and per option data)	Options	Weighted Average Exercise Price Per Option	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at February 1, 2015	1,472	\$64.14	5.5	\$70,737
Granted	175	107.18		
Exercised	162	45.60		

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Cancelled	42	86.53		
Outstanding at January 31, 2016	1,443	\$70.79	5.3	\$26,643
Exercisable at January 31, 2016	1,066	\$56.40	4.2	\$26,643

As of January 31, 2016, any service-based stock options that were outstanding but not yet exercisable had an intrinsic value of zero.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The aggregate grant date fair value of service-based options granted during 2015, 2014 and 2013 was \$7.0 million, \$7.9 million and \$9.4 million, respectively. At the effective time of the Warnaco acquisition, the aggregate fair value of the Warnaco employee service-based options that were replaced during 2013 was \$18.0 million.

The aggregate grant date fair value of service-based options that vested during 2015, 2014 and 2013 was \$7.2 million, \$9.8 million and \$18.4 million, respectively.

The aggregate intrinsic value of service-based options exercised was \$8.4 million, \$15.6 million and \$70.8 million in 2015, 2014 and 2013, respectively.

RSUs granted to employees, with the exception of the Warnaco employee replacement awards, generally vest in three annual installments of 25%, 25% and 50% commencing two years after the date of grant. Service-based RSUs granted to non-employee directors vest in full one year after the date of grant. The underlying RSU award agreements (excluding agreements for non-employee director awards made during or after 2010) generally provide for accelerated vesting upon the award recipient's retirement (as defined in the 2006 Plan). The fair value of service-based RSUs, with the exception of the Warnaco employee replacement awards, is equal to the closing price of the Company's common stock on the date of grant and is expensed, net of estimated forfeitures, over the RSUs' vesting periods.

RSU activity for the year was as follows:

(In thousands, except per RSU data)	RSUs	Weighted Average Grant Date Fair Value Per RSU
Non-vested at February 1, 2015	640	\$ 107.42
Granted	303	104.59
Vested	206	87.76
Cancelled	84	112.95
Non-vested at January 31, 2016	653	\$ 111.61

The aggregate grant date fair value of RSUs granted during 2015, 2014 and 2013 was \$31.7 million, \$29.3 million and \$29.3 million, respectively. At the effective time of the Warnaco acquisition, the aggregate fair value of the Warnaco employee RSUs that were replaced during 2013 was \$14.5 million. The aggregate grant date fair value of RSUs vested during 2015, 2014 and 2013 was \$18.1 million, \$18.5 million and \$18.1 million, respectively.

At January 31, 2016, there was \$39.1 million of unrecognized pre-tax compensation expense, net of estimated forfeitures, related to non-vested RSUs, which is expected to be recognized over a weighted average period of 1.8 years.

The Company's restricted stock awards consisted solely of awards to Warnaco employees that were replaced with Company restricted stock as of the effective time of the Warnaco acquisition. No other awards of restricted stock have been granted during 2015, 2014 or 2013. The fair value of restricted stock with respect to awards for which the vesting period had not lapsed as of the acquisition date was equal to the closing price of the Company's common stock on February 12, 2013 and was expensed, net of forfeitures, over the vesting period.





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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Restricted stock activity for the year was as follows:

(In thousands, except per share data)	Restricted Stock	Weighted Average Grant Date Fair Value Per Share
Non-vested at February 1, 2015	20	\$ 120.72
Granted	—	—
Vested	19	120.72
Cancelled	1	120.72
Non-vested at January 31, 2016	—	\$—

At the effective time of the Warnaco acquisition, the aggregate fair value of the Warnaco employee restricted stock awards that were replaced during 2013 was \$32.7 million. The aggregate grant date fair value of restricted stock vested during 2015, 2014 and 2013 was \$2.4 million, \$2.7 million and \$26.0 million, respectively.

At January 31, 2016, there was no unrecognized pre-tax compensation expense related to non-vested restricted stock.

The Company granted contingently issuable PSUs to certain of the Company's senior executives during the first quarter of each of 2012, 2013 and 2014. These awards were subject to achievement of an earnings per share and, in the case of the awards made in 2012, a return on equity goal for the two-year performance period beginning with the year of grant and a service period of one year beyond the certification of performance. For the awards granted in the first quarter of 2014, the two-year performance period has ended and the holders are not expected to earn any shares based on earnings per share growth over the performance period. For the awards granted in the first quarter of 2013, the holders earned an aggregate of 26,000 shares, which will vest and be paid out subject to and following the additional one-year service period. The holders of the awards granted in the first quarter of 2012 earned an aggregate of 54,000 shares, which were paid out in the first quarter of 2015. For such awards, the Company records expense ratably over each applicable vesting period based on fair value and the Company's current expectations of the probable number of shares that will ultimately be issued. The fair value of these contingently issuable PSUs is equal to the closing price of the Company's common stock on the date of grant, reduced for the present value of any dividends expected to be paid on the Company's common stock during the performance cycle, as these contingently issuable PSUs do not accrue dividends prior to the completion of the performance cycle.

The Company granted contingently issuable PSUs to certain of the Company's executives during the second quarter of 2013 and to certain of the Company's senior executives during the first quarter of 2015 subject to a three-year performance period. For the awards granted in the second quarter of 2013 and the first quarter of 2015, the final number of shares that will be earned, if any, is contingent upon the Company's achievement of goals for the applicable performance period, of which 50% is based upon the Company's absolute stock price growth during the applicable performance period and 50% is based upon the Company's total shareholder return during the applicable performance period relative to other companies included in the S&P 500 as of the date of grant. The Company records expense ratably over the applicable vesting period, net of estimated forfeitures, regardless of whether the market condition is satisfied because the awards are subject to market conditions. The fair value of the awards granted in the first quarter of 2015 and the second quarter of 2013 was established for each grant on the grant date using the Monte Carlo simulation model, which was based on the following assumptions:

2015

2013

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Risk-free interest rate	0.90	% 0.34	%
Expected Company volatility	29.10	% 38.67	%
Expected annual dividends per share	\$0.15	\$0.15	
Grant date fair value per PSU	\$101.23	\$123.27	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

PSU activity for the year was as follows:

(In thousands, except per share data)	PSUs	Weighted Average Grant Date Fair Value Per PSU
Non-vested at February 1, 2015	553	\$ 119.95
Granted	46	101.23
Vested	54	88.52
Cancelled	52	122.17
Non-vested at January 31, 2016	493	\$ 121.41

The aggregate grant date fair value of PSUs granted during 2015, 2014 and 2013 was \$4.6 million, \$10.4 million and \$62.6 million, respectively. The aggregate grant date fair value of PSUs vested during 2015 and 2013 was \$4.8 million and \$25.4 million, respectively. No PSUs vested during 2014. PSUs in the above table and the aggregate grant date fair value amounts reflect (i) PSUs subject to market conditions at the target level, which is consistent with how expense will be recorded, regardless of the numbers of shares actually earned; and (ii) PSUs that are not subject to market conditions at the maximum level.

At January 31, 2016, based on the Company's current estimate of the most likely number of shares that will ultimately be issued, there was \$6.8 million of unrecognized pre-tax compensation expense related to non-vested PSUs, which is expected to be recognized over a weighted average period of 1.3 years.

The Company receives a tax deduction for certain transactions associated with its stock plan awards. The actual income tax benefits realized from these transactions were \$10.2 million, \$20.1 million and \$69.7 million in 2015, 2014 and 2013, respectively. Of those amounts, \$5.5 million, \$11.0 million and \$37.6 million, respectively, were reported as excess tax benefits. Excess tax benefits arise when the actual tax benefit resulting from a stock plan award transaction exceeds the tax benefit associated with the grant date fair value of the related stock award.

Total shares available for grant at January 31, 2016 amounted to 6.6 million shares.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 15. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the changes in AOCI, net of related taxes, by component:

(In millions)	Foreign currency translation adjustments	Retirement liability adjustment	Net unrealized and realized (loss) gain on effective hedges	Total
Balance at February 2, 2014	\$50.1	\$1.0	\$(8.8)	\$42.3
Other comprehensive (loss) income before reclassifications	(548.3)	) —	92.9	(455.4)
Less: Amounts reclassified from AOCI	(2.0)	) 0.6	4.8	3.4
Other comprehensive (loss) income	(546.3)	) (0.6)	) 88.1	(458.8)
Balance at February 1, 2015	\$(496.2)	) \$0.4	\$79.3	\$(416.5)
Other comprehensive (loss) income before reclassifications	(234.3)	) —	33.1	(201.2)
Less: Amounts reclassified from AOCI	—	0.3	86.2	86.5
Other comprehensive loss	(234.3)	) (0.3)	) (53.1)	(287.7)
Balance at January 31, 2016	\$(730.5)	) \$0.1	\$26.2	\$(704.2)

The following table presents reclassifications out of AOCI to earnings:

(In millions)	Amount Reclassified from AOCI 2015	Amount Reclassified from AOCI 2014	Affected Line Item in the Company's Consolidated Income Statements
Realized gain (loss) on effective hedges:			
Foreign currency forward exchange contracts	\$92.1	\$10.2	Cost of goods sold
Interest rate contracts	(3.7)	(6.4)	Interest expense
Less: Tax effect	2.2	(1.0)	Income tax expense (benefit)
Total, net of tax	\$86.2	\$4.8	
Amortization of retirement liability items:			
Prior service credit	\$0.5	\$0.9	Selling, general and administrative expenses
Less: Tax effect	0.2	0.3	Income tax expense (benefit)
Total, net of tax	\$0.3	\$0.6	
Foreign currency translation adjustments:			
Deconsolidation of foreign subsidiaries and joint venture	\$—	\$(2.0)	Selling, general and administrative expenses
Less: Tax effect	—	—	Income tax expense (benefit)
Total, net of tax	\$—	\$(2.0)	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 16. LEASES

The Company leases retail locations, warehouses, showrooms, office space and equipment. The leases, excluding equipment leases, generally provide for the payment of real estate taxes and certain other occupancy expenses. Retail location leases generally are renewable and provide for the payment of percentage rentals based on location sales and other costs associated with the leased property.

At January 31, 2016, minimum annual rental commitments under non-cancelable leases were as follows:

(In millions)	Capital Leases	Operating Leases	Total
2016	\$4.6	\$436.6	\$441.2
2017	3.7	376.7	380.4
2018	2.9	324.9	327.8
2019	1.7	275.6	277.3
2020	1.4	224.8	226.2
Thereafter	1.8	605.7	607.5
Total minimum lease payments	\$16.1	\$2,244.3	\$2,260.4
Less: Amount representing interest	(1.5	)	
Present value of net minimum capital lease payments	\$14.6		

The Company's retail location leases represent \$1,578.0 million of the total minimum lease payments. The Company's administrative offices and showrooms located in New York, New York represent \$289.1 million of the total minimum lease payments. The Company's corporate, finance and retail administrative offices located in Bridgewater, New Jersey represent \$30.5 million of the total minimum lease payments. The Company's Europe headquarters and showrooms, the largest of which are located in Amsterdam, the Netherlands, represent \$137.4 million of the total minimum lease payments.

At January 31, 2016, aggregate future minimum rentals to be received under non-cancelable capital and operating subleases were \$2.3 million and \$14.8 million, respectively.

Rent expense was as follows:

(In millions)	2015	2014	2013
Minimum	\$413.8	\$434.5	\$440.0
Percentage and other	146.7	158.8	159.8
Less: Sublease rental income	(4.6	) (4.9	) (5.4
Total	\$555.9	\$588.4	\$594.4

The gross book value of assets under capital leases, which are classified within property, plant and equipment in the Company's Consolidated Balance Sheets, amounted to \$25.1 million and \$29.3 million as of January 31, 2016 and February 1, 2015, respectively. Accumulated amortization related to assets under capital leases amounted to \$10.1 million and \$10.7 million as of January 31, 2016 and February 1, 2015, respectively. The Company includes amortization of assets under capital leases in depreciation and amortization expense. The Company did not incur any expense in percentage rentals under capital leases during the years ended January 31, 2016 and February 1, 2015.





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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

## 17. EXIT ACTIVITY COSTS

## Izod Retail Exit Costs

In connection with the Company's exit in 2015 from the Izod retail business, the Company incurred certain costs related to severance and termination benefits, long-lived asset and goodwill impairments and lease/contract terminations. All expected costs related to the Company's exit from the Izod retail business were incurred by the end of 2015. Such costs were as follows:

(In millions)	Costs Incurred During 2014	Costs Incurred During 2015	Cumulative Incurred
Severance, termination benefits and other costs	\$ 2.4	\$ 5.8	\$ 8.2
Long-lived asset and goodwill impairments	17.7	—	17.7
Lease/contract termination and related costs	—	5.7	5.7
Total	\$ 20.1	\$ 11.5	\$ 31.6

The above charges related to selling, general and administrative expenses of the Heritage Brands Retail segment. Please see Note 20, "Segment Data" for a further discussion of the Company's reportable segments.

Please see Note 11, "Fair Value Measurements" and Note 5, "Goodwill and Other Intangible Assets" for further discussion of the long-lived asset and goodwill impairments reflected in the above table.

The liabilities at January 31, 2016 related to these costs were principally recorded in accrued expenses in the Company's Consolidated Balance Sheets and were as follows:

(In millions)	Liability at 2/1/15	Costs Incurred During 2015	Costs Paid During 2015	Liability at 1/31/16
Severance, termination benefits and other costs	\$ 2.3	\$ 5.8	\$ 7.4	\$ 0.7
Lease/contract termination and related costs	—	5.7	5.7	—
Total	\$ 2.3	\$ 11.5	\$ 13.1	\$ 0.7

## Warnaco Integration Costs

In connection with the Company's acquisition of Warnaco in 2013 and the related integration and restructuring, the Company incurred certain costs related to severance and termination benefits, inventory liquidations and lease/contract terminations. All costs related to severance and termination benefits and lease/contract terminations expected to be incurred in connection with the acquisition of Warnaco and the related integration and restructuring were incurred by the end of 2015. Such costs were as follows:

(In millions)	Costs Incurred During 2013	Costs Incurred During 2014	Costs Incurred During 2015	Cumulative Incurred
Severance, termination benefits and other costs	\$ 131.5	\$ 23.7	\$ 17.5	\$ 172.7

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Inventory liquidation costs	35.1	1.0	—	36.1
Lease/contract termination and related costs	42.0	25.3	1.6	68.9
Total	\$208.6	\$50.0	\$19.1	\$277.7

Of the charges for severance, termination benefits and lease/contract termination and other costs incurred during 2015, \$5.3 million related to selling, general and administrative expenses of the Calvin Klein North America segment, \$2.4 million

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

related to selling, general and administrative expenses of the Calvin Klein International segment, \$5.1 million related to selling, general and administrative expenses of the Heritage Brands Wholesale segment and \$6.3 million related to corporate expenses not allocated to any reportable segment. Of the charges for severance, termination benefits and lease/contract termination and other costs incurred during 2014, \$7.0 million related to selling, general and administrative expenses of the Calvin Klein North America segment, \$24.7 million related to selling, general and administrative expenses of the Calvin Klein International segment, \$10.3 million related to selling, general and administrative expenses of the Heritage Brands Wholesale segment and \$7.0 million related to corporate expenses not allocated to any reportable segment. Of the charges for severance, termination benefits and lease/contract termination and other costs incurred during 2013, \$34.2 million related to selling, general and administrative expenses of the Calvin Klein North America segment, \$76.4 million related to selling, general and administrative expenses of the Calvin Klein International segment, \$22.3 million related to selling, general and administrative expenses of the Heritage Brands Wholesale segment and \$40.6 million related to corporate expenses not allocated to any reportable segment. Inventory liquidation costs incurred during 2014 and 2013 were principally included in gross margin of the Company's Calvin Klein North America and Calvin Klein International segments, respectively. Please see Note 20, "Segment Data" for a further discussion of the Company's reportable segments.

The liabilities at January 31, 2016 related to these costs were principally recorded in accrued expenses in the Company's Consolidated Balance Sheets and were as follows:

(In millions)	Liability at 2/1/15	Costs Incurred During 2015	Costs Paid During 2015	Liability at 1/31/16
Severance, termination benefits and other costs	\$ 14.0	\$ 17.5	\$ 29.1	\$ 2.4
Lease/contract termination and related costs	7.6	1.6	8.5	0.7
Total	\$ 21.6	\$ 19.1	\$ 37.6	\$ 3.1

## 18. NET INCOME PER COMMON SHARE

The Company computed its basic and diluted net income per common share as follows:

(In millions, except per share data)	2015	2014	2013
Net income attributable to PVH Corp.	\$572.4	\$439.0	\$143.5
Weighted average common shares outstanding for basic net income per common share	82.4	82.4	81.2
Weighted average impact of dilutive securities	0.7	0.9	1.4
Total shares for diluted net income per common share	83.1	83.3	82.6
Basic net income per common share attributable to PVH Corp.	\$6.95	\$5.33	\$1.77
Diluted net income per common share attributable to PVH Corp.	\$6.89	\$5.27	\$1.74

Potentially dilutive securities excluded from the calculation of diluted net income per common share were as follows:

(In millions)	2015	2014	2013
Weighted average potentially dilutive securities	0.6	0.4	0.3

Shares underlying contingently issuable awards that have not met the necessary conditions as of the end of a reporting period are not included in the calculation of diluted net income per common share for that period. The Company had contingently issuable awards outstanding that did not meet the performance conditions as of January 31, 2016, February 1, 2015 and February 2, 2014 and, therefore, were excluded from the calculation of diluted net income per common share for each applicable year. The maximum number of potentially dilutive shares that could be issued upon vesting for such awards was 0.9

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

million, 0.9 million and 0.7 million as of January 31, 2016, February 1, 2015 and February 2, 2014, respectively. These amounts were also excluded from the computation of weighted average potentially dilutive securities in the table above.

#### 19. NONCASH INVESTING AND FINANCING TRANSACTIONS

Omitted from the Company's Consolidated Statement of Cash Flows for 2015 were capital expenditures related to property, plant and equipment of \$24.5 million, which will not be paid until 2016. The Company paid \$17.0 million in cash during 2015 related to property, plant and equipment that was acquired in 2014. This amount was omitted from the Company's Consolidated Statement of Cash Flows for 2014. The Company paid \$13.6 million in cash during 2014 related to property, plant and equipment that was acquired in 2013. This amount was omitted from the Company's Consolidated Statement of Cash Flows for 2013.

Omitted from purchases of property, plant and equipment in the Company's Consolidated Statements of Cash Flows for 2015, 2014 and 2013 were \$4.3 million, \$4.2 million and \$7.5 million, respectively, of assets acquired through capital leases.

Omitted from purchases of property, plant and equipment in the Company's Consolidated Statement of Cash Flows for 2015 was \$4.1 million of leasehold improvements paid for directly by the lessor as a lease incentive to the Company.

The Company recorded increases to goodwill of \$51.7 million, \$50.5 million and \$51.0 million during 2015, 2014 and 2013, respectively, related to liabilities incurred for contingent purchase price payments to Mr. Calvin Klein. Such amounts are not due or paid in cash until 45 days subsequent to the Company's applicable quarter end. As such, during 2015, 2014 and 2013, the Company paid \$50.7 million, \$51.1 million and \$52.8 million, respectively, in cash related to contingent purchase price payments to Mr. Calvin Klein that were recorded as additions to goodwill during the periods the liabilities were incurred.

The Company recorded during the first quarter of 2014 a loss of \$17.5 million to write-off previously capitalized debt issuance costs in connection with the amendment and restatement of the 2013 facilities and the related redemption of its 7 3/8% senior notes due 2020.

Omitted from investments in unconsolidated affiliates in the Company's Consolidated Statement of Cash Flows for 2014 were noncash increases in the investment balances related to the Company's Calvin Klein Australia joint venture and Calvin Klein India joint venture of \$3.7 million and \$6.2 million, respectively, resulting from the deconsolidation of these entities during the first quarter of 2014. Please see Note 6, "Investments in Unconsolidated Affiliates," and Note 7, "Redeemable Non-Controlling Interest," for further discussion.

The Company recorded during the first quarter of 2013 a loss of \$5.8 million to write-off previously capitalized debt issuance costs in connection with the modification and extinguishment of the 2011 facilities.

The Company issued during the first quarter of 2013 7.7 million shares of its common stock, par value \$1.00 per share (of which 416 thousand shares were issued from treasury stock), as part of the consideration paid to the former stockholders of Warnaco in connection with the acquisition, which resulted in an increase in common stock of \$7.3 million, an increase in additional paid in capital of \$888.9 million and a decrease in treasury stock of \$30.3 million. In addition, the Company issued awards valued at \$39.8 million to replace outstanding stock awards made by Warnaco to its employees, which for accounting purposes are included in the total acquisition consideration. Also included in

the acquisition consideration was the elimination of a \$9.2 million pre-acquisition liability to Warnaco.

20. SEGMENT DATA

The Company manages its operations through its operating divisions, which are presented as six reportable segments: (i) Calvin Klein North America; (ii) Calvin Klein International; (iii) Tommy Hilfiger North America; (iv) Tommy Hilfiger International; (v) Heritage Brands Wholesale; and (vi) Heritage Brands Retail.

Calvin Klein North America Segment - This segment consists of the Company's Calvin Klein North America division. This segment derives revenue principally from (i) marketing Calvin Klein branded apparel and related products at wholesale in North America, primarily to department and specialty stores and e-commerce sites operated by key department store customers and pure play e-commerce retailers; (ii) operating retail stores, which are primarily located in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

premium outlet centers in North America, and e-commerce sites in North America, which sell Calvin Klein branded apparel, accessories and related products; and (iii) licensing and similar arrangements relating to the use by third parties of the brand names Calvin Klein, Calvin Klein Collection and Calvin Klein Platinum for a broad array of products and retail services in North America.

**Calvin Klein International Segment** - This segment consists of the Company's Calvin Klein International division. This segment derives revenue principally from (i) marketing Calvin Klein branded apparel and related products at wholesale principally in Europe, Asia and Brazil, primarily to department and specialty stores, e-commerce sites operated by key department store customers and pure play e-commerce retailers, franchisees of Calvin Klein, distributors and licensees; (ii) operating retail stores and e-commerce sites in Europe, Asia and Brazil, which sell Calvin Klein branded apparel, accessories and related products; and (iii) licensing and similar arrangements relating to the use by third parties of the brand names Calvin Klein Collection, Calvin Klein Platinum and Calvin Klein for a broad array of products and retail services outside of North America. This segment also includes the Company's proportionate share of the net income or loss of its investments in unconsolidated Calvin Klein foreign affiliates in Australia and India.

**Tommy Hilfiger North America Segment** - This segment consists of the Company's Tommy Hilfiger North America division. This segment derives revenue principally from (i) marketing Tommy Hilfiger branded apparel and related products at wholesale in North America, primarily to department stores, principally Macy's, Inc. and Hudson's Bay Company, as well as e-commerce sites operated by key department store customers and pure play e-commerce retailers; (ii) operating retail stores, which are primarily located in premium outlet centers in North America, and e-commerce sites in North America, which sell Tommy Hilfiger branded apparel, accessories and related products; and (iii) licensing and similar arrangements relating to the use by third parties of the Tommy Hilfiger brand name for a broad array of products in North America.

**Tommy Hilfiger International Segment** - This segment consists of the Company's Tommy Hilfiger International division. This segment derives revenue principally from (i) marketing Tommy Hilfiger branded apparel and related products at wholesale principally in Europe, primarily to department and specialty stores, e-commerce sites operated by key department store customers and pure play e-commerce retailers, franchisees of Tommy Hilfiger, distributors and licensees; (ii) operating retail stores in Europe and Japan and international e-commerce sites, which sell Tommy Hilfiger branded apparel, accessories and related products; and (iii) licensing and similar arrangements relating to the use by third parties of the Tommy Hilfiger brand name for a broad array of products outside of North America. This segment also includes the Company's proportionate share of the net income or loss of its investments in unconsolidated Tommy Hilfiger foreign affiliates in Brazil, China, India and Australia.

**Heritage Brands Wholesale Segment** - This segment consists of the Company's Heritage Brands Wholesale division. This segment derives revenue primarily from the marketing to department, chain and specialty stores and, to a lesser extent, e-commerce sites operated by key department store customers and pure play e-commerce retailers in North America of (i) dress shirts, neckwear and underwear under various owned and licensed brand names, including several private label brands; (ii) men's sportswear principally under the brand names Van Heusen, IZOD and ARROW; (iii) swimwear, fitness apparel, swim accessories and related products under the brand name Speedo; and (iv) women's intimate apparel under the brand names Warner's and Olga. This segment also includes the Company's proportionate share of the net income or loss of its investment in its unconsolidated Heritage Brands foreign affiliate in Australia.

**Heritage Brands Retail Segment** - This segment consists of the Company's Heritage Brands Retail division. This segment derives revenue principally from operating retail stores, primarily located in outlet centers in North America,

which primarily sell apparel, accessories and related products under the brand names Van Heusen and IZOD. The Company exited the Izod retail business in the third quarter of 2015 but continues to sell a limited selection of IZOD Golf apparel in some of its Van Heusen retail stores. The Company also sells products under the brand name Warner's on a limited basis in its Van Heusen retail stores. This segment also derived revenue through the third quarter of 2013 under the brand names Bass and G.H. Bass & Co., principally from operating outlet stores.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables present summarized information by segment:

(In millions)	2015	(1) 2014	2013
Revenue – Calvin Klein North America			
Net sales	\$1,457.0	\$1,391.1	\$1,316.8
Royalty revenue	133.7	115.6	113.9
Advertising and other revenue	44.0	44.1	41.9
Total	1,634.7	1,550.8	1,472.6
Revenue – Calvin Klein International			
Net sales	1,183.4	1,198.8	1,186.9 (2)
Royalty revenue	78.2	78.6	76.8
Advertising and other revenue	26.3	30.6	30.3
Total	1,287.9	1,308.0	1,294.0
Revenue – Tommy Hilfiger North America			
Net sales	1,567.6	1,595.6	1,505.6
Royalty revenue	42.4	30.2	27.6
Advertising and other revenue	12.7	10.0	9.0
Total	1,622.7	1,635.8	1,542.2
Revenue – Tommy Hilfiger International			
Net sales	1,693.6	1,886.1	1,834.9
Royalty revenue	49.3	56.2	51.7
Advertising and other revenue	3.9	3.7	4.5
Total	1,746.8	1,946.0	1,891.1
Revenue – Heritage Brands Wholesale			
Net sales	1,387.6	1,425.1	1,420.3
Royalty revenue	19.0	17.2	16.4
Advertising and other revenue	2.9	2.7	2.8
Total	1,409.5	1,445.0	1,439.5
Revenue – Heritage Brands Retail			
Net sales	316.3	352.4	541.7 (3)
Royalty revenue	2.2	2.7	4.3
Advertising and other revenue	0.2	0.5	1.0
Total	318.7	355.6	547.0
Total Revenue			
Net sales	7,605.5	7,849.1	7,806.2
Royalty revenue	324.8	300.5	290.7
Advertising and other revenue	90.0	91.6	89.5
Total(4)	\$8,020.3	\$8,241.2	\$8,186.4

(1) Revenue in 2015 was significantly impacted by the strengthening of the United States dollar against other currencies in which the Company transacts significant levels of business. Please see section entitled “Results of

Operations” in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this report for a further discussion.

- (2) Includes \$30.0 million of sales returns from certain wholesale customers in Asia in connection with the Company’s initiative to reduce excess inventory levels.
- (3) Includes net sales of \$175.6 million in 2013 related to the Bass business, which was sold in the fourth quarter of 2013.
- (4) No single customer accounted for more than 10% of the Company’s revenue in 2015, 2014 or 2013.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(In millions)	2015	(1)	2014		2013	
Income before interest and taxes – Calvin Klein North America	\$226.4	(3)	\$225.6	(8)	\$167.0	(12)
Income (loss) before interest and taxes – Calvin Klein International	186.6	(3)	118.7	(8)(10)	(60.7 )	(12)
Income before interest and taxes – Tommy Hilfiger North America	173.9	(4)	242.9		242.5	(14)
Income before interest and taxes – Tommy Hilfiger International	224.7		261.2		260.5	(14)
Income before interest and taxes – Heritage Brands Wholesale	90.4	(3)(5)	96.6	(8)	114.4	(12)
Loss before interest and taxes – Heritage Brands Retail	(3.4 )	(6)	(24.8 )	(9)	(24.4 )	(13)
Loss before interest and taxes – Corporate <sup>(2)</sup>	(138.1 )	(3)(7)	(390.3 )	(8)(11)	(185.9 )	(12)(15)
Income before interest and taxes	\$760.5		\$529.9		\$513.4	

Income (loss) before interest and taxes for 2015 was significantly impacted by the strengthening of the United States dollar against other currencies in which the Company transacts significant levels of business. Please see section entitled “Results of Operations” in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this report for a further discussion.

Includes corporate expenses not allocated to any reportable segments, as well as the Company’s proportionate share of the net income or loss of its investment in Karl Lagerfeld. Corporate expenses represent overhead operating expenses and include expenses for senior corporate management, corporate finance, information technology related to corporate infrastructure and actuarial gains and losses from the Company’s pension and other postretirement plans. Actuarial gains (losses) from the Company’s United States pension and other postretirement plans totaled \$20.2 million, \$(138.9) million and \$52.5 million in 2015, 2014 and 2013, respectively.

Income (loss) before interest and taxes for 2015 includes costs of \$73.4 million associated with the Company’s integration of Warnaco and the related restructuring. Such costs were included in the Company’s segments as follows: \$8.3 million in Calvin Klein North America; \$12.9 million in Calvin Klein International; \$8.1 million in Heritage Brands Wholesale and \$44.1 million in corporate expenses not allocated to any reportable segments.

Income before interest and taxes for 2015 includes costs of \$3.2 million in connection with licensing to G-III Apparel Group, Ltd. (“G-III”) the Tommy Hilfiger womenswear wholesale business in the United States and Canada.

Income before interest and taxes for 2015 includes costs of \$16.5 million principally related to the discontinuation of several licensed product lines in the Company’s Heritage Brands dress furnishings business.

Loss before interest and taxes for 2015 includes costs of \$10.3 million related to the operation of and exit from the Company’s Izod retail business.

- (7) Loss before interest and taxes for 2015 includes a one-time gain of \$2.2 million recorded in connection with the Company's 10% economic interest in Karl Lagerfeld.

- (8) Income (loss) before interest and taxes for 2014 includes costs of \$139.4 million associated with the Company's integration of Warnaco and the related restructuring. Such costs were included in the Company's segments as follows: \$14.0 million in Calvin Klein North America; \$51.1 million in Calvin Klein International; \$17.7 million in Heritage Brands Wholesale and \$56.6 million in corporate expenses not allocated to any reportable segments.

- (9) Loss before interest and taxes for 2014 includes costs of \$21.0 million associated with the exit from the Company's Izod retail business, the majority of which was noncash impairment charges.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(10) Income before interest and taxes for 2014 includes a net gain of \$8.0 million associated with the deconsolidation of certain Calvin Klein subsidiaries in Australia and the Company's previously consolidated Calvin Klein joint venture in India. Please see Note 6, "Investments in Unconsolidated Affiliates" and Note 7, "Redeemable Non-Controlling Interest" for further discussions.

(11) Loss before interest and taxes for 2014 includes costs of \$93.1 million associated with the Company's amendment and restatement of the 2013 facilities and the related redemption of its 7 3/8% senior notes due 2020. Please see Note 8, "Debt," for a further discussion.

(12) Income (loss) before interest and taxes for 2013 includes costs of \$469.7 million associated with the Company's acquisition and integration of Warnaco and the related restructuring. Such costs were included in the Company's segments as follows: \$87.7 million in Calvin Klein North America; \$237.5 million in Calvin Klein International; \$43.9 million in Heritage Brands Wholesale and \$100.6 million in corporate expenses not allocated to any reportable segments.

(13) Loss before interest and taxes for 2013 includes a loss of \$20.2 million associated with the sale of substantially all of the assets of the Company's Bass business.

(14) Income before interest and taxes for 2013 includes income of \$24.3 million related to the amendment of an unfavorable contract. A liability was recorded for such unfavorable contract at the time of the Tommy Hilfiger acquisition in 2010. The amendment executed in the third quarter of 2013 adjusted the contract terms thereby reducing the amount by which the contract was unfavorable and resulted in a reduction of the liability, amounting to \$24.3 million. Such income was included in the Company's segments as follows: \$12.0 million in Tommy Hilfiger North America and \$12.3 million in Tommy Hilfiger International.

(15) Loss before interest and taxes for 2013 includes costs of \$40.4 million associated with the Company's debt modification and extinguishment. Please see Note 8, "Debt," for a further discussion.

Intersegment transactions primarily consist of transfers of inventory principally from the Heritage Brands Wholesale segment to the Heritage Brands Retail segment, the Calvin Klein North America segment and the Tommy Hilfiger North America segment. These transfers are recorded at cost plus a standard markup percentage. Such markup percentage on ending inventory is eliminated principally in the Heritage Brands Retail segment and the Calvin Klein North America segment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(In millions)	2015	2014	2013
Identifiable Assets			
Calvin Klein North America	\$1,935.7	\$1,834.9	\$1,792.1
Calvin Klein International	2,752.8	2,819.9	2,975.7
Tommy Hilfiger North America	1,222.8	1,258.6	1,207.2
Tommy Hilfiger International	3,213.1	3,255.8	3,741.4
Heritage Brands Wholesale	1,297.0	1,342.7	1,399.5
Heritage Brands Retail	76.1	91.9	128.2
Corporate	198.9	221.1	182.1
Total	\$10,696.4	\$10,824.9	\$11,426.2
Depreciation and Amortization			
Calvin Klein North America	\$43.3	\$38.0	\$61.8
Calvin Klein International	61.1	58.6	100.9
Tommy Hilfiger North America	35.4	31.9	29.5
Tommy Hilfiger International	87.0	87.4	82.6
Heritage Brands Wholesale	15.3	14.6	19.0
Heritage Brands Retail	5.2	7.2	11.2
Corporate	10.1	7.0	8.6
Total	\$257.4	\$244.7	\$313.6
Identifiable Capital Expenditures <sup>(1)</sup>			
Calvin Klein North America	\$55.1	\$52.1	\$35.5
Calvin Klein International	70.6	49.9	42.7
Tommy Hilfiger North America	36.1	38.9	47.0
Tommy Hilfiger International	83.2	93.2	91.7
Heritage Brands Wholesale	14.6	10.2	7.4
Heritage Brands Retail	4.4	8.2	14.3
Corporate	7.3	6.7	7.9
Total	\$271.3	\$259.2	\$246.5

Capital expenditures in 2015 included \$24.5 million of accruals that will not be paid until 2016. Capital

<sup>(1)</sup> expenditures in 2014 included \$17.0 million of accruals that were not paid until 2015. Capital expenditures in 2013 included \$13.6 million of accruals that were not paid until 2014.

Property, plant and equipment, net based on the location where such assets are held, was as follows:

(In millions)	2015 <sup>(1)</sup>	2014	2013
Domestic	\$419.1	\$388.6	\$373.1
Canada	31.8	38.3	36.8
Europe <sup>(2)</sup>	221.6	230.2	224.2
Asia	57.9	53.1	63.9
Other foreign	14.2	15.5	14.1
Total	\$744.6	\$725.7	\$712.1

<sup>(1)</sup>Property, plant and equipment, net as of January 31, 2016 was significantly impacted by the strengthening of the United States dollar against other currencies in which the Company transacts significant levels of business. Please see section entitled "Results of Operations" in Management's Discussion and Analysis of Financial Condition and

Results of Operations included in Item 7 of this report for a further discussion.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(2) Property, plant and equipment, net as of January 31, 2016 did not include \$14.7 million related to a building in Amsterdam, the Netherlands, as during the fourth quarter of 2015 the Company entered into an agreement to sell the building. Please see Note 3, "Assets Held For Sale," for a further discussion.

Revenue, based on location of origin, was as follows:

(In millions)	2015 <sup>(1)</sup>	2014	2013
Domestic	\$4,406.2	\$4,404.8	\$4,433.9
Canada	454.2	468.5	454.0
Europe	2,130.8	2,304.9	2,261.4
Asia	785.3	779.3	742.3
Other foreign	243.8	283.7	294.8
Total	\$8,020.3	\$8,241.2	\$8,186.4

Revenue in 2015 was significantly impacted by the strengthening of the United States dollar against other (1)currencies in which the Company transacts significant levels of business. Please see section entitled "Results of Operations" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this report for a further discussion.

## 21. GUARANTEES

The Company guaranteed to a landlord the payment of rent and related costs by the tenant currently occupying space previously leased by the Company. The maximum amount guaranteed as of January 31, 2016 was approximately \$3.4 million, which is subject to exchange rate fluctuation. The Company has the right to seek recourse of approximately \$2.1 million as of January 31, 2016, which is subject to exchange rate fluctuation. The guarantee expires on May 19, 2016. The estimated fair value of this guarantee obligation was immaterial as of January 31, 2016 and February 1, 2015.

In connection with the sale of substantially all of the assets of the Company's Bass business in the fourth quarter of 2013, the Company guaranteed lease payments for substantially all Bass retail stores included in the sale pursuant to the terms of noncancelable leases expiring on various dates through 2022. These guarantees include minimum rent payments and relate to leases that commenced prior to the sale of the Bass assets. In certain instances, the Company's guarantee remains in effect when an option is exercised to extend the term of the lease. The maximum amount guaranteed for all leases as of January 31, 2016 was \$39.4 million and the Company has the right to seek recourse from the buyer of the Bass assets for the full amount. The estimated fair value of these guarantee obligations as of January 31, 2016 and February 1, 2015 was \$1.9 million and \$3.0 million, respectively, which was included in accrued expenses and other liabilities in the Company's Consolidated Balance Sheets. Please see Note 11, "Fair Value Measurements," for a further discussion.

In connection with the Company's investments in PVH Australia and CK India, the Company has guaranteed a portion of the entities' debt and other obligations. The maximum amount guaranteed as of January 31, 2016 was approximately \$7.6 million, which is subject to exchange rate fluctuation. The guarantees are in effect for the entire terms of the respective obligations. The estimated fair value of these guarantee obligations was immaterial as of January 31, 2016.



The Company has certain other guarantees whereby it guaranteed the payment of amounts on behalf of certain other parties, none of which are material individually or in the aggregate.

## 22. OTHER COMMENTS

Included in accrued expenses in the Company's Consolidated Balance Sheets are certain wholesale sales allowance accruals of \$112.6 million and \$104.8 million as of January 31, 2016 and February 1, 2015, respectively.

The Company's asset retirement obligations are included in other liabilities on the Company's Consolidated Balance Sheets and relate to the Company's obligation to dismantle or remove leasehold improvements from leased office, retail store or warehouse locations at the end of a lease term in order to restore a facility to a condition specified in the lease agreement. The Company records the fair value of the liability for asset retirement obligations in the period in which it is legally or contractually incurred. Upon initial recognition of the asset retirement liability, an asset retirement cost is capitalized by

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

increasing the carrying amount of the asset by the same amount as the liability. In periods subsequent to initial measurement, the asset retirement cost is recognized as expense through depreciation over the asset's useful life. Changes in the liability for the asset retirement obligations are recognized for the passage of time and revisions to either the timing or the amount of estimated cash flows. Accretion expense is recognized in selling, general and administrative expenses for the impacts of increasing the discounted fair value to its estimated settlement value.

The following table presents the activity related to the Company's asset retirement obligations for each of the last two years:

(In millions)	2015	2014
Balance at beginning of year	\$16.2	\$16.5
Liabilities incurred	4.4	2.7
Liabilities settled (payments)	(2.2	) (1.6
Accretion expense	0.4	0.4
Revisions in estimated cash flows	(0.5	) (0.1
Currency translation adjustment	(0.4	) (1.7
Balance at end of year	\$17.9	\$16.2

The Company is a party to certain litigation which, in management's judgment, based in part on the opinions of legal counsel, will not have a material adverse effect on the Company's financial position.

### 23. SUBSEQUENT EVENTS (UNAUDITED)

The Company announced on February 2, 2016 that it had entered into a definitive agreement to acquire the 55% of TH Asia that it does not already own. The purchase price for the shares is approximately \$172 million, net of cash expected to be acquired of approximately \$100 million, subject to adjustment. The closing, which is subject to customary conditions and regulatory approval, is expected to occur late in the first quarter or early in the second quarter of 2016.

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## PVH CORP.

## SELECTED QUARTERLY FINANCIAL DATA - UNAUDITED

(In millions, except per share data)

The following table sets forth selected quarterly financial data (unaudited) for the corresponding thirteen week periods of the fiscal years presented:

	1 <sup>st</sup> Quarter		2 <sup>nd</sup> Quarter		3 <sup>rd</sup> Quarter		4 <sup>th</sup> Quarter	
	2015	2014	2015	2014	2015	2014	2015	2014
	(1),(2),(3)	(9),(10),(11)	(1),(2),(3),(4),(5)	(9),(12)	(1),(2),(3),(4)	(9),(12),(13)	(1),(2),(3),(4),(6),(9),(12),(14),(15)	
Total revenue	\$1,879.3	\$1,963.7	\$1,864.0	\$1,975.6	\$2,164.5	\$2,233.1	\$2,112.5	\$2,068.8
Gross profit	985.6	1,033.2	1,002.1	1,054.7	1,101.0	1,167.5	1,072.9	1,071.3
Net income attributable to PVH Corp.	114.1	35.3	102.2	126.5	221.9	225.7	134.2	51.5
Basic net income per common share attributable to PVH Corp.	1.38	0.43	1.24	1.54	2.69	2.74	1.64	0.62
Diluted net income per common share attributable to PVH Corp.	1.37	0.42	1.22	1.52	2.67	2.71	1.63	0.62
Price range of stock per common share								
High	113.84	128.70	118.27	133.89	120.67	130.00	96.16	129.17
Low	93.80	114.10	102.12	107.50	87.12	107.05	64.16	109.00

The first, second, third and fourth quarters of 2015 included pre-tax costs of \$18.8 million, \$13.1 million, \$18.9 million and \$22.6 million, respectively, associated with the Company's integration of Warnaco and the related restructuring.

The first, second, third and fourth quarters of 2015 included pre-tax costs of \$0.5 million, \$5.8 million, \$2.8 million and \$1.2 million, respectively, related to the operation of and exit from the Company's Izod retail business. The first, second, third and fourth quarters of 2015 included tax benefits of \$2.3 million, \$0.7 million, \$18.5 million and \$1.8 million, respectively, associated with discrete items primarily related to the resolution of uncertain tax positions.

The second, third and fourth quarters of 2015 included pre-tax costs of \$3.3 million, \$13.1 million and \$0.1 million, respectively, principally related to the discontinuation of several licensed product lines in the Company's Heritage Brands dress furnishings business.

(5)

The second quarter of 2015 included a pre-tax gain of \$2.2 million recorded on the Company's equity investment in Karl Lagerfeld.

- (6) The fourth quarter of 2015 included a pre-tax actuarial gain of \$20.2 million from the Company's pension and other postretirement plans.
- (7) The fourth quarter of 2015 included pre-tax costs of \$3.2 million associated with licensing to G-III the Tommy Hilfiger womenswear wholesale business in the United States and Canada.
- (8) The fourth quarter of 2015 included tax benefits of \$11.2 million associated with discrete items related to the impact of recently enacted tax law and tax rate changes on deferred taxes.

- The first, second, third and fourth quarters of 2014 included pre-tax costs of \$32.6 million, \$44.0 million, \$29.1 million and \$33.7 million, respectively, associated with the Company's integration of Warnaco and the related restructuring.
- (9) million and \$33.7 million, respectively, associated with the Company's integration of Warnaco and the related restructuring.
  - (10) The first quarter of 2014 included a net gain of \$8.0 million associated with the deconsolidation of certain Calvin Klein subsidiaries in Australia and the Company's previously consolidated Calvin Klein joint venture in India.
  - (11) The first quarter of 2014 included pre-tax costs of \$93.1 million associated with the Company's amendment and restatement of the 2013 facilities and the related redemption of its 7 3/8% senior notes due 2020.
  - (12) The second, third and fourth quarters of 2014 included tax benefits of \$30.0 million, \$15.3 million and \$36.6 million, respectively, associated with discrete items primarily related to the resolution of uncertain tax positions.
  - (13) The third quarter of 2014 included a tax benefit of \$9.6 million associated with non-recurring discrete items primarily related to the Warnaco integration.
  - (14) The fourth quarter of 2014 included pre-tax costs of \$21.0 million associated with the exit from the Company's Izod retail business, the majority of which was noncash impairment charges.
  - (15) The fourth quarter of 2014 included a pre-tax actuarial loss of \$138.9 million from the Company's pension and other postretirement plans.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for the preparation and integrity of the consolidated financial statements appearing in this Annual Report on Form 10-K. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States and, accordingly, include certain amounts based on management's best judgments and estimates.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the underlying transactions, including the acquisition and disposition of assets; (ii) provide reasonable assurance that the Company's assets are safeguarded and transactions are executed in accordance with management's authorization and are recorded as necessary to permit preparation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Audit Committee of the Company's Board of Directors, composed solely of directors who are independent in accordance with New York Stock Exchange listing standards, the Securities Exchange Act of 1934, the Company's Corporate Governance Guidelines and the Committee's charter, meets periodically with the Company's independent auditors, the Company's internal auditors and management to discuss internal control over financial reporting, auditing and financial reporting matters. Both the independent auditors and the Company's internal auditors periodically meet alone with the Audit Committee and have free access to the Committee.

Management assessed the effectiveness of the Company's internal control over financial reporting as of January 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013 framework). Based on management's assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of January 31, 2016.

The Company's independent auditors, Ernst & Young LLP, a registered public accounting firm, are appointed by the Audit Committee, subject to ratification by the Company's stockholders. Ernst & Young LLP have audited and reported on the consolidated financial statements of the Company and the effectiveness of the Company's internal control over financial reporting. The reports of the independent auditors are contained in this Annual Report on Form 10-K.

/s/ EMANUEL CHIRICO

/s/ MICHAEL SHAFFER

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Emanuel Chirico  
Chairman and Chief Executive Officer  
March 25, 2016

Michael Shaffer  
Executive Vice President and Chief  
Operating & Financial Officer  
March 25, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of PVH Corp.

We have audited PVH Corp.'s internal control over financial reporting as of January 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). PVH Corp.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PVH Corp. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PVH Corp. as of January 31, 2016 and February 1, 2015, and the related consolidated income statements, statements of comprehensive income (loss), statements of changes in stockholders' equity and redeemable non-controlling interest and statements of cash flows for each of the three years in the period ended January 31, 2016 of PVH Corp. and our report dated March 25, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP



New York, New York  
March 25, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of PVH Corp.

We have audited the accompanying consolidated balance sheets of PVH Corp. as of January 31, 2016 and February 1, 2015, and the related consolidated income statements, statements of comprehensive income (loss), statements of changes in stockholders' equity and redeemable non-controlling interest and statements of cash flows for each of the three years in the period ended January 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PVH Corp. at January 31, 2016 and February 1, 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PVH Corp.'s internal control over financial reporting as of January 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 25, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

New York, New York  
March 25, 2016

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## PVH CORP.

## FIVE YEAR FINANCIAL SUMMARY

(In millions, except per share data, percents and ratios)

	2015 <sup>(1)</sup>	2014 <sup>(2)</sup>	2013 <sup>(3)</sup>	2012 <sup>(4)</sup>	2011 <sup>(5)</sup>	
Summary of Operations						
Revenue	\$8,020.3	\$8,241.2	\$8,186.4	\$6,043.0	\$5,890.6	
Cost of goods sold, expenses and other income items	7,259.8	7,711.3	7,673.0	5,382.7	5,399.4	
Income before interest and taxes	760.5	529.9	513.4	660.3	491.2	
Interest expense, net	113.0	138.5	184.7	117.2	128.1	
Income tax expense (benefit)	75.1	(47.5 )	185.3	109.3	87.4	
Net loss attributable to redeemable non-controlling interest	—	(0.1 )	(0.1 )	—	—	
Net income attributable to PVH Corp.	\$572.4	\$439.0	\$143.5	\$433.8	\$275.7	
Per Share Statistics						
Basic net income per common share attributable to PVH Corp.	\$6.95	\$5.33	\$1.77	\$5.98	\$3.86	
Diluted net income per common share attributable to PVH Corp.	6.89	5.27	1.74	5.87	3.78	
Dividends paid per common share	0.15	0.15	0.15	0.15	0.15	
Stockholders' equity per equivalent common share <sup>(6)</sup>	55.86	52.89	52.76	44.61	37.59	
Financial Position						
Current assets <sup>(7)</sup>	\$2,812.6	\$2,785.8	\$2,843.5	\$2,398.7	\$1,685.6	
Current liabilities (including short-term borrowings and current portion of long-term debt) <sup>(7)</sup>	1,527.2	1,428.1	1,551.2	1,162.4	1,043.9	
Working capital <sup>(7)</sup>	1,285.4	1,357.7	1,292.3	1,236.3	641.7	
Total assets <sup>(7)</sup>	10,696.4	10,824.9	11,426.2	7,699.0	6,703.4	
Capital leases	14.6	18.1	25.3	31.1	26.8	
Long-term debt	3,054.3	3,438.7	3,878.2	2,211.6	1,832.9	
Stockholders' equity	4,552.3	4,364.3	4,335.2	3,252.6	2,715.4	
Other Statistics						
Total debt to total capital <sup>(8)</sup>	41.5	% 45.0	% 48.0	% 41.9	% 41.7	%
Net debt to net capital <sup>(9)</sup>	37.0	% 41.4	% 44.0	% 30.8	% 38.6	%
Current ratio	1.8	2.0	1.8	2.1	1.6	

2015 includes (a) pre-tax costs of \$73.4 million associated with the integration of Warnaco and the related restructuring; (b) pre-tax costs of \$10.3 million related to the operation of and exit from the Izod retail business; (c) pre-tax costs of \$16.5 million principally related to the discontinuation of several licensed product lines in the Heritage Brands dress furnishings business; (d) a pre-tax gain of \$2.2 million recorded in connection with the

<sup>(1)</sup> equity investment in Karl Lagerfeld; (e) a pre-tax actuarial gain of \$20.2 million on pension and other postretirement plans; (f) pre-tax costs of \$3.2 million in connection with licensing to G-III the Tommy Hilfiger womenswear wholesale business in the U.S. and Canada; and (g) discrete tax benefits of \$34.5 million primarily related to the resolution of uncertain tax positions and the impact of recently enacted tax law and tax rate changes on deferred taxes.

<sup>(2)</sup> 2014 includes (a) pre-tax costs of \$139.4 million associated with the integration of Warnaco and the related restructuring; (b) a net gain of \$8.0 million associated with the deconsolidation of certain Calvin Klein subsidiaries

in Australia and the previously consolidated Calvin Klein joint venture in India; (c) pre-tax costs of \$93.1 million associated with the amendment and restatement of the Company's senior secured credit facilities and redemption of its 7 3/8% senior notes due 2020; (d) pre-tax costs of \$21.0 million associated with the exit from the Izod retail business; (e) a pre-tax actuarial loss of \$138.9 million on pension and other postretirement plans; and (f) discrete tax benefits of \$91.5 million primarily related to Warnaco integration activities and the resolution of uncertain tax positions.

2013 includes (a) pre-tax costs of \$469.7 million associated with the acquisition and integration of Warnaco and the related restructuring; (b) pre-tax costs of \$40.4 million associated with the debt modification and extinguishment; (c) pre-tax income of \$24.3 million due to the amendment of an unfavorable contract; (d) a pre-tax (3) loss of \$20.2 million associated with the sale of substantially all of the assets of the Bass business; (e) a pre-tax actuarial gain of \$52.5 million on pension and other postretirement plans; (f) pre-tax interest expense of \$0.8 million incurred prior to the Warnaco acquisition closing date related to the \$700.0 million of senior notes issued to fund the acquisition; (g) a net tax expense of \$5.2 million associated with non-recurring discrete items

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related to the Warnaco acquisition; and (h) a tax expense of \$120.0 million related to an increase to a previously established liability for an uncertain tax position related to European and United States transfer pricing arrangements.

2012 includes (a) pre-tax costs of \$20.5 million associated with the integration of Tommy Hilfiger and the related restructuring; (b) pre-tax costs of \$42.6 million associated with the acquisition of Warnaco; (c) a pre-tax actuarial (4) loss of \$28.1 million on pension and other postretirement plans; (d) pre-tax interest expense of \$3.7 million incurred in the fourth quarter related to the \$700.0 million of senior notes issued that quarter; and (e) a tax benefit of \$14.0 million resulting from the recognition of previously unrecognized net operating loss assets and tax credits. 2011 includes (a) pre-tax costs of \$69.5 million associated with the integration of Tommy Hilfiger and the related restructuring; (b) pre-tax costs of \$8.1 million related to the negotiated early termination of the Company's license to market sportswear under the Timberland brand and its exit from the Izod women's wholesale sportswear (5) business; (c) a pre-tax expense of \$20.7 million recorded in connection with the reacquisition of the rights to the Tommy Hilfiger trademarks in India that had been subject to a perpetual license; (d) pre-tax costs of \$16.2 million associated with the modification of the Company's senior secured credit facility; (e) a pre-tax actuarial loss of \$76.1 million on pension and other postretirement plans; and (f) a tax benefit of \$5.4 million resulting from the revaluation of certain deferred tax liabilities in connection with a decrease in the tax rate in Japan.

Stockholders' equity per equivalent common share is calculated by dividing stockholders' equity by the sum of (6) common shares outstanding and the number of common shares that the Company's Series A convertible preferred shares were convertible into for the applicable years, as such convertible preferred stock was classified within stockholders' equity in the Company's Consolidated Balance Sheets.

Amounts have been adjusted to reflect the retrospective application of the FASB guidance related to the (7) reclassification of deferred taxes, which was early adopted by the Company in the fourth quarter of 2015. Please see Note 1, "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in Item 8 of this report for a further discussion.

(8) Total capital equals total debt (including capital leases) and stockholders' equity.

(9) Net debt and net capital equal total debt (including capital leases) and total capital reduced by cash.

## SCHEDULE II

## PVH CORP.

## VALUATION AND QUALIFYING ACCOUNTS

(In millions)

Column A	Column B	Column C		Column D	Column E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions (d)	Balance at End of Period
Year Ended January 31, 2016					
Allowance for doubtful accounts	\$19.0	\$5.1	\$—	\$6.0	(c) \$18.1
Allowance/accrual for operational chargebacks and customer markdowns (a)	273.3	554.4	—	535.8	291.9
Total	292.3	559.5	—	541.8	310.0
Year Ended February 1, 2015					
Allowance for doubtful accounts	\$26.4	\$5.4	\$—	\$12.8	(c) \$19.0
Allowance/accrual for operational chargebacks and customer markdowns (a)	250.6	547.0	—	524.3	273.3
Total	277.0	552.4	—	537.1	292.3
Year Ended February 2, 2014					
Allowance for doubtful accounts	\$16.1	\$12.0	\$3.7	(b) \$5.4	(c) \$26.4
Allowance/accrual for operational chargebacks and customer markdowns (a)	151.1	498.1	28.2	(b) 426.8	250.6
Total	167.2	510.1	31.9	432.2	277.0

(a) Contains activity associated with the wholesale sales allowance accrual included in accrued expenses. Please see Note 22, "Other Comments" for specified amounts.

(b) Principally due to the acquisition of Warnaco in 2013.

(c) Principally accounts written off as uncollectible, net of recoveries.

(d) Includes changes due to foreign currency translation.

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2003

## ASSETS

CURRENT ASSETS

Cash and Cash Equivalents

\$

68,325

\$

142,991

Accounts Receivable

607,562

592,654

Inventories

82,326

42,017

Prepays and Other Current Assets

2,000

22,728

Total Current Assets

760,213

800,390

PROPERTY AND EQUIPMENT, NET

47,094

87,903

CAPITALIZED SOFTWARE COSTS, NET

872,379

1,095,114

DEPOSITS



83,622

88,297

**TOTAL ASSETS**

\$

1,763,308

\$

2,071,704

**LIABILITIES AND STOCKHOLDERS DEFICIT**

**CURRENT LIABILITIES**

Accounts Payable

\$

553,278

\$

741,964

Accrued Compensation and Related Benefits

470,800

429,719

Accrued Interest

1,228,998

4,126,588

Unearned Revenues

1,018,470

1,769,336

Notes Payable

774,291

991,808

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Notes Payable (Related Parties)

2,191,116

3,282,078

Convertible Notes Payable

850,594

850,594

Convertible Notes Payable (Related Parties)

9,368,085

8,226,092

Other

299,009

482,260

Total Current Liabilities

16,754,641

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20,900,439

CONVERTIBLE SERIES D PREFERRED STOCK

\$.001 par value; at redemption value; 5,500,000 authorized shares; 4,937,755 shares issued and outstanding in 2004

5,411,779

STOCKHOLDERS DEFICIT

Common Stock, \$.001 par value; 85,000,000 authorized shares in 2004:

50,000,000 authorized in 2003; 7,328,400 shares issued and outstanding in 2004 and 2003, respectively

7,328

7,328

Additional Paid-in Capital

17,397,328

17,871,352

Accumulated Deficit

(37,732,106

)

(36,673,636

)

Accumulated Other Comprehensive Loss

(75,662

)

(33,779

)

Total Stockholders' Deficit

(20,403,112

)

(18,828,735

)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT

\$

1,763,308

\$

2,071,704

See accompanying notes to consolidated financial statements

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**StorComm, Inc.****CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

	<b>2004</b>	<b>2003</b>
REVENUES	\$ 7,364,930	\$ 4,542,993
COST OF REVENUE		
Cost of Sales Equipment	1,725,662	511,229
Cost of Sales Support, Training	1,767,533	1,828,583
Cost of Sales Amortization of Capitalized Software	222,735	18,561
Total cost of goods sold	3,715,930	2,358,373
Gross profit	3,649,000	2,184,620
OPERATING EXPENSES		
Sales and marketing	1,186,148	1,103,114
Research and product development	1,123,357	902,013
General and administrative	1,256,803	1,091,239
Total operating costs	3,566,308	3,096,366
OPERATING INCOME (LOSS)	82,692	(911,746 )
INTEREST EXPENSE	1,141,162	1,467,963
NET LOSS	\$ (1,058,470 )	\$ (2,379,709 )

See accompanying notes to consolidated financial statements

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## StorComm, Inc

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

	Series A Preferred Stock Shares	Series A Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Comprehensive Loss	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
Balance January 1, 2003	1,066,507	1,067	2,383,346	2,383		(34,293,927)		(1,794 )	(34,292,271 )
Increase in redemption value of Redeemable Convertible Series B/C Preferred Stock					(866,986 )				(866,986 )
Series A, B, and C preferred stock conversion to common stock	(1,066,507 )	(1,067 )	4,945,054	4,945	18,738,338				18,742,216
Net Loss						(2,379,709 )	(2,379,709 )		(2,379,709 )
Foreign currency translation adjustment							(31,985 )	(31,985 )	(31,985 )
Total Comprehensive Loss							(2,411,694 )		
Balance December 31, 2003			7,328,400	7,328	17,871,352	(36,673,636)		(33,779 )	(18,828,735 )
Increase in redemption value of Redeemable Convertible Series D Preferred Stock					(474,024 )				(474,024 )
Net Loss						(1,058,470 )	(1,058,470 )		(1,058,470 )
Foreign currency translation adjustment							(41,883 )	(41,883 )	(41,883 )
Total Comprehensive Loss							(1,100,353 )		
Balance December 31, 2004			7,328,400	7,328	17,397,328	(37,732,106)		(75,662 )	(20,403,112 )

See accompanying notes to consolidated financial statements



## StorCOMM, Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

	2004	2003
Increase (Decrease) in Cash and Cash Equivalents		
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (1,058,470 )	\$ (2,379,709 )
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities		
Depreciation	46,012	49,184
Amortization of capitalized software costs	222,735	18,561
<b>Changes in Assets and Liabilities</b>		
(Increase) Decrease in Receivables	(14,908 )	(511,373 )
(Increase) Decrease in Inventories	(40,309 )	(42,017 )
(Increase) Decrease in Prepaids and Other Current Assets	20,728	44,649
(Increase) Decrease in Deposits	4,675	8,817
Increase (Decrease) in Accounts Payable	(188,686 )	369,316
Increase (Decrease) in Accrued Compensation and Related Benefits	41,081	(411,447 )
Increase (Decrease) in Accrued Interest	1,547,203	1,347,599
Increase (Decrease) in Unearned Revenues	(750,866 )	1,272,841
Increase (Decrease) in Other Liabilities	(183,251 )	321,558
Net Cash Provided by (Used) in Operating Activities	(354,056 )	87,979
<b>INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(5,203 )	(31,634 )
Additions to Capitalized Software Costs		(631,559 )
Net Cash Used in Investing Activities	(5,203 )	(663,193 )
<b>FINANCING ACTIVITIES</b>		
Proceeds from Notes Payable	543,993	752,149
Repayment of Notes Payable	(217,517 )	(124,918 )
Net Cash Provided by Financing Activities	326,476	627,231
Foreign Currency Translation Adjustment	(41,883 )	(31,985 )
<b>NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS</b>	<b>(74,666 )</b>	<b>20,032</b>
<b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>142,991</b>	<b>122,959</b>
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	<b>\$ 68,325</b>	<b>\$ 142,991</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
<b>Cash Paid During the Year For:</b>		
Interest	\$ 57,483	\$ 40,526
<b>Supplemental Disclosure of Non-cash Financing Activities:</b>		
Increase in Redemption Value of Preferred Stock	\$ 474,024	\$ 866,986
Series A, B, and C Preferred Stock Conversion to Common Stock		18,742,216
Debt Converted to Preferred Stock	4,937,555	
Debt Restructuring	9,368,085	

See accompanying notes to consolidated financial statements

**StorCOMM, Inc. and Subsidiary**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**1. DESCRIPTION OF BUSINESS**

StorCOMM, Inc. (the Company), a Delaware corporation, was incorporated on August 30, 1995. The Company's principal office is located in Jacksonville, Florida. The Company incorporated a wholly owned subsidiary, StorCOMM Technologies, Limited (StorCOMM-UK), on March 20, 1998, to conduct business in the United Kingdom. The Company designs, develops, markets, installs, and services Picture Archiving and Communications Systems (PACS) that capture, store, deliver and display diagnostic-quality clinical images and correspondent diagnostic information, and allow hospitals and integrated health care delivery networks to rapidly and cost-effectively distribute clinical images electronically throughout an enterprise-wide network as part of the enterprise's electronic patient record system.

**2. GOING CONCERN BASIS OF PRESENTATION AND MANAGEMENT'S PLANS**

The accompanying consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. From inception, the Company has incurred substantial losses and negative cash flows from operations. In addition, current liabilities exceed current assets by \$15,994,428 at December 31, 2004. Also, as discussed in Notes 5 and 6, the Company was in default at December 31, 2003 on its term loan with a financial institution and was served with a final judgment on January 22, 2004. An agreement was made to pay \$25,000 monthly for 45 months and a 46<sup>th</sup> month payment of \$8,692 at an interest rate of 7% annually. These factors among others indicate that there is substantial doubt about the Company's ability to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to obtain additional financing or refinancing as may be required and ultimately to attain successful operations. The Company recently has looked for financial strength through mergers or consolidations with other companies of similar business nature. On January 10, 2005, Creative Computer Applications, Inc., or CCA, of Calabasas, California announced that it has entered into a Letter of Intent to merge with the Company. The transaction is subject to the completion and execution of a Definitive Merger Agreement and shareholder approval. It is expected that the post merger company will offer integrated applications and services to a broad sector of the healthcare provider market. The merger is expected to be completed during 2005. If the current merger attempt should not materialize, then a continuation of searching for new capital would commence immediately. The Company will continue to search for new capital and to attempt to convert a percentage of existing debt into equity. No assurance can be made that the Company will be successful in accomplishing the proposed merger, its business plans, or that the Company will continue as a going concern.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Consolidation** The accompanying consolidated financial statements include the accounts of StorComm, Inc. and its wholly owned subsidiary StorComm Technologies, Limited. All inter-company accounts and transactions have been eliminated in consolidation.

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue and Cost Recognition** Revenues are derived primarily from the sale of the Company's Access.NET™ PACS Picture Archiving and Communications Systems. A typical turn-key PACS sales transaction includes the licensing of the Company's proprietary software (and certain third-party software), project-related services and training associated with the installation of the PACS systems, the sale of patented and proprietary components and/or third party equipment and computer hardware integrated into the PACS system, and customer support ( PCS ) for the first year after installation (customer sign-off). The Company's policy on orders accepted by the Company are not subject to change, cancellation, or return by the Buyer except with the Company's written consent and payment of a charge of not less than 15% of the price as liquidated damages.

The Company recognizes revenue in accordance with the provisions of Statement of Position (SOP) No. 97-2, Software Revenue Recognition, as amended by SOP No. 98-4, SOP 98-9 and clarified by Staff Accounting Bulletin (SAB) 101 Revenue Recognition in Financial Statements. SOP No. 97-2, as amended, generally requires revenue earned on software arrangements involving multiple-elements to be allocated to each element based on the relative fair values of those elements. The Company allocates revenue to each element in a multiple-element arrangement based on the element's respective fair value, with the fair value determined by the price charged when the element is sold and specifically defined in a quotation. The Company determines the fair value of the maintenance portion of the arrangement based on the renewal price of the maintenance charged to clients, professional services portion of the arrangement, training, other installation services, based on hourly rates which the company charges for these services when sold apart from the software license, and the hardware and sublicense of software based on the prices for these elements when they are sold separately from the software. If a discount is offered in a multiple-element arrangement, a proportionate amount of that discount is applied to each element included in the arrangement. The Company defers revenue recognition until the elements are delivered, installed, and accepted by the client. The revenue for the PCS element of a multiple-element arrangement is recognized over the life of the element usually 12 months in length. Terms on most orders are 50% deposit with purchase order, 30% payment on shipment of software and/or hardware, and 20% payment at installation (customer sign-off).

In addition, the Company derives recurring revenues from maintenance and support services on installed PACS, which generally include support of software, license renewal, upgrades, and maintenance of hardware. Hardware maintenance is usually purchased from the third party hardware vendor, and the Company relies on these third parties to service the hardware components it sells to the Company. Revenues from such services are recognized ratably over the service period, together with related costs incurred.

**Cash and Cash Equivalents** All highly liquid investment grade securities with a maturity of three months or less are considered to be cash equivalents.

**Receivables** The Company provides credit in the normal course of business to our customers, which are hospitals, radiology clinics, orthopedic practices, integrators, distributors, OEM channel partners, governmental medical sites, etc. Standard terms for direct and distributor channel partner sales are 50% deposit with purchase order, 30% payment at the time of delivery, and the balance 20% paid within 30 days of clinical acceptance or clinical sign-off. Accounts receivable balances are evaluated on a continual

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

basis and historically the Company has not experienced material bad debts. As of December 31, 2004 and 2003, there is no allowance for doubtful accounts.

**Inventories** Inventories consist of computer hardware. Inventory items are only purchased for orders received and are then charged to cost of goods sold when orders are completed and shipped coinciding with the revenue recognition policies set forth in the section labeled.

Inventory is valued at the lower of cost to purchase or the current estimated market value of the inventory items and shown net of any inventory valuation reserves. As of December 31, 2004 and 2003, there is no inventory valuation reserve.

**Property and Equipment** Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the useful life of the assets, generally ranging from three to five years.

Impairments of long-lived assets are recognized when projected future cash flows are less than the assets' carrying values. Accordingly, when indicators of impairment are present, the Company evaluates the carrying values of property and equipment in relation to the cash generating performance and future non-discounted cash flows of the underlying assets if the sum of their expected future non-discounted cash flows is less than book values.

**Research and Product Development** Research and development costs consist primarily of compensation paid to certain of the Company's employees. The Company capitalizes software development costs in accordance with FASB Statement No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. The Company capitalizes software development costs incurred subsequent to establishing technological feasibility of the software being developed. Thereafter, all software development costs are capitalized until the point that the product is available for general release to customers, at which time amortization of the capitalized costs begins. Capitalized software development costs are amortized over 5 years using the straight-line method. At each balance sheet date, the Company performs a detailed assessment of the capitalized software development costs to determine the asset's carrying value. The estimates of expected future revenues generated by the software, the remaining economic life of the software, or both, could change, materially affecting the carrying value of the capitalized software development costs. To the extent that the carrying value exceeds the estimated net realizable value of the capitalized software costs, an impairment charge is recorded.

During the years ended December 31, 2004 and 2003, the Company capitalized \$0- and \$631,559 of software development costs respectively. Amortization expense of capitalized software development costs for the years ended December 31, 2004 and 2003 amounted to \$222,735 and \$18,561, respectively.

**Income Taxes** The Company uses the liability method prescribed by Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Deferred income taxes are recognized for future tax effects of temporary differences between financial and income tax reporting based on current tax laws and rates.

**Stock-Based Compensation** The Company accounts for its stock option plans in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issues to Employees. As such, compensation expense would be recorded only if the current market price of the underlying stock exceeded the exercise price on the date of grant. The Company has adopted the



**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148 Accounting for Stock-based Compensation-Transition and Disclosure which requires for employee stock compensation awards as if the fair value method defined in SFAS No. 123 had been applied.

The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation:

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Net loss, as reported	\$ (1,058,470 )	\$ (2,379,709 )
Add: Total stock-based compensation expense included in net loss	-0-	-0-
Deduct: Total stock-based compensation expense determined under fair value based method for all awards	(9,123 )	-0-
Net loss, Pro forma	\$ (1,067,593 )	\$ (2,379,709 )

The fair value of each option was estimated on the date of the grant using Black-Scholes option-pricing model with the following weighted average assumptions: risk free interest rate is 5%, expected lives of 5 years; volatility is zero and no assumed dividends. The weighted average grant-date fair value of options granted during 2004 was estimated to be \$.02. There were no options granted during the year 2003. Prior to 2003, stock options were determined to have no value.

**Foreign Operations and Currency Translation** StorCOMM-UK generated revenue of approximately \$1,746,063 and a net loss of \$183,198 for the year ended December 31, 2004, excluding the favorable exchange rate valuation of their inter-company liability with StorComm-US. This favorable exchange rate valuation of the StorComm-UK inter-company liability with StorComm-US is eliminated in the consolidated financial statements.

StorCOMM-UK generated revenue of approximately \$589,988 and a net loss of \$667,589 for the year ended December 31, 2003, excluding the favorable exchange rate valuation of their inter-company liability with StorComm-US. This favorable exchange rate valuation of the StorComm-UK inter-company liability with StorComm-US is eliminated in the consolidated financial statements.

The Company, since the subsidiary's inception, has funded StorCOMM-UK's operations. Actual cash distributed to StorCOMM-UK was \$349,537 and \$378,572 for the years ended December 31, 2004 and 2003, respectively.

Revenues and expenses for the years presented were translated into U.S. dollars using the average monthly exchange rate for each month for the years ended December 31, 2004 and 2003, while assets and liabilities were translated based upon the respective year-end exchange rates. The impact of foreign currency translation for the years ended December 31, 2004 and 2003 has been reported as a separate component of other comprehensive income in stockholder's deficiency.

**Accounting Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Concentration of Risks** The Company maintains its cash in one commercial bank account (which includes a sweep investment account). Accounts at this bank are guaranteed by the Federal Deposit Insurance Corporation ( FDIC ) up to \$100,000 each. At December 31, 2004 and 2003, the Company had approximately \$-0- and \$42,508 respectively at its commercial bank that was in excess of the FDIC insurance limit.

The Company had three customers that represented 48% of the ending accounts receivable balance as of December 31, 2004 and one customer that represented 62% of the ending accounts receivable balance as of December 31, 2003. The Company also had two customers that represented approximately 55% of the Company s revenue for the year ended December 31, 2004 and one customer that represented approximately 26% of the Company s revenue for the year ended December 31, 2003.

**4. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31:

	2004	2003
Computer Hardware & Purchased Software	\$ 52,797	\$ 50,327
Furniture & Fixtures	177,626	169,562
Total property & equipment	\$ 230,423	\$ 219,889
Less: accumulated depreciation	(183,329 )	(131,986 )
Property and equipment, net	\$ 47,094	\$ 87,903

Depreciation expense for property and equipment for the years ended December 31, 2004 and 2003 was \$46,012 and \$49,184.

**5. NOTES PAYABLE AND CONVERTIBLE NOTES PAYABLE**

Notes payable consists of the following at December 31:

	2004	2003
\$991,808 default judgment with a financial institution, (originally a term loan) due in monthly installments of \$25,000 for 45 months and \$8,692 due in payment #46 which is due on November 1, 2007 at an interest rate of 7%.		
Original secured note was for \$1,000,000, secured by future customer contract receivables, and matured and was in default on December 10, 2000.	\$ 774,291	\$ 991,808
Related party demand notes with interest ranging from 7.75% to 12% (default rate 12%).		
As of December 31, 2004 \$1,274,116 was in default and \$1,667,038 is secured with all the Company s assets.	\$ 2,191,116	3,282,078

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**5. NOTES PAYABLE AND CONVERTIBLE NOTES PAYABLE (Continued)**

Convertible notes payable consists of the following at December 31:

	2004	2003
Convertible I unsecured \$30,000 note issued in 1996, interest at prime (8.5%), due three years from issuance if not converted at the option of the holder.		
Note is in default and matured on December 16, 1999.	\$ 30,000	\$ 30,000
Default judgment granted February 20, 2003 for balance due of \$62,642 plus statutory interest on a \$200,000 unsecured note payable originally due September 30, 2000.	\$ 62,642	\$ 62,642
Convertible I notes issued in 1996, interest at prime (8.5%), due three years from issuance if not converted at the option of the holder.		
Notes are unsecured, reassigned and in default and due on January 31, 2000.	\$ 257,952	\$ 257,952
Convertible V notes issued in 2002, interest 12%, due two years from issuance if not converted at the option of the holder.		
Notes are unsecured and in default as of June 18 and October 17, 2004.	\$ 500,000	\$ 500,000
Total Unrelated Parties	\$ 850,594	\$ 850,594
Convertible VII notes issued October 17, 2000, interest at 8% (default rate of 12%), due January 1, 2001, convertible at the option of the holder (related party). Secured notes with Company's assets, notes were in default and restructured March 15, 2004.	\$ -0-	\$ 8,226,092
Convertible VII notes issued March 15, 2004, interest at 8% (default rate of 12%), due October 1, 2005, convertible at the option of the holder (related party). Notes are secured with all Company assets.	\$ 9,368,085	\$ -0-
Total Related Parties	\$ 9,368,085	\$ 8,226,092

The Company was in default at December 31, 2003 on its term loan with a financial institution and was served with a final judgment on January 22, 2004. As a result, the Company agreed to pay \$25,000 monthly for 45 months and a 46<sup>th</sup> month payment of \$8,692 at an interest rate of 7% annually.

Convertible I notes are convertible into common stock at a rate of one share for each \$1.75 of outstanding notes and unpaid interest.

Convertible V notes were convertible into Series C Preferred Stock at a per share value equal to 100% of Series C Preferred Stock of \$4.50 per share. After the Series C Preferred Stock was converted and closed, the notes became convertible to common stock at \$4.50 per share.

Convertible VII notes are convertible into common stock at a sliding scale of the common stock price as defined in the convertible note. Conversion rate ranges from 25% to 50% of amount paid by holders of the common stock; or amounts to be paid in a future common stock offering.



**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**5. NOTES PAYABLE AND CONVERTIBLE NOTES PAYABLE (Continued)**

Related party demand notes consist of various loans from two board members/shareholders and from assets managed by or related to board members. Convertible VII notes payable to related parties also result from loans from two board members/shareholders.

Annual future minimum debt payments as of December 31, 2004 are as follows:

Year	Debt Repayment
2005	\$ 12,663,215
2006	271,432
2007	249,439
Aggregate minimum debt payments	\$ 13,184,086

Note: All debt in default is shown as current on the balance sheet.

**6. DEBT CONVERSION**

As a result of the Company's failure to meet its payment obligations, successfully raise capital and/or sell its business, the Company reached an agreement with two of its largest secured note holders ( Secured Creditors ) regarding a capital restructuring transaction. The proposal was accepted to enable the Company to simultaneously (i) avoid a foreclosure on the Company's assets and restructure its debt (approximately \$14,305,840 was in default with the Secured Creditors as of March 8, 2004), and (ii) improve its balance sheet by converting \$4,937,755 in debt. The Secured Creditors agreed to convert approximately \$5 million in debt to redeemable preferred stock and restructure \$9,368,085 in debt if the Series A Preferred Stockholders, Series B Preferred Stockholders, and Series C Preferred Stockholders agreed to convert their preferred shares into common stock. Series A Preferred Stockholders voted to convert (on a majority vote) their preferred shares to common stock on June 17, 2003. Series B Preferred Stockholders voted to convert (on a majority vote) their preferred shares to common stock on September 3, 2003. Series C Preferred Stockholders voted to convert (on a majority vote) their preferred shares to common stock on July 10, 2003.

The terms of the Secured Creditors' debt restructuring is as follows: On March 15, 2004, \$4,937,755 in Secured Creditors debt was converted to a new Redeemable Convertible Series D Preferred Stock ( Series D Preferred ) with a par value of \$0.001. One dollar of secured debt was exchanged for one share of Series D Preferred Stock that carries a conversion price of \$0.1351 (or a 1:7.4 conversion rate) per share when converted into common stock. (See Note No. 8). \$9,368,085 of Secured Creditors' debt was restructured in two 8% per annum Secured Promissory Notes dated March 15, 2004 with a maturity date of October 1, 2005 carrying a 12% default rate per annum.

**7. INCOME TAXES**

At December 31, 2004 and 2003, the Company's deferred tax assets resulted from net operating loss carryforwards. The deferred tax assets are fully reserved because management cannot determine it is more likely than not they will be utilized. The Company's net operating loss carryforwards of approximately

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**7. INCOME TAXES (Continued)**

\$30.1 million begin to expire in 2011. Additionally, the Company's net operating loss carryforwards may be limited pursuant to Internal Revenue Code Section 382 because of certain prior or prospective ownership changes, as defined therein (see Note 3).

The Internal Revenue Code of 1986, as amended, imposes substantial restrictions on the utilization of Net Operating Losses in the event of an ownership change of a corporation. Accordingly, a company's ability to use net operating losses may be limited as prescribed under Internal Revenue Code Section 382. Events which may cause limitations in the amount of the net operating losses that the Company may use in any one-year include, but are not limited to, cumulative ownership change of more than 50% over a three-year period. There have been transactions that have changed the Company's ownership structure since the Company's inception that may have resulted in one or more ownership changes as defined by the Internal Revenue Code of 1986. Accordingly, the Company's ability to use net operating loss carry-forwards may be limited.

**8. REDEEMABLE CONVERTIBLE PREFERRED STOCK**

The Company is authorized to issue two classes of stock to be designated as the Common Stock and the Preferred Stock, respectively. The total number of shares of stock that the Company is authorized to issue is 100,000,000 shares, 85,000,000 shares of which shall be shares of the common stock, with a par value of \$0.001 per share, and 15,000,000 shares of which shall be shares of the preferred stock, with a par value of \$0.001 per share.

There were 3,000,000 authorized shares, par value \$0.001 per share, of Redeemable Convertible Series B Preferred Stock (Series B Preferred). On September 3, 2003, the Series B Preferred Stockholders agreed to convert their preferred shares into common stock. At December 31, 2004 and 2003, respectively, there were no shares of Series B Preferred issued and outstanding.

There were 4,500,000 authorized shares, par value \$0.001 per share, of Redeemable Convertible Series C Preferred Stock (Series C Preferred). On July 10, 2003, the Series C Preferred Stockholders agreed to convert their preferred shares into common stock. At December 31, 2004 and 2003, respectively, there were no shares of Series C Preferred issued and outstanding.

There are 5,500,000 authorized shares, par value \$0.001 per share, of Redeemable Convertible Series D Preferred Stock (Series D Preferred). At December 31, 2004, there were 4,937,755 shares of Series D Preferred with a redemption value of \$5,411,779 due to the debt conversion of March 15, 2004 (See Note 6).

**Conversion** Series B Preferred was convertible at the option of the holder at any time into the Company's common stock and is automatically convertible into such common stock in the event of an IPO with a per share price of at least \$6.25 and gross proceeds of at least \$7.0 million or of a merger, business combination or sale of substantially all of the Company's assets. The conversion of the Series B Preferred to common stock is at a 1:1 ratio, subject to adjustments for stock splits, stock dividends and other items. Upon conversion of the Series B Preferred, the rights discussed below cease.

Series C Preferred was also convertible at the option of the holder at any time into the Company's common stock and is automatically convertible into such common stock in the event of an IPO with a per

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**8. REDEEMABLE CONVERTIBLE PREFERRED STOCK (Continued)**

share price of at least \$4.50 or of a merger, business combination or sale of substantially all of the Company's assets. The conversion of the Series C Preferred to common stock is at a 1: 1 ratio, subject to adjustments for stock splits, stock dividends and other items. Upon conversion of the Series C Preferred, the rights below cease.

Series D Preferred is convertible at the option of the holder at any time into the Company's common stock and is automatically convertible into such common stock in the event of an IPO with a per share price of at least \$0.1351 or of a merger, business combination or sale of substantially all of the Company's assets. The conversion of the Series D Preferred to common stock is at a 1: 7.4 ratio, subject to adjustments for stock splits, stock dividends and other items. Upon conversion of the Series D Preferred, the rights below cease.

**Dividend Rights** The holders of Series B Preferred were entitled to receive dividends in preference to holders of common stock and *pari passu* to holders of Series A Preferred at the rate of \$0.20 per share when, if and as declared by the Company's Board of Directors. If the Board of Directors shall elect to pay additional dividends, such dividends shall be distributed to the holders of common stock and each class of preferred stock as if the preferred stock had been converted to common stock prior to the payment of the additional dividends.

The holders of Series C Preferred were entitled to receive dividends in preference to holders of common stock and *pari passu* to holders of Series A Preferred and Series B Preferred at a rate of \$0.20 per share when, if and as declared by the Company's Board of Directors.

The holders of Series D Preferred are entitled to receive dividends in preference to holders of common stock at a rate of \$0.09333 per share when, if and as declared by the Company's Board of Directors.

**Liquidation Preference** Upon liquidation, dissolution, merger, or sale of substantially all of the assets of the Company, the holders of Series B Preferred were entitled to receive in preference to the holders of common stock and Series A Preferred an amount not to exceed the original \$2.50 per share price of the shares. In such event, the holders of Series C Preferred were entitled to receive, in preference to the holders of common stock, Series A Preferred, and Series B Preferred, an amount not to exceed the original \$4.50 per share price of the shares. In such event, the holders of Series D Preferred are entitled to receive, in preference to the holders of common stock, an amount not to exceed the original \$1.00 per share price of the shares.

**Voting Rights** Holders of the Series B Preferred and Series C Preferred were entitled to one vote per share on all matters, except for certain matters affecting the rights of either the Series B Preferred or Series C Preferred, which are each voted upon as a separate class. Holders of the Series D Preferred are entitled to one vote for each share of the common stock into which such holder's shares of the Series D Preferred Stock could then be converted 1:7.4 conversion rate.

**Registration Rights** Holders of outstanding shares of Series B Preferred and Series C Preferred were entitled to certain rights with respect to the registration of common stock issuable upon conversion of the shares.

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**8. REDEEMABLE CONVERTIBLE PREFERRED STOCK (Continued)**

**Redemption Rights** Subsequent to December 31, 2002, holders voting a majority of the then-outstanding Series B Preferred could require the Company to redeem the Series B Preferred for an amount equal to its original liquidation preference value of \$2.50 per share plus 12% for the first twelve month period after October 1, 1997, plus interest at the prime rate plus two percent, as adjusted from time to time, for each 12-month period thereafter. Such redemption may, at the Company's option, be paid in three equal annual installments. At the time of conversion on September 3, 2003, Series B Preferred had an accreted redemption value \$9,599,400.

Subsequent to June 10, 2006, holders of the then-outstanding Series C Preferred may require by a two-thirds vote that the Company redeem the Series C Preferred for an amount equal to its original issue price of \$4.50 per share plus 12% for the first twelve month period after July 1, 1999, plus interest at the prime rate plus two percent, as adjusted from time to time, for each 12-month period thereafter. Payment of the redemption price would be made quarterly over a three-year period. At the time of conversion on July 10, 2003, Series C Preferred had an accreted redemption value \$9,142,816.

Subsequent to June 15, 2007, holders voting a majority of the then-outstanding Series D Preferred can require the Company to redeem the Series D Preferred for an amount equal to its original liquidation preference value of \$1.00 per share plus 12% for the first twelve month period after March 15, 2004, plus interest at the prime rate plus two percent, as adjusted from time to time, for each 12-month period thereafter. Such redemption may, at the Company's option, be paid in three equal annual installments. At December 31, 2004, Series D Preferred had an accreted redemption value \$5,411,779.

**9. STOCKHOLDERS' DEFICIT**

**Convertible Preferred Stock - Series A**

**Conversion** Series A Preferred was convertible at the option of the holder at any time into common stock and is automatically convertible into common stock in the event of an IPO or merger, business combination, or sale of substantially all of the Company's assets. The conversion of the Series A Preferred to common stock was at a 1: 1 ratio, subject to adjustments for stock splits, stock dividends and other items. Upon conversion of the Series A Preferred, the rights discussed below cease.

**Dividend Rights** The holders of Series A Preferred were entitled to receive dividends, in preference to common stock and *pari passu* to holders of Series B Preferred and Series C Preferred at the rate of \$0.20 per share when, if and as declared by the Company's Board of Directors. If the Board of Directors shall elect to pay additional dividends, such dividends shall be distributed to the holders of common stock and each class of preferred stock as if the preferred stock had been converted to common stock prior to the payment of the additional dividends. Dividends on the Series A Preferred are not cumulative.

**Liquidation Preference** Upon liquidation, dissolution, merger, or sale of substantially all of the assets of the Company, the holders of Series A Preferred were entitled to receive in preference to the holders of common stock, but subject to preference of Series B Preferred and Series C Preferred, an amount not to exceed the original \$2.50 per share price of the shares.

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**9. STOCKHOLDERS DEFICIT (Continued)**

**Voting Rights** Holders of Series A Preferred were entitled to one vote per share on all matters, except for certain matters affecting the rights of the Series A Preferred, which are voted upon as a separate class.

**Registration Rights** Holders of outstanding shares of Series A Preferred were entitled to certain rights with respect to the registration of common stock issuable upon conversion of their shares.

**Common Stock**

There were 50,000,000 authorized shares of common stock, par value \$0.001 per share, at December 31, 2003. There are 85,000,000 authorized shares of common stock, par value \$0.001 per share, at December 31, 2004. Holders of common stock are entitled to one vote per share on all matters and are subject to certain preference rights of the holders of Series A Preferred, Series B Preferred, Series C Preferred, and Series D Preferred.

**Common Stock Purchase Warrants**

Prior to 2003, the Company issued various warrants for the purchase of common stock in conjunction with various debt agreements. During 2003, the Company issued warrants to purchase 88,892 shares of common stock for an exercise price of \$4.50 and a term of 60 months, in conjunction with various debt arrangements. The warrants were deemed to have nominal value and therefore no value has been reflected in the financial statements.

At December 31, 2004, common stock warrants to purchase 1,365,157 shares of the Company's common stock at exercise prices of \$4.50 per share were outstanding and unexercised. These warrants expire between January 2005 and December 2011.

**10. STOCK OPTION PLANS**

Both the 1995 Plan and the 1998 Plan provide for the grant of incentive stock options and non-statutory stock options. The exercise price of an incentive stock option may not be less than the fair market value of the common stock on the date of grant. The exercise price of non-statutory options may not be less than 85% of the fair market value of the common stock on the date of grant. No options granted under either the 1995 Plan or the 1998 Plan may have a term in excess of ten years from the date of grant. Shares and options issued under either the 1995 Plan or the 1998 Plan generally vest over four years in equal annual installments and are subject to certain repurchase and other conditions.

The 2004 Plan (is intended for and) provides for the grant of incentive stock options; even though the plan also provides for nonqualified stock options. The exercise price of an incentive stock option may not be less than the fair market value of the common stock on the date of grant. The exercise price of non-qualifying options may not be less than 50% of the fair market value of the common stock on the date of grant. No options granted under the 2004 Plan may have a term in excess of five years from the date of grant. Shares and options issued under the 2004 Plan generally vest over two years and are subject to certain repurchase and other conditions.

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**10. STOCK OPTION PLANS (Continued)**

An aggregate of 10,000,000 shares of common stock has been reserved for issuance under the 1995 Plan, 1998 Plan, and 2004 Plan. The 1995 and 1998 Plans were closed when the 2004 Plan was adopted.

The following table summarizes stock option activity for the years ended December 31, 2004 and 2003:

	Shares	Weighted Average Exercise Price per Share
Balance at January 1, 2003	498,500	\$ 3.07
2003 Activity		
Granted	-0-	
Exercised	-0-	
Cancelled	(32,500 )	
Balance at December 31, 2003	466,000	\$ 3.09
2004 Activity		
Granted	4,970,000	
Exercised	-0-	
Cancelled	(35,000 )	
Balance at December 31, 2004	5,401,000	\$ 0.38

There are 4,599,000 shares available and reserved for future issuance at December 31, 2004.

A summary of options outstanding as of December 31, 2004, is as follows:

Exercise Price	Options Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price Of Options Outstanding	Options Exercisable(1)	Weighted Average Exercise Price Of Options Exercisable
\$0.14285	4,970,000	4.82	\$ 0.14285	4,970,000	\$ 0.14285
\$0.25000	55,000	2.44	\$ 0.25000	55,000	\$ 0.25000
\$1.00000	2,000	2.96	\$ 1.00000	2,000	\$ 1.00000
\$2.00000	18,000	3.06	\$ 2.00000	18,000	\$ 2.00000
\$3.00000	50,000	3.15	\$ 3.00000	50,000	\$ 3.00000
\$3.50000	275,000	5.49	\$ 3.50000	275,000	\$ 3.50000
\$4.50000	3,000	3.29	\$ 4.50000	3,000	\$ 4.50000
\$5.00000	28,000	3.52	\$ 5.00000	28,000	\$ 5.00000
December 31, 2004	5,401,000	4.58	\$ 0.37543	5,401,000	\$ 0.37543

(1) Includes 2,712,750 shares, which are fully vested, and 2,688,250 shares, which are exercisable but subject to repurchase at the exercise price by the Company, as of December 31, 2004.

**StorCOMM, Inc. and Subsidiary**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE YEARS ENDED DECEMBER 31, 2004 and 2003**

**11. BENEFIT PLAN**

The Company has a qualified benefit plan under Section 401(k) of the Internal Revenue Code. Contributions to the plan by the Company are made at the discretion of the Company's Board of Directors. The Company made no contributions during 2004 and 2003.

**12. COMMITMENTS AND CONTINGENCIES**

The Company has leased office space and certain office equipment expiring in 2005. Minimum annual rents for office facilities are subject to increases based on changes in certain indices, taxes, insurance, and/or operating costs. At December 31, 2004 and 2003, deposits under these lease agreements are \$83,623 and \$83,623, respectively. Rent expense for the years ended December 31, 2004 and 2003, was \$155,818 and \$146,335 respectively. Aggregate future minimum lease payments for 2005 are \$118,568.

*Other Claims and Litigation* In December 2003, a former employee (and co-founder) of the Company commenced an action in Federal District Court against the Company and subsequently amended the complaint in January 2005 to add the Company's President and CEO. The former employee's claim arose from a September 29, 1995 Technology License Agreement under which the Company licensed certain software from the employee's formerly owned company. Various allegations were filed including breach of contract, copyright infringement, unfair competition, breach of confidentiality, and misappropriations of trade secrets. The former employee seeks damages in the amount of \$229,300 for breach of contract and is seeking other damages of at least \$1.95 million plus punitive damages. The Company's exposure to this action, if any, cannot be determined due to the early stage of the litigation. The Company believes that it has meritorious defenses to master all of the claims asserted in the action. No reserves were established on the Company's potential exposure as of December 31, 2004.

The Company was notified on March 2, 2004 of a pending issue arising from a License Agreement between the Company and certain patent holders for the use of certain technology in its product. The License Agreement was dated November 30, 1996 and was terminated by the Company on October 29, 1999. The patent holders are questioning minimum payment requirements of approximately \$117,000 arising from this agreement. The Company's legal counsel believes the claim is without merit and that no future liabilities will arise as well. No reserves were established on the Company's potential exposure as of December 31, 2004.

**13. SUBSEQUENT EVENTS**

On January 10, 2005, Creative Computer Applications, Inc., or CCA, of Calabasas, California announced that it has entered into a Letter of Intent to merge with the Company. The transaction is subject to the completion and execution of a Definitive Merger Agreement and shareholder approval.

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**Annex A**

**AGREEMENT AND PLAN OF REORGANIZATION**

**DATED AS OF August 16, 2005,**

**BY AND AMONG**

**CREATIVE COMPUTER APPLICATIONS, INC.**

**XYMED.COM, INC.**

**AND**

**STORCOMM, INC.**

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## AGREEMENT AND PLAN OF REORGANIZATION

AGREEMENT AND PLAN OF REORGANIZATION, dated as of August 16, 2005, (this *Agreement* ), by and among **CREATIVE COMPUTER APPLICATIONS, INC.**, a California corporation ( *CCA* ), **XYMED.COM, INC.**, a Delaware corporation and a wholly owned subsidiary of CCA ( *CCA Sub* ) and **STORCOMM, INC.**, a Delaware corporation ( *StorCOMM* ).

### WITNESSETH:

WHEREAS, the Boards of Directors of CCA and StorCOMM deem it advisable and in the best interests of each corporation and its respective shareholders that CCA and StorCOMM enter into a strategic merger in order to advance the long-term strategic business interests of CCA and StorCOMM, and CCA and StorCOMM previously entered into a Confidential Letter of Intent dated January 8, 2005 (the *Letter of Intent* ), and this Agreement shall supersede the Letter of Intent, which will be automatically terminated upon execution of this Agreement.

WHEREAS, the Boards of Directors of CCA, StorCOMM and CCA Sub have determined to consummate such strategic merger by means of the business combination transaction provided for herein in which CCA Sub will, subject to the terms and conditions set forth herein, merge with and into StorCOMM (the *Merger* ), with StorCOMM being the surviving corporation (hereinafter sometimes referred to in such capacity as the *Surviving Corporation* ) in the Merger as a wholly owned subsidiary of CCA;

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe certain conditions to the Merger; and

WHEREAS, capitalized terms used in this Agreement will have the respective meanings set forth (i) in *Section 8.11* or (ii) in the Sections of this Agreement set forth opposite such terms in *Section 8.11*.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement, and intending to be legally bound hereby, the parties hereto agree as follows:

### ARTICLE I THE MERGER

Section 1.1 *The Merger*. Upon the terms and conditions of this Agreement, and in accordance with the General Corporation Law of the State of Delaware (the *DGCL* ), at the Effective Time, CCA Sub shall merge with and into StorCOMM. StorCOMM shall be the surviving corporation in the Merger and shall continue its corporate existence under the laws of the State of Delaware under the name StorCOMM, Inc. . Upon consummation of the Merger, the separate corporate existence of CCA Sub shall terminate and StorCOMM shall become a wholly owned subsidiary of CCA.

Section 1.2 *Closing*. The closing of the Merger (the *Closing* ) will take place as soon as practicable, but in any event within three Business Days, after the satisfaction or waiver (subject to Applicable Laws) of the conditions (excluding conditions that, by their nature, cannot be satisfied until the Closing Date) set forth in *ARTICLE VI*, unless this Agreement has been theretofore terminated pursuant to its terms or unless another time or date is agreed to in writing by the parties hereto (the actual time and date of the Closing being referred to herein as the *Closing Date* ). The Closing shall be held at the offices of Sheppard, Mullin, Richter & Hampton LLP, 333 South Hope Street, Los Angeles, California 90071, unless another place is agreed to in writing by the parties hereto.

Section 1.3 *Effective Time*. The Merger shall become effective as set forth in the certificate of merger (the *Certificate of Merger* ) that shall be filed with the Secretary of State of the State of Delaware

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(the *Delaware Secretary* ) on the Closing Date. The term *Effective Time* shall mean the date and time when the Merger becomes effective, as set forth in the Certificate of Merger.

Section 1.4 *Effect of the Merger.* At and after the Effective Time, the Merger shall have the effect set forth in the DGCL.

Section 1.5 *Conversion of StorCOMM Common Stock.* At the Effective Time, by virtue of the Merger and without any action on the part of CCA, StorCOMM, CCA Sub or the holders of any capital stock of CCA, StorCOMM or CCA Sub:

(a) Subject to *Section 2.2(e)*, each share of common stock, par value \$.001 per share, of StorCOMM ( *StorCOMM Common Stock* ) issued and outstanding immediately prior to the Effective Time, other than shares of StorCOMM Common Stock held in StorCOMM's treasury or owned by any Subsidiary of StorCOMM, shall be converted into the right to receive .02447 of a share (the *Exchange Ratio* ) of common stock, no par value, of CCA ( *CCA Common Stock* ). Assuming the Merger had been completed as of June 30, 2005, CCA would have issued approximately THREE MILLION SEVEN HUNDRED THREE THOUSAND NINE HUNDRED (3,703,900) shares of CCA Common Stock, on a fully diluted basis, in the Merger.

(b) All shares of StorCOMM Common Stock converted into the right to receive CCA Common Stock pursuant to this *ARTICLE I* shall no longer be outstanding and shall automatically be canceled and shall cease to exist as of the Effective Time, and each certificate previously representing any such shares of StorCOMM Common Stock (a *Certificate* ) shall thereafter represent only the right to receive (i) a certificate (or book-entry credit) representing the number of whole shares of CCA Common Stock and (ii) cash in lieu of fractional shares of CCA Common Stock into which the shares of StorCOMM Common Stock formerly represented by such Certificate have been converted pursuant to this *Section 1.5* and *Section 2.2(e)*. Certificates shall be exchanged for certificates representing whole shares of CCA Common Stock and cash in lieu of fractional shares issued in consideration therefor upon the surrender of such Certificates in accordance with *Section 2.2*, without any interest thereon.

(c) All shares of StorCOMM Common Stock held in StorCOMM's treasury or owned by any Subsidiary of StorCOMM shall be canceled and shall cease to exist, and no shares of CCA Common Stock or other consideration shall be delivered in exchange therefor.

Section 1.6 *Conversion of CCA Sub Common Stock.* At the Effective Time, each share of common stock, par value \$.01 per share, of CCA Sub ( *CCA Sub Common Stock* ) issued and outstanding immediately prior to the Effective Time shall be converted into and become an issued and outstanding share of common stock of the Surviving Corporation.

Section 1.7 *Options and Warrants.*

(a) At or prior to the Effective Time, CCA and StorCOMM will take all action necessary such that each StorCOMM Stock Option and StorCOMM Warrant that is outstanding and unexercised immediately prior thereto shall cease to represent a right to acquire shares of StorCOMM Common Stock and shall be converted into an option or warrant, as applicable, to purchase shares of CCA Common Stock in an amount and at an exercise price (in the case of a StorCOMM Stock Option) and at a purchase price (in the case of the StorCOMM Warrant) determined as provided below (and otherwise subject to the terms of the appropriate StorCOMM Stock Plan pursuant to which such option has been issued and the agreements evidencing grants thereunder or otherwise subject to the terms of the StorCOMM Warrant, as applicable):

(i) The number of shares of CCA Common Stock to be subject to the new option or the new warrant, as applicable, shall be equal to the product of the number of shares of StorCOMM Common Stock subject to the original option or the original warrant, as applicable, multiplied by

the Exchange Ratio, provided that any fractional shares of CCA Common Stock resulting from such multiplication shall be rounded to the nearest whole share; and

(ii) The exercise price or purchase price, as applicable, per share of CCA Common Stock under the new option or the new warrant, as applicable, shall be equal to the exercise price per share of StorCOMM Common Stock under the original option (or, in the case of a warrant, the purchase price per share of StorCOMM Common Stock under the original warrant) divided by the Exchange Ratio, provided that such exercise price (or purchase price) shall be rounded to the nearest whole cent.

(b) The adjustment provided herein with respect to any options that are *incentive stock options* (as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the *Code* )) shall be and is intended to be effected in a manner that is consistent with Section 424(a) of the Code. The duration and other terms of the new option shall be the same as the original option, except that all references to StorCOMM shall be deemed to be references to CCA (but taking into account any changes thereto, including acceleration thereof, provided for in the StorCOMM Stock Plan by reason of this Agreement or the transactions contemplated hereby).

Section 1.8 *Certificate of Incorporation.* At the Effective Time, the certificate of incorporation of CCA Sub (the *CCA Sub Certificate* ) shall be the certificate of incorporation of the Surviving Corporation, until thereafter amended in accordance with the terms thereof and Applicable Laws.

Section 1.9 *By-Laws.* At the Effective Time, the by-laws of CCA Sub (the *CCA Sub By-Laws* ) shall be the by-laws of the Surviving Corporation until thereafter amended in accordance with the terms thereof, the CCA Sub Certificate and Applicable Laws.

Section 1.10 *Officers and Directors.* At the Effective Time, the officers and directors of CCA Sub shall be the officers and directors of the Surviving Corporation, in each case, until their respective successors are duly elected and qualified.

Section 1.11 *Tax Consequences.* It is intended that the Merger shall constitute a *reorganization* within the meaning of Section 368(a) of the Code and that this Agreement shall constitute a *plan of reorganization* for the purposes of Sections 354 and 361 of the Code.

## **ARTICLE II EXCHANGE OF SHARES**

Section 2.1 *CCA to Make Shares Available.* From time to time, prior to, at or after the Effective Time, CCA shall deposit, or shall cause to be deposited, with American Stock Transfer & Trust Company (the *Exchange Agent* ), for the benefit of the holders of the Certificates, for exchange in accordance with this ARTICLE II, certificates representing the shares of CCA Common Stock to be issued pursuant to Section 1.5 and delivered pursuant to Section 2.2(a) in exchange for Certificates (such certificates for shares of CCA Common Stock, together with any dividends or distributions with respect thereto, the *Exchange Fund* ) less the Escrow Shares (as defined in Section 9.8 below).

Section 2.2 *Exchange of Shares.*

(a) As soon as reasonably practicable after the Effective Time, the Exchange Agent shall mail to each holder of record of one or more Certificates a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent, and which shall be in customary form and have such other provisions as CCA or StorCOMM May reasonably request) and instructions for use in effecting the surrender of Certificates in exchange for certificates representing the shares of CCA Common Stock (and any cash in lieu of fractional shares) into which the shares of StorCOMM Common Stock formerly represented by

such Certificate or Certificates shall have been converted pursuant to this Agreement. Upon proper surrender of a Certificate for exchange and cancellation to the Exchange Agent, together with such properly completed letter of transmittal, duly executed, and such other documents as May reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor, (i) the number of shares of CCA Common Stock (which shall be in uncertificated book-entry form unless a physical certificate is requested) representing that number of whole shares of CCA Common Stock to which such holder shall have become entitled pursuant to the provisions of *ARTICLE I* and (ii) a check representing the amount of any cash in lieu of fractional shares of CCA Common Stock that such holder has the right to receive in respect of the Certificate surrendered pursuant to the provisions of this *ARTICLE II*, and the Certificate so surrendered shall forthwith be canceled. No interest will be paid or accrued on any cash in lieu of fractional shares or on any unpaid dividends and distributions payable to holders of Certificates.

(b) No dividends or other distributions declared or made with respect to CCA Common Stock shall be paid to the holder of any unsurrendered Certificate (and no cash payment in lieu of fractional shares of CCA Common Stock shall be paid to any such holder pursuant to *Section 2.2(e)*) until the holder thereof shall surrender such Certificate in accordance with this *ARTICLE II*. Subject to the effect of Applicable Laws, following surrender of any Certificate, there shall be paid to the holder of shares of CCA Common Stock issuable in exchange therefor, without interest, (a) promptly after the time of such surrender, the amount of any cash payable in lieu of fractional shares of CCA Common Stock to which such holder is entitled pursuant to *Section 2.2(e)* and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of CCA Common Stock and (b) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such whole shares of CCA Common Stock.

(c) If any certificate representing shares of CCA Common Stock is to be issued in a name other than that in which the Certificate surrendered in exchange therefor is registered, it shall be a condition of the issuance thereof that the Certificate so surrendered shall be properly endorsed (or accompanied by an appropriate instrument of transfer) and otherwise in proper form for transfer, and that the person requesting such exchange shall pay to the Exchange Agent in advance any transfer or other taxes required by reason of the issuance of a certificate representing shares of CCA Common Stock in any name other than that of the registered holder of the Certificate surrendered or shall establish to the satisfaction of the Exchange Agent that such tax has been paid or is not payable.

(d) After the Effective Time, there shall be no transfers on the stock transfer books of StorCOMM of the shares of StorCOMM Common Stock that were issued and outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented for transfer to the Exchange Agent, they shall be canceled and exchanged for certificates representing shares of CCA Common Stock (and any cash in lieu of fractional shares) as provided in this *ARTICLE II*.

(e) (i) Notwithstanding anything to the contrary contained herein, no certificates or scrip representing fractional shares of CCA Common Stock or book-entry credit of the same shall be issued upon the surrender for exchange of Certificates, no dividend or distribution with respect to CCA Common Stock shall be payable on or with respect to any such fractional share, and such fractional share interests shall not entitle the owner thereof to vote or to any other rights of a stockholder of CCA. In lieu of the issuance of any such fractional share, CCA shall pay to each holder of Certificates who otherwise would be entitled to receive such fractional share an amount in cash determined in the manner provided in clauses (ii) and (iii) of this *Section 2.2(e)*.

(ii) As promptly as practicable following the Effective Time, the Exchange Agent shall determine the excess of (x) the aggregate number of whole shares of CCA Common Stock into

which shares of StorCOMM Common Stock have been converted pursuant to *Section 1.5* over (y) the aggregate number of whole shares of CCA Common Stock to be distributed to holders of Certificates pursuant to this *Section 2.2* (such excess being herein referred to as the *Excess Shares* ). As soon after the Effective Time as practicable, the Exchange Agent, as agent for such holders of Certificates, shall sell the Excess Shares at then prevailing prices on the American Stock Exchange, all in the manner provided in clause (iii) of this *Section 2.2(e)*.

(iii) The sale of the Excess Shares by the Exchange Agent shall be executed on the American Stock Exchange and shall be executed in round lots to the extent practicable. Until the net proceeds of any such sale or sales have been distributed to the holders of Certificates, the Exchange Agent will hold such proceeds in trust for such holders as part of the Exchange Fund. CCA shall pay all commissions, transfer taxes and other out-of-pocket transaction costs of the Exchange Agent incurred in connection with such sale or sales of Excess Shares. In addition, CCA shall pay the Exchange Agent's compensation and expenses in connection with such sale or sales. The Exchange Agent shall determine the portion of such net proceeds to which each holder of Certificates shall be entitled, if any, by multiplying the amount of the aggregate net proceeds by a fraction, the numerator of which is the amount of the fractional share interest in CCA Common Stock to which such holder of Certificates is entitled (after taking into account all Certificates then held by such holder) and the denominator of which is the aggregate amount of fractional share interests in CCA Common Stock to which all holders of Certificates are entitled. As soon as practicable after the determination of the amount of cash, if any, to be paid to holders of Certificates with respect to any fractional share interests in CCA Common Stock, the Exchange Agent shall promptly pay such amounts to such holders of Certificates subject to and in accordance with this *Section 2.2*.

(f) Any portion of the Exchange Fund that remains unclaimed by holders of Certificates for twelve months after the Effective Time shall be delivered to CCA, and any holders of Certificates who have not theretofore complied with this *ARTICLE II* shall thereafter look only to CCA for payment of the shares of CCA Common Stock, cash in lieu of any fractional shares of CCA Common Stock and any unpaid dividends and distributions on the CCA Common Stock deliverable in respect of each share of StorCOMM Common Stock formerly represented by such Certificate as determined pursuant to this Agreement, without any interest thereon. Any such portion of the Exchange Fund remaining unclaimed by holders of Certificates five years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity) shall, to the extent permitted by Applicable Laws, become the property of CCA free and clear of any claims or interest of any Person previously entitled thereto.

(g) None of CCA, CCA Sub, StorCOMM, the Exchange Agent or any other Person shall be liable to any holder of Certificates for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar Applicable Laws.

(h) The Exchange Agent shall invest any cash included in the Exchange Fund on a daily basis as directed by CCA. Any interest and other income resulting from such investments shall be paid to CCA promptly upon request by CCA.

(i) In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed, and the posting by such Person of a bond in such amount as CCA May determine is reasonably necessary as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will issue in exchange for such lost, stolen or destroyed Certificate the shares of CCA Common Stock (and any cash in lieu of fractional shares) deliverable in respect thereof pursuant to this Agreement.

- (j) All references in this Agreement to Certificates shall include any book-entry credits representing shares of StorCOMM Common Stock.
- (k) The rights and obligations set forth in this *Section 2.2* are subject to *Section 9* below.

Section 2.3 *Affiliates.* Notwithstanding anything to the contrary herein, to the fullest extent permitted by law, no certificates representing shares of CCA Common Stock or cash shall be delivered to a Person who may be deemed an affiliate of StorCOMM in accordance with *Section 5.15*, for purposes of Rule 145 under the Securities Act of 1933, as amended (the *Securities Act* ), until such Person has executed and delivered an Affiliate Agreement pursuant to *Section 5.15*.

### **ARTICLE III REPRESENTATIONS AND WARRANTIES**

Section 3.1 *Representations and Warranties of StorCOMM.* Except as set forth in the StorCOMM Disclosure Schedule delivered by StorCOMM to CCA prior to the execution of this Agreement (the *StorCOMM Disclosure Schedule* ) (each Section of which qualifies the correspondingly numbered representation and warranty or covenant of StorCOMM to the extent specified therein), StorCOMM represents and warrants to CCA as follows:

(a) *Organization, Standing and Power; Subsidiaries.*

(i) StorCOMM is a corporation and each of its Subsidiaries is a corporation or other organization duly organized, validly existing and in good standing (where applicable) under the laws of its jurisdiction of incorporation or organization, has the requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and as it will be conducted through the Effective Time, except where the failure to be so organized, existing and in good standing or to have such power and authority, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, other than in such jurisdictions where the failure so to qualify or to be in good standing, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries. The copies of the certificate of incorporation and by-laws of StorCOMM which were previously furnished or made available to CCA are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(ii) *Section 3.1(a)(ii)* of the StorCOMM Disclosure Schedule sets forth a list of all the Subsidiaries of StorCOMM which as of the date of this Agreement are Significant Subsidiaries (as defined in Rule 1-02 of Regulation S-X of the Securities and Exchange Commission (the *SEC* )). All the outstanding shares of capital stock of, or other equity interests in, each such Significant Subsidiary have been validly issued and are fully paid and nonassessable and are owned directly or indirectly by StorCOMM, free and clear of all material pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, *Liens* ) and free of any other material restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other equity interests). None of StorCOMM or any of its Subsidiaries directly or indirectly owns any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity (other than Subsidiaries) that is or would reasonably be expected to be material to StorCOMM and its Subsidiaries taken as a whole.



(b) *Capital Structure.*

(i) At August 9, 2005, the authorized capital stock of StorCOMM consists of 85,000,000 shares of StorCOMM Common Stock and 15,000,000 shares of preferred stock, par value \$.001 per share ( *StorCOMM Preferred Stock* ), 5,500,000 shares of which are designated as *Series D Preferred Stock* . As of August 9, 2005, 7,328,400 shares of Common Stock and 4,937,755 shares of Series D Preferred Stock were outstanding. As of August 9, 2005, 4,556,000 shares of StorCOMM Common Stock were reserved for issuance upon exercise of options or rights ( *StorCOMM Stock Options* ) outstanding under the StorCOMM Stock Plan. As of August 9, 2005, no shares of StorCOMM Common Stock were held as treasury shares. Since August 9, 2005 to the date of this Agreement, no shares of capital stock of StorCOMM or any other securities of StorCOMM have been issued other than shares of StorCOMM Common Stock issued pursuant to StorCOMM Stock Options outstanding as of August 9, 2005 under the StorCOMM Stock Plan. All issued and outstanding shares of capital stock of StorCOMM are duly authorized, validly issued, fully paid and nonassessable, and no class of capital stock of StorCOMM is entitled to preemptive rights. There are outstanding as of the date hereof no options, warrants or other rights to acquire capital stock from StorCOMM other than (A) StorCOMM Stock Options under the StorCOMM Stock Plan, (B) the StorCOMM Convertible Notes which are convertible into StorCOMM Common Stock at a conversion ratio of 7.4 to 1, and (C) warrants to purchase 167,623 shares of StorCOMM Common Stock (the *StorCOMM Warrants* ). *Section 3.1(b)(i)* of the StorCOMM Disclosure Schedule sets forth a complete and correct list as August 9, 2005 of all outstanding StorCOMM Stock Options and StorCOMM Warrants and the exercise prices thereof.]

(ii) No bonds, debentures, notes or other indebtedness of StorCOMM having the right to vote on any matters on which stockholders of StorCOMM may vote are issued or outstanding.

(iii) Except as otherwise set forth in this *Section 3.1(b)*, as of the date of this Agreement, there are no securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which StorCOMM or any of its Subsidiaries is a party or by which any of them is bound obligating StorCOMM or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of StorCOMM or any of its Subsidiaries or obligating StorCOMM or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. As of the date of this Agreement, there are no outstanding obligations of StorCOMM or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of StorCOMM or any of its Subsidiaries.

(c) *Authority; No Conflicts.*

(i) StorCOMM has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, subject, in the case of the consummation of the Merger, to the approval and adoption of this Agreement and the Merger by the Required StorCOMM Vote. The execution and delivery of this Agreement by StorCOMM and the consummation by StorCOMM of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of StorCOMM, subject, in the case of the consummation of the Merger, to the approval and adoption of this Agreement and the Merger by the Required StorCOMM Vote. This Agreement has been duly executed and delivered by StorCOMM and, assuming the due authorization and valid execution and delivery of this Agreement by each of CCA and CCA Sub, constitutes a valid and binding agreement of StorCOMM, enforceable against StorCOMM in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and similar

Applicable Laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(ii) The execution and delivery of this Agreement by StorCOMM does not, and the consummation by StorCOMM of the Merger and the other transactions contemplated hereby will not, conflict with, or result in any breach or violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to a right of or result by its terms in the termination, amendment, cancellation or acceleration of any obligation or the loss of a material benefit under, or the creation of a Lien, charge, put or call right or other encumbrance on, or the loss of, any assets (any such conflict, breach, violation, default, right of termination, amendment, cancellation or acceleration, loss or creation, a *Violation* ) pursuant to: (A) any provision of the certificate of incorporation or by-laws or similar organizational document of StorCOMM or any Significant Subsidiary of StorCOMM or (B) except as, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries or, to the Knowledge of StorCOMM, on StorCOMM and its Subsidiaries following the Merger, subject to obtaining or making the StorCOMM Necessary Consents, any loan or credit agreement, note, instrument, mortgage, bond, indenture, lease, benefit plan or other contract, agreement or obligation (a *Contract* ) to which StorCOMM or any of its Subsidiaries is a party or by which any of them or any of their respective properties or assets is bound, or any permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to StorCOMM or any Subsidiary of StorCOMM or their respective properties or assets.

(iii) No consent, approval, order or authorization of, or registration, declaration or filing with, any supranational, national, state, municipal, local or foreign government, any instrumentality, subdivision, court, administrative agency, department or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority (a *Governmental Entity* ) or any other Person is required by or with respect to StorCOMM or any Subsidiary of StorCOMM in connection with the execution and delivery of this Agreement by StorCOMM or the consummation by StorCOMM of the Merger and the other transactions contemplated hereby, except for those required under or in relation to (A) state securities or blue sky laws, (B) the Securities Act, (C) the Securities Exchange Act of 1934, as amended (the *Exchange Act* ), (D) the DGCL with respect to the filing of the Certificate of Merger with the Delaware Secretary, (E) the rules and regulations of the American Stock Exchange and (F) antitrust or other competition laws of other jurisdictions and (G) such consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries. Consents, approvals, orders, authorizations, registrations, declarations and filings required under or in relation to any of the foregoing clauses (A) through (F) are hereinafter referred to as the *StorCOMM Necessary Consents* .

(d) *Financial Statements.*

(i) Since December 31, 2004, StorCOMM and its Subsidiaries have not incurred any liabilities that are of a nature that would be required to be disclosed on a balance sheet of StorCOMM and its Subsidiaries or the footnotes thereto prepared in conformity with generally accepted accounting principles ( *GAAP* ), other than liabilities incurred in the ordinary course of business consistent with past practice.

(ii) Set forth in *Section 3.1(d)(ii)* of the StorCOMM Disclosure Schedule are (A) the audited balance sheets of StorCOMM at December 31, 2003 and December 31, 2004, together with the related audited statements of operations, income and cash flows for the fiscal years then ended,

accompanied by the notes thereto and the report of BDO Seidman, LLP, and (B) the unaudited balance sheet of StorCOMM at June 30, 2005 and the related unaudited statement of operations, income and cash flows for the three months then ended (collectively, the *Financial Information* ). The Financial Information was derived from the internal books and records of StorCOMM and was prepared in a manner consistent with StorCOMM's then current accounting practices with respect to the StorCOMM. The Financial Information is complete and accurate, is presented in accordance with GAAP, applied on a consistent basis throughout the periods indicated, and presents fairly, in all material respects, the financial position and the results of operations and cash flows of StorCOMM for the periods indicated in the manner set forth in *Section 3.1(d)(ii)* of the StorCOMM Disclosure Schedule, except for the omission of certain information required to be included in footnotes to the interim financial statements, which footnotes were not prepared by StorCOMM.

(e) *Information Supplied.*

(i) None of the information supplied or to be supplied by StorCOMM for inclusion or incorporation by reference in (A) the Form S-4 will, at the time the Form S-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (B) the Joint Proxy Statement/Prospectus will, on the date it is first mailed to CCA stockholders or StorCOMM stockholders or at the time of the CCA Stockholders Meeting or the StorCOMM Stockholders Meeting, 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 were made, not misleading. The Form S-4 and the Joint Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder.

(ii) Notwithstanding the foregoing provisions of this *Section 3.1(e)*, no representation or warranty is made by StorCOMM with respect to statements made or incorporated by reference in the Form S-4 or the Joint Proxy Statement/Prospectus based on information supplied by CCA or CCA Sub for inclusion or incorporation by reference therein.

(f) *Board Approval.* The Board of Directors of StorCOMM, by resolutions duly adopted by unanimous vote of all directors present at a meeting duly called and held and, other than as set forth in *Section 5.8*, not subsequently rescinded or modified in any way, has duly (i) determined that this Agreement and the Merger are advisable and in the best interests of StorCOMM and its stockholders, (ii) approved this Agreement and the Merger, and (iii) resolved to recommend that the stockholders of StorCOMM approve and adopt this Agreement and the Merger and directed that the Merger and this Agreement be submitted for consideration by StorCOMM's stockholders at the StorCOMM Stockholders Meeting. To the Knowledge of StorCOMM, no state takeover statute is applicable or purports to be applicable to the Merger or the other transactions contemplated hereby.

(g) *Vote Required.* The affirmative vote of the holders of ninety percent (90%) of the voting power of StorCOMM's capital stock outstanding and a majority of the outstanding Series D Preferred Stock, voting as a separate class (together, the *Required StorCOMM Vote* ) to approve and adopt this Agreement and the Merger is the only vote of the holders of any class or series of StorCOMM capital stock necessary to approve or adopt this Agreement and the Merger and the other transactions contemplated hereby.

(h) *Litigation; Compliance with Laws.*

(i) Except as disclosed in *Schedule 3.1(h)*, there is no suit, action, proceeding or regulatory investigation pending or, to the Knowledge of StorCOMM, threatened, against or affecting StorCOMM or any of its Subsidiaries or any property or asset of StorCOMM or any of its Subsidiaries which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries, nor is there any judgment, decree, injunction, rule or order of any Governmental Entity or arbitrator outstanding against StorCOMM or any of its Subsidiaries, which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries.

(ii) Except as, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries, StorCOMM and its Subsidiaries hold all permits, licenses, franchises, variances, exemptions, orders and approvals of all Governmental Entities which are necessary for the operation of the businesses of StorCOMM and its Subsidiaries (the *StorCOMM Permits* ), and no suspension or cancellation of any of the *StorCOMM Permits* is pending or, to the Knowledge of StorCOMM, threatened, except for suspensions or cancellations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries. StorCOMM and its Subsidiaries are in compliance with the terms of the *StorCOMM Permits*, except where the failure so to comply, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries. None of StorCOMM or any of its Subsidiaries is in violation of, and StorCOMM and its Subsidiaries have not received any notices of violations with respect to, any Applicable Laws, except for violations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries.

(i) *Absence of Certain Changes or Events.* Since June 30, 2005, StorCOMM and its Subsidiaries have conducted their businesses only in the ordinary course, consistent with past practice, and there has not been any change, circumstance, event or development which, individually or in the aggregate, has had, or would reasonably be expected to have, a Material Adverse Effect on StorCOMM and its Subsidiaries.

(j) *Environmental Matters.* Except as, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries, (i) the operations of StorCOMM and its Subsidiaries have been and are in material compliance with all Environmental Laws and with all *StorCOMM Permits* required by Environmental Laws, (ii) there are no pending or, to the Knowledge of StorCOMM, threatened, actions, suits, claims, investigations or other proceedings (collectively, *Actions* ) under or pursuant to Environmental Laws against StorCOMM or its Subsidiaries or involving any real property currently or, to the Knowledge of StorCOMM, formerly owned, operated or leased by StorCOMM or its Subsidiaries and (iii) StorCOMM and its Subsidiaries have not incurred any Environmental Liabilities, and, to the Knowledge of StorCOMM, no facts, circumstances or conditions relating to, arising from, associated with or attributable to any real property currently or, to the Knowledge of StorCOMM, formerly owned, operated or leased by StorCOMM or its Subsidiaries or operations thereon would reasonably be expected to result in Environmental Liabilities.

As used in this Agreement, *Environmental Laws* means any and all foreign, federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decisions, injunctions, orders, decrees, requirements of any Governmental Entity, any and all common law requirements, rules and bases of liability regulating, relating to or imposing liability or standards of conduct concerning pollution, Hazardous Materials or protection of human health, safety or the environment, as in effect on or prior to the Closing Date and includes the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801

et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., the Clean Air Act, 33 U.S.C. Section 2601 et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., the Occupational Safety and Health Act, 29 U.S.C. Section 651 et seq. and the Oil Pollution Act of 1990, 33 U.S.C. Section 2701 et seq., as such laws have been amended or supplemented, and the regulations promulgated pursuant thereto, and all analogous state or local statutes. As used in this Agreement,

*Environmental Liabilities* with respect to any Person means any and all liabilities of or relating to such Person or any of its Subsidiaries (including any entity which is, in whole or in part, a predecessor of such Person or any of such Subsidiaries), whether vested or unvested, contingent or fixed, actual or potential, known or unknown, which (i) arise under or relate to matters covered or regulated by, or for which liability is imposed under, Environmental Laws and (ii) relate to actions occurring or conditions existing on or prior to the Closing Date. As used in this Agreement, *Hazardous Materials* means any hazardous or toxic substances, materials or wastes, defined, listed, classified or regulated in or for which liability or responsibility is imposed under any Environmental Laws and which includes petroleum, petroleum products, friable asbestos, urea formaldehyde and polychlorinated biphenyls.

(k) *Intellectual Property.* (i) StorCOMM and each of its Subsidiaries owns, or is licensed to use (in each case, free and clear of any Liens), all material Intellectual Property used in or necessary for the conduct of its business as currently conducted; (ii) to the Knowledge of StorCOMM, the use of any Intellectual Property by StorCOMM and its Subsidiaries does not infringe on or otherwise violate, and is not alleged to infringe or otherwise violate, the rights of any Person; (iii) the use of third party Intellectual Property by StorCOMM and its Subsidiaries is in accordance with the applicable license pursuant to which StorCOMM or any of its Subsidiaries acquired the right to use such Intellectual Property, which license is valid and in effect; (iv) to the Knowledge of StorCOMM, no Person is challenging, infringing on or otherwise violating any material right of StorCOMM or any of its Subsidiaries with respect to any Intellectual Property owned by and/or licensed to StorCOMM or its Subsidiaries; (v) there are no pending claims, orders or proceedings with respect to either any Intellectual Property owned by StorCOMM and any of its Subsidiaries, or to the Knowledge of StorCOMM, any other Intellectual Property used by StorCOMM and its Subsidiaries, (vi) each employee or consultant of StorCOMM, and any of its subsidiaries, has executed a Confidentiality and Inventions Agreement; and (vii) to the Knowledge of StorCOMM, no Intellectual Property owned and/or licensed by StorCOMM or its Subsidiaries is being used or enforced in a manner that would reasonably be expected to result in the abandonment, cancellation or unenforceability either of such Intellectual Property or of StorCOMM's and its Subsidiaries' rights to use such Intellectual Property. For purposes of this Agreement,

*Intellectual Property* shall mean trademarks, service marks, brand names, certification marks, trade dress and other indications of origin, the goodwill associated with the foregoing and registrations in any jurisdiction of, and applications in any jurisdiction to register, the foregoing, including any extension, modification or renewal of any such registration or application; inventions, discoveries and ideas, whether patentable or not, in any jurisdiction; patents, applications for patents (including, without limitation, divisions, continuations, continuations in part and renewal applications), and any renewals, extensions or reissues thereof, in any jurisdiction; nonpublic information, trade secrets and confidential information and rights in any jurisdiction to limit the use or disclosure thereof by any Person; writings and other works, whether copyrightable or not, in any jurisdiction; and registrations or applications for registration of copyrights in any jurisdiction, and any renewals or extensions thereof; publicity and privacy rights; domain names; and any similar intellectual property or proprietary rights.

(l) *Accounts Receivable.* All of the accounts receivable owing to StorCOMM constitute valid and enforceable claims arising from bona fide transactions for goods sold or services performed in the ordinary course of business and are expected to be fully collectible (net of reserves therefor set forth on the most recent balance sheet of StorCOMM, which reserves are consistent with past practice). There has been no notice of any claims, refusals to pay or other claimed rights of set off against any thereof. Except

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as set forth on the Disclosure Schedule, no account debtor is delinquent in its payment by more than sixty (60) days. To the Knowledge of StorCOMM, no account debtor has refused or threatened to refuse to pay its obligations for any reason, no account debtor is insolvent or bankrupt, and no account receivable is pledged to any third party.

(m) *Brokers or Finders.* No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement.

(n) *Taxes.*

(i) Each of StorCOMM and its Subsidiaries has timely filed or has caused to be timely filed all Tax Returns required to be filed by it and all such Tax Returns are complete and correct in all respects, or requests for extensions to file such Tax Returns have been timely filed, granted and have not expired, except to the extent that such failure to file, to be complete or correct or to have any extension granted that remains in effect, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries. StorCOMM and each of its Subsidiaries have paid or caused to be paid all Taxes required to be paid by it, and has paid all Taxes that it was required to withhold from amounts owing to any employee, creditor or third party, except to the extent that any failure to pay such Taxes would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries. There are no Liens for Taxes upon the assets of StorCOMM or any of its Subsidiaries, other than Liens for current Taxes not yet due or Liens for Taxes that are being contested in good faith by appropriate proceedings and Liens for Taxes that would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries.

(ii) Except as disclosed in *Schedule 3.1(o)*, there are no pending, or to the Knowledge of StorCOMM, threatened, Tax audits, examinations or investigations, and no deficiencies for any Taxes have been proposed, asserted or assessed in writing against StorCOMM or any of its Subsidiaries, except for deficiencies that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries.

(iii) None of StorCOMM or any of its Subsidiaries has taken any action, and StorCOMM has no Knowledge of any fact, agreement, plan or other circumstance, that is reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(iv) Within the past five years, none of StorCOMM or any of its Subsidiaries has been a distributing corporation or a controlled corporation within the meaning of Section 355(a)(i)(A) of the Code in a distribution intended to qualify under Section 355(a) of the Code.

(v) None of StorCOMM or any of its Subsidiaries has agreed to make, nor is required to make, any material adjustment under Section 481(a) of the Code or any similar provision of state, local or foreign law by reason of a change in accounting methods or otherwise.

(vi) None of StorCOMM or any of its Subsidiaries has any liability for Taxes of any Person as a result of being a member of an affiliated, consolidated, combined or unitary group (other than StorCOMM and its Subsidiaries) under Treasury Reg. §1.1502-6 (or any comparable provision of state, local or foreign law), or is bound by or has any obligation under any Tax sharing arrangement, Tax indemnification arrangement or similar contract or arrangement, except as would not reasonably be expected to have a Material Adverse Effect on StorCOMM and its Subsidiaries.

(o) *Certain Contracts.* As of the date hereof, none of StorCOMM or any of its Subsidiaries is a party to or bound by (i) any material contract (as such term is defined in Item 601(b)(10) of

Regulation S-K of the SEC), (ii) any non-competition agreement or any other agreement or arrangement that limits or otherwise restricts StorCOMM or any of its Subsidiaries or any of their respective affiliates or any successor thereto, or that would, after the Effective Time, limit or restrict CCA or any of its Subsidiaries or any of their respective affiliates or any successor thereto, from engaging or competing in any line of business or in any geographic area, after giving effect to the Merger, (iii) any employee benefit plan, employee contract with a senior executive or any other material contract, any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement or (iv) any Contract which would prohibit or materially delay the consummation of the Merger or any of the transactions contemplated by this Agreement. All material contracts (as defined in clause (i) above) set forth in *Section 3.1(p)* of the StorCOMM Disclosure Schedule are valid and binding on StorCOMM and its Subsidiaries, as applicable, and in full force and effect. None of StorCOMM or any of its Subsidiaries or, to the Knowledge of StorCOMM, any other party thereto has violated any provision of, or committed or failed to perform any act which with or without notice, lapse of time or both would constitute a default under the provisions of, any material contract (as defined in clause (i) above) set forth in *Section 3.1(p)* of the StorCOMM Disclosure Schedule.

(p) *Employee Benefits.*

(i) With respect to each StorCOMM Plan, StorCOMM has made available to CCA a true, correct and complete copy of: (A) all plan documents, trust agreements, and insurance contracts and other funding vehicles; (B) the three most recent Annual Reports (Form 5500 Series) and accompanying schedules and exhibits, if any; (C) the current summary plan description and any material modifications thereto, if any (in each case, whether or not required to be furnished under ERISA); (D) the three most recent annual financial reports, if any; (E) the three most recent actuarial reports, if any; (F) the most recent determination letter from the IRS, if any; and (G) the annual compliance testing under Sections 401(a) through 416 of the Code for the three most recently completed plan years.

(ii) With respect to each StorCOMM Plan, StorCOMM and its Subsidiaries have complied with, and are now in compliance with, all provisions of ERISA, the Code and all other Applicable Laws and regulations applicable to such StorCOMM Plans and each StorCOMM Plan has been administered in accordance with its terms. Each StorCOMM Plan that is required by ERISA to be funded is fully funded in accordance with reasonable actuarial assumptions.

(iii) All StorCOMM Plans subject to the Applicable Laws of any jurisdiction outside of the United States (A) have been maintained in accordance with all applicable requirements, (B) if they are intended to qualify for special tax treatment meet all requirements for such treatment, and (C) if they are intended to be funded and/or book-reserved are fully funded and/or book-reserved, as appropriate, based upon reasonable actuarial assumptions.

(iv) None of StorCOMM or any of its Subsidiaries has any liability or obligation in respect of any Multiemployer Plan.

(v) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (either alone or in conjunction with any other act) result in, cause the accelerated vesting or delivery of, or increase the amount or value of, any payment, option, award or benefit (including any excess parachute payment within the meaning of Section 280G of the Code) to any director or employee of StorCOMM or any of its Subsidiaries, or require the funding of any rabbi trust or similar trust.

(q) *Labor Relations.* As of the date of this Agreement, (i) none of StorCOMM or any of its Subsidiaries is a party to any collective bargaining agreement, (ii) no labor organization or group of employees of StorCOMM or any of its Subsidiaries has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or, to the Knowledge of StorCOMM, threatened to be brought or filed, with the National Labor Relations Board or any other domestic or foreign labor relations tribunal or authority and (iii) there are no organizing activities, strikes, work stoppages, slowdowns, lockouts, arbitrations or grievances, or other labor disputes pending or, to the Knowledge of StorCOMM, threatened against or involving StorCOMM or any of its Subsidiaries.

(r) *Insurance.* StorCOMM and its Subsidiaries maintain insurance coverage with reputable insurers in such amounts and covering such risks as are in accordance with normal industry practice for companies engaged in businesses similar to that of StorCOMM and its Subsidiaries (taking into account the cost and availability of such insurance).

(s) *Liens.* Except as otherwise disclosed on the StorCOMM Disclosure Schedules, there are no Liens exist on any assets of StorCOMM or any of its Subsidiaries.

(t) *Ownership of Capital Stock of CCA and CCA Sub.* None of StorCOMM or any of its Subsidiaries owns any shares of CCA Common Stock, CCA Preferred Stock or CCA Sub Common Stock (other than shares held in a fiduciary capacity for the benefit of third parties).

(u) *Properties.*

(i) StorCOMM does not own any real estate or have the option to acquire any real estate. StorCOMM does not lease any real estate other than the premises identified in the StorCOMM Disclosure Schedule as being so leased (the *StorCOMM Leased Premises* ). StorCOMM enjoys peaceful and undisturbed possession of each of the StorCOMM Leased Premises. None of the improvements comprising the StorCOMM Leased Premises, or the businesses conducted by StorCOMM thereon, are, to the Knowledge of StorCOMM, in violation of any building line or use or occupancy restriction, limitation, condition or covenant of record or any zoning or building law, public utility or other easements or other applicable law. As of the date hereof, no material expenditures are required to be made by StorCOMM for the repair or maintenance of any improvements on the StorCOMM Leased Premises other than routine repairs and maintenance in the ordinary course of business. StorCOMM has valid leasehold interests in the StorCOMM Leased Premises, which leasehold interests are free and clear of all Liens, other than Liens for Taxes, assessments and other governmental charges which are not yet due and payable and Liens which do not interfere with StorCOMM's ability to operate its business as currently conducted.

(ii) As of the date hereof, there is no condemnation, eminent domain or similar proceeding pending against StorCOMM or, to the Knowledge of StorCOMM, threatened with respect to any portion of the StorCOMM Leased Premises.

(iii) As of the date hereof, to the Knowledge of StorCOMM, the buildings and other facilities located on the StorCOMM Leased Premises are free of any material latent structural or engineering defects or any material patent structural or engineering defects.

(iv) The StorCOMM Leased Premises are in good condition and repair and are free from any material defects, including physical, structural, mechanical, construction or electrical defects or defects in the utility systems.

(v) StorCOMM has marketable and legal title to, or valid leasehold interests in, all of its properties except for defects in title, easements, restrictive covenants and similar Liens and



encumbrances that do not interfere with StorCOMM's ability to operate its business as currently conducted.

(v) *Sale of Products; Performance of Services.*

(i) Since January 1, 2001, each product, system, program, or other asset designed, developed, manufactured, assembled, sold, installed, repaired, licensed or otherwise made available by StorCOMM to any Person:

A. has conformed and complied in all material respects with the terms and requirements of any applicable warranty or other Contract delivered in connection therewith and with all applicable law, except where any nonconformance or noncompliance has been cured or converted; and

B. has been free of any design defect or other defect or deficiency at the time it was sold or otherwise made available, other than any immaterial defect that would not adversely affect in any material respect such product, system, program, Intellectual Property or other asset (or the operation or performance thereof) or any bug or defect that has since been corrected, remediated or cured.

(ii) Since January 1, 2001, all installation services, programming services, repair services, maintenance services, support services, training services, upgrade services and other services that have been performed by StorCOMM were performed properly and in full conformity with the terms and requirements of all applicable warranties and other Contracts delivered in connection therewith and with all applicable laws.

(iii) Since January 1, 2001, no customer or other Person has asserted or threatened to assert any claim against StorCOMM (i) under or based upon any warranty provided by or on behalf of StorCOMM, or (ii) under or based upon any other warranty relating to any product, system, program, or other asset designed, developed, manufactured, assembled, sold, installed, repaired, licensed or otherwise made available by StorCOMM or any services performed by StorCOMM, except in any case set forth in (i) or (ii) above where such claim has been resolved and did not have and would not reasonably be expected to have a Material Adverse Effect on StorCOMM.

(w) *Inventories.* StorCOMM's inventory of goods, including all raw materials, work in progress and finished products, consist of items of merchantable quality and quantity usable or salable in the ordinary course of business, and are salable at prevailing market prices not less than the book value amounts thereof, and are not obsolete, damaged, slow-moving or defective.

Section 3.2 *Representations and Warranties of CCA.* Except as set forth in the CCA Disclosure Schedule delivered by CCA to StorCOMM prior to the execution of this Agreement (the *CCA Disclosure Schedule*) (each Section of which qualifies the correspondingly numbered representation and warranty or covenant of CCA to the extent specified therein), CCA represents and warrants to StorCOMM as follows:

(a) *Organization, Standing and Power; Subsidiaries.*

(i) CCA is a corporation and each of its Subsidiaries is a corporation or other organization duly formed, validly existing and in good standing (where applicable) under the laws of its jurisdiction of incorporation or organization, has the requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and as it will be conducted through the Effective Time, except where the failure to be so organized, existing and in good standing or to have such power and authority, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, other than in such

jurisdictions where the failure so to qualify or to be in good standing, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries. The copies of the certificate of incorporation and bylaws of CCA which were previously furnished or made available to StorCOMM are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(ii) *Section 3.2(a)(ii)* of the CCA Disclosure Schedule sets forth a list of all the Subsidiaries of CCA which as of the date of this Agreement are Significant Subsidiaries (as defined in Rule 1-02 of Regulation S-X of the SEC). All the outstanding shares of capital stock of, or other equity interests in, each such Significant Subsidiary have been validly issued and are fully paid and nonassessable and are owned directly or indirectly by CCA, free and clear of all material Liens and free of any other material restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other equity interests). None of CCA or any of its Subsidiaries directly or indirectly owns any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity (other than Subsidiaries) that is or would reasonably be expected to be material to CCA and its Subsidiaries taken as a whole.

(b) *Capital Structure.*

(i) The authorized capital stock of CCA consists of 20,000,000 shares of CCA Common Stock and 500,000 shares of preferred stock, without par value ( *CCA Preferred Stock* ), none of which are outstanding. As of August 9, 2005, (i) THREE MILLION FOUR HUNDRED EIGHTY-THREE THOUSAND NINE HUNDRED (3,483,900) shares of CCA Common Stock and (ii) no shares of CCA Preferred Stock were issued and outstanding. As of August 9, 2005, TWO HUNDRED TWENTY THOUSAND (220,000) shares of CCA Common Stock were reserved for issuance upon exercise of options or rights ( *CCA Stock Options* ) outstanding under CCA Stock Plan. As of August 9, 2005, no shares of CCA Common Stock were held as treasury shares. Since August 9, 2005 to the date of this Agreement, no shares of capital stock of CCA or any other securities of CCA have been issued other than shares of CCA Common Stock issued pursuant to the CCA Stock Options outstanding as of August 9, 2005 under CCA Stock Plan. All issued and outstanding shares of capital stock of CCA are duly authorized, validly issued, fully paid and nonassessable, and no class of capital stock of CCA is entitled to preemptive rights. There are outstanding as of the date hereof no options, warrants or other rights to acquire capital stock from CCA other than outstanding options) CCA Stock Options under the CCA Stock Plan. *Section 3.2(b)(i)* of the CCA Disclosure Schedule sets forth a complete and correct list as of August 9, 2005 of all outstanding CCA Stock Options and the exercise prices thereof.

(ii) No bonds, debentures, notes or other indebtedness of CCA having the right to vote on any matters on which stockholders of CCA may vote ( *CCA Voting Debt* ) are issued or outstanding.

(iii) Except as otherwise set forth in this *Section 3.2(b)*, as of the date of this Agreement, there are no securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which CCA or any of its Subsidiaries is a party or by which any of them is bound obligating CCA or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of CCA or any of its Subsidiaries or obligating CCA or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. As of the date of this Agreement, there are no outstanding obligations of CCA or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of CCA or any of its Subsidiaries.

(iv) All shares of CCA Common Stock to be issued in connection with the Merger will be duly authorized, validly issued, fully paid and nonassessable and free of preemptive rights.

(c) *Authority; No Conflicts.*

(i) CCA has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, subject, in the case of the consummation of the Merger, to the approval of the issuance of CCA Common Stock in the Merger pursuant to this Agreement by the Required CCA Vote. The execution and delivery of this Agreement by CCA and the consummation by CCA of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of CCA, subject, in the case of the consummation of the Merger, to the approval of the issuance of CCA Common Stock in the Merger pursuant to this Agreement by the Required CCA Vote. This Agreement has been duly executed and delivered by CCA and, assuming the due authorization and valid execution and delivery of this Agreement by StorCOMM, constitutes a valid and binding agreement of CCA, enforceable against CCA in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and similar Applicable Laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(ii) The execution and delivery by CCA of this Agreement does not, and the consummation by CCA of the Merger and the other transactions contemplated hereby will not result in a Violation pursuant to: (A) any provision of the certificate of incorporation or by-laws or similar organizational document of CCA or any Significant Subsidiary of CCA or (B) except as, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries or, to the Knowledge of CCA, on CCA and its Subsidiaries following the Merger, subject to obtaining or making the CCA Necessary Consents, any Contract to which CCA or any of its Subsidiaries is a party or by which any of them or any of their respective properties or assets is bound, or any permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to CCA or any Subsidiary of CCA or their respective properties or assets.

(iii) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person is required by or with respect to CCA or any Subsidiary of CCA in connection with the execution and delivery of this Agreement by CCA or the consummation by CCA of the Merger and the other transactions contemplated hereby, except for those required under or in relation to (A) state securities or blue sky laws, (B) the Securities Act, (C) the Exchange Act, (D) the DGCL with respect to the filing of the Certificate of Merger with the Delaware Secretary, (E) the rules and regulations of the American Stock Exchange, including with respect to authorization for inclusion of the shares of CCA Common Stock to be issued in the Merger and the transaction contemplated hereby on the American Stock Exchange, subject to official notice of issuance, (F) antitrust or other competition laws of other jurisdictions, and (G) such consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries. Consents, approvals, orders, authorizations, registrations, declarations and filings required under or in relation to any of the foregoing clauses (A) through (F) are hereinafter referred to as the *CCA Necessary Consents*.

(d) *Reports and Financial Statements.*

(i) Each of CCA and its Subsidiaries has filed all registration statements, prospectuses, reports, schedules, forms, statements and other documents required to be filed by it with the SEC since January 1, 2003 (collectively, including all exhibits thereto, the *CCA SEC Reports*). No

Subsidiary of CCA is required to file any form, report, registration statement, prospectus or other document with the SEC. None of the CCA SEC Reports, as of their respective dates (or, if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the financial statements (including the related notes) included in the CCA SEC Reports fairly presents, in all material respects, the consolidated financial position and consolidated results of operations and cash flows of CCA and its consolidated Subsidiaries as of the respective dates or for the respective periods set forth therein, all in conformity with GAAP consistently applied during the periods involved except as otherwise noted therein, and subject, in the case of unaudited interim financial statements, to normal and recurring year-end adjustments that have not been and are not expected to be material in amount. All CCA SEC Reports, as of their respective dates (and as of the date of any amendment to the respective CCA SEC Report), complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder.

(ii) Except as disclosed in the CCA SEC Reports filed and publicly available prior to the date hereof (the *CCA Filed SEC Reports* ), since June 30, 2005, CCA and its Subsidiaries have not incurred any liabilities that are of a nature that would be required to be disclosed on a balance sheet of CCA and its Subsidiaries or the footnotes thereto prepared in conformity with GAAP, other than (A) liabilities incurred in the ordinary course of business consistent with past practice or (B) liabilities that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries.

(e) *Information Supplied.*

(i) None of the information supplied or to be supplied by CCA or CCA Sub for inclusion or incorporation by reference in (A) the Form S-4 will, at the time the Form S-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (B) the Joint Proxy Statement/Prospectus will, on the date it is first mailed to CCA stockholders or StorCOMM stockholders or at the time of the CCA Stockholders Meeting or the StorCOMM Stockholders Meeting, 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 were made, not misleading. The Form S-4 and the Joint Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder.

(ii) Notwithstanding the foregoing provisions of this *Section 3.2(e)*, no representation or warranty is made by CCA with respect to statements made or incorporated by reference in the Form S-4 or the Joint Proxy Statement/Prospectus based on information supplied by StorCOMM for inclusion or incorporation by reference therein.

(f) *Board Approval.* The Board of Directors of CCA, by resolutions duly adopted by unanimous vote of all directors at a meeting duly called and held and, other than as set forth in *Section 5.8*, not subsequently rescinded or modified in any way, has duly (i) determined that this Agreement and the Merger are advisable and in the best interests of CCA and its stockholders, (ii) approved this Agreement and the Merger and (iii) resolved to recommend that the stockholders of CCA approve the issuance of CCA Common Stock in the Merger pursuant to this Agreement and directed that the issuance of CCA Common Stock in the Merger pursuant to this Agreement be submitted for consideration by CCA s

stockholders at the CCA Stockholders Meeting. To the Knowledge of CCA, no state takeover statute is applicable or purports to be applicable to the Merger or the other transactions contemplated hereby.

(g) *Vote Required.* The affirmative vote of a majority of the votes entitled to be cast by holders of shares of CCA Common Stock present or represented by proxy and entitled to vote at the CCA Stockholders Meeting, a quorum being present (the *Required CCA Vote* ), is the only vote of the holders of any class or series of CCA capital stock necessary to approve the issuance of CCA Common Stock in the Merger pursuant to this Agreement and the other transactions contemplated hereby.

(h) *Litigation; Compliance with Laws.*

(i) Except as set forth in the CCA Filed SEC Reports, there is no suit, action, proceeding or regulatory investigation pending or, to the Knowledge of CCA, threatened, against or affecting CCA or any of its Subsidiaries or any property or asset of CCA or any of its Subsidiaries which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries, nor is there any judgment, decree, injunction, rule or order of any Governmental Entity or arbitrator outstanding against CCA or any of its Subsidiaries which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries.

(ii) Except as, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries, CCA and its Subsidiaries hold all permits, licenses, franchises, variances, exemptions, orders and approvals of all Governmental Entities which are necessary for the operation of the businesses of CCA and its Subsidiaries (the *CCA Permits* ), and no suspension or cancellation of any of the CCA Permits is pending or, to the Knowledge of CCA, threatened, except for suspensions or cancellations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries. CCA and its Subsidiaries are in compliance with the terms of the CCA Permits, except where the failure so to comply, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries. None of CCA or any of its Subsidiaries is in violation of, and CCA and its Subsidiaries have not received any notices of violations with respect to, any Applicable Laws, except for violations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries.

(i) *Absence of Certain Changes or Events.* Except as set forth in the CCA Filed SEC Reports, since June 30, 2005, CCA and its Subsidiaries have conducted their businesses only in the ordinary course, consistent with past practice, and there has not been any change, circumstance, event or development which, individually or in the aggregate, has had, or would reasonably be expected to have, a Material Adverse Effect on CCA and its Subsidiaries.

(j) *Environmental Matters.* Except as set forth in the CCA Filed SEC Reports and except as, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries, (i) the operations of CCA and its Subsidiaries have been and are in compliance with all Environmental Laws and with all CCA Permits required by Environmental Laws, (ii) there are no pending or, to the Knowledge of CCA, threatened, Actions under or pursuant to Environmental Laws against CCA or its Subsidiaries or involving any real property currently or, to the Knowledge of CCA, formerly owned, operated or leased by CCA or its Subsidiaries and (iii) CCA and its Subsidiaries have not incurred any Environmental Liabilities and, to the Knowledge of CCA, no facts, circumstances or conditions relating to, arising from, associated with or attributable to any real property currently or, to the Knowledge of CCA, formerly owned, operated or leased by CCA or its Subsidiaries or operations thereon would reasonably be expected to result in Environmental Liabilities.

(k) *Intellectual Property.* Except as set forth in the CCA Filed SEC Reports: (i) CCA and each of its Subsidiaries owns, or is licensed to use (in each case, free and clear of any Liens), all material Intellectual Property used in or necessary for the conduct of its business as currently conducted; (ii) to the Knowledge of CCA, the use of any Intellectual Property by CCA and its Subsidiaries does not infringe on or otherwise violate, and is not alleged to infringe or otherwise violate, the rights of any Person; (iii) the use of third party Intellectual Property by CCA and its Subsidiaries is in accordance with the applicable license pursuant to which CCA or any of its Subsidiaries acquired the right to use such Intellectual Property, which license is valid and in effect; (iv) to the Knowledge of CCA, no Person is challenging, infringing on or otherwise violating any material right of CCA or any of its Subsidiaries with respect to any Intellectual Property owned by and/or licensed to CCA or its Subsidiaries; (v) there are no pending claims, orders or proceedings with respect to either any Intellectual Property owned by CCA and any of its Subsidiaries, or to the Knowledge of CCA, any other Intellectual Property used by CCA and its Subsidiaries; (vi) each employee or consultant of CCA has executed a Confidentiality and Inventions Agreement; and (vii) to the Knowledge of CCA, no Intellectual Property owned and/or licensed by CCA or its Subsidiaries is being used or enforced in a manner that would reasonably be expected to result in the abandonment, cancellation or unenforceability either of such Intellectual Property or of CCA's and its Subsidiaries' rights to use such Intellectual Property.

(l) *Accounts Receivable.* All of the accounts receivable owing to CCA constitute valid and enforceable claims arising from bona fide transactions for goods sold or services performed in the ordinary course of business and are expected to be fully collectible (net of reserves therefor set forth on the most recent balance sheet of CCA, which reserves are consistent with past practice). There has been no notice of any claims, refusals to pay or other claimed rights of set off against any thereof. Except as set forth on the CCA Disclosure Schedule, no account debtor is delinquent in its payment by more than ninety (90) days. To the Knowledge of CCA, no account debtor has refused or threatened to refuse to pay its obligations for any reason, no account debtor is insolvent or bankrupt, and no account receivable is pledged to any third party.

(m) *Brokers or Finders.* No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement based upon arrangements made by or on behalf of CCA or any of its Subsidiaries, except Dominick & Dominick and Simon Financial, Inc. (the *CCA Financial Advisor*), whose fees and expenses will be paid by CCA in accordance with CCA's agreement with such firm. Pursuant to such agreement, CCA shall pay Dominick and Dominick a fee equal to three percent (3%) of the value of the CCA Common Stock issued to StorCOMM Stockholders in the Merger, based on the closing price per share of the CCA Common Stock as listed on the American Stock Exchange on the Effective Date.

(n) *Opinion of CCA Financial Advisor.* CCA has received the opinion of the CCA Financial Advisor, dated the date of this Agreement, to the effect that, as of such date, the Exchange Ratio is fair, from a financial point of view, to CCA.

(o) *Taxes.*

(i) Each of CCA and its Subsidiaries has timely filed or has caused to be timely filed all Tax Returns required to be filed by it and all such Tax Returns are complete and correct in all respects, or requests for extensions to file such Tax Returns have been timely filed, granted and have not expired, except to the extent that such failure to file, to be complete or correct or to have any extension granted that remains in effect, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries. CCA and each of its Subsidiaries have paid or caused to be paid all Taxes required to be paid by it, and has paid all Taxes that it was required to withhold from amounts owing to any employee, creditor or third party,

except to the extent that any failure to pay such Taxes would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries. There are no Liens for Taxes upon the assets of CCA or any of its Subsidiaries, other than Liens for current Taxes not yet due or Liens for Taxes that are being contested in good faith by appropriate proceedings and Liens for Taxes that would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries.

(ii) There are no pending, or to the Knowledge of CCA, threatened, Tax audits, examinations or investigations, and no deficiencies for any Taxes have been proposed, asserted or assessed in writing against CCA or any of its Subsidiaries, except for deficiencies that, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries.

(iii) None of CCA or any of its Subsidiaries has taken any action, and CCA has no Knowledge of any fact, agreement, plan or other circumstance, that is reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

(iv) Within the past five years, none of CCA or any of its Subsidiaries has been a distributing corporation or a controlled corporation within the meaning of Section 355(a)(i)(A) of the Code in a distribution intended to qualify under Section 355(a) of the Code.

(v) None of CCA or any of its Subsidiaries has agreed to make, nor is required to make, any material adjustment under Section 481(a) of the Code or any similar provision of state, local or foreign law by reason of a change in accounting methods or otherwise.

(vi) None of CCA or any of its Subsidiaries has any liability for Taxes of any Person as a result of being a member of an affiliated, consolidated, combined or unitary group (other than CCA and its Subsidiaries) under Treasury Reg. §1.1502-6 (or any comparable provision of state, local or foreign law), or is bound by or has any obligation under any Tax sharing arrangement, Tax indemnification arrangement or similar contract or arrangement, except as would not reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries.

(p) *Certain Contracts.* As of the date hereof, none of CCA or any of its Subsidiaries is a party to or bound by (i) any material contract (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC), (ii) any non-competition agreement or any other agreement or arrangement that limits or otherwise restricts CCA or any of its Subsidiaries or any of their respective affiliates or any successor thereto, or that would, after the Effective Time, limit or restrict StorCOMM or any of its Subsidiaries or any of their respective affiliates or any successor thereto, from engaging or competing in any line of business or in any geographic area, after giving effect to the Merger, (iii) any employee benefit plan, employee contract with a senior executive or any other material contract, any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement or (iv) any Contract which would prohibit or materially delay the consummation of the Merger or any of the transactions contemplated by this Agreement. All material contracts (as defined in clause (i) above) set forth in *Section 3.2(p)* of the CCA Disclosure Schedule are valid and binding on CCA and its Subsidiaries, as applicable, and in full force and effect. None of CCA or any of its Subsidiaries or, to the Knowledge of CCA, any other party thereto has violated any provision of, or committed or failed to perform any act which with or without notice, lapse of time or both would constitute a default under the provisions of, any material contract (as defined in clause (i) above) set forth in *Section 3.2(p)* of the CCA Disclosure Schedule.

(q) *Employee Benefits.*

(i) With respect to each CCA Plan, CCA has made available to StorCOMM a true, correct and complete copy of: (A) all plan documents, trust agreements, and insurance contracts and other funding vehicles; (B) the three most recent Annual Reports (Form 5500 Series) and accompanying schedules and exhibits, if any; (C) the current summary plan description and any material modifications thereto, if any (in each case, whether or not required to be furnished under ERISA); (D) the three most recent annual financial reports, if any; (E) the three most recent actuarial reports, if any; (F) the most recent determination letter from the IRS, if any; and (G) the annual compliance testing under Sections 401(a) through 416 of the Code for the three most recently completed plan years.

(ii) With respect to each CCA Plan, CCA and its Subsidiaries have complied with, and are now in compliance with, all provisions of ERISA, the Code and all other Applicable Laws and regulations applicable to such CCA Plans and each CCA Plan has been administered in accordance with its terms. Each CCA Plan that is required by ERISA to be funded is fully funded in accordance with reasonable actuarial assumptions.

(iii) All CCA Plans subject to the Applicable Laws of any jurisdiction outside of the United States (A) have been maintained in accordance with all applicable requirements, (B) if they are intended to qualify for special tax treatment meet all requirements for such treatment, and (C) if they are intended to be funded and/or book-reserved are fully funded and/or book-reserved, as appropriate, based upon reasonable actuarial assumptions.

(iv) None of CCA or any of its Subsidiaries has any liability or obligation in respect of any Multiemployer Plan.

(v) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (either alone or in conjunction with any other act) result in, cause the accelerated vesting or delivery of, or increase the amount or value of, any payment, option, award or benefit (including any excess parachute payment within the meaning of Section 280G of the Code) to any director or employee of CCA or any of its Subsidiaries, or require the funding of any rabbi trust or similar trust.

(r) *Labor Relations.* As of the date of this Agreement, (i) none of CCA or any of its Subsidiaries is a party to any collective bargaining agreement, (ii) no labor organization or group of employees of CCA or any of its Subsidiaries has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or, to the Knowledge of CCA, threatened to be brought or filed, with the National Labor Relations Board or any other domestic or foreign labor relations tribunal or authority and (iii) there are no organizing activities, strikes, work stoppages, slowdowns, lockouts, arbitrations or grievances, or other labor disputes pending or, to the Knowledge of CCA, threatened against or involving CCA or any of its Subsidiaries.

(s) *Insurance.* CCA and its Subsidiaries maintain insurance coverage with reputable insurers in such amounts and covering such risks as are in accordance with normal industry practice for companies engaged in businesses similar to that of CCA and its Subsidiaries (taking into account the cost and availability of such insurance).

(t) *Liens.* Except as disclosed on the CCA Disclosure Schedules, no Liens exist on any assets of CCA or any of its Subsidiaries.

(u) *Ownership of Capital Stock of StorCOMM.* None of CCA or any of its Subsidiaries owns any shares of StorCOMM Common Stock or StorCOMM Preferred Stock (other than shares held in a fiduciary capacity for the benefit of third parties).



(v) *Properties.*

(i) CCA does not lease any real estate other than the premises identified in the CCA Disclosure Schedule as being so leased (the *CCA Leased Premises* ). CCA enjoys peaceful and undisturbed possession of the CCA Leased Premises. None of the improvements comprising the CCA Leased Premises, or the businesses conducted by CCA thereon, are, to the Knowledge of CCA, in violation of any building line or use or occupancy restriction, limitation, condition or covenant of record or any zoning or building law, public utility or other easements or other applicable law. As of the date hereof, no material expenditures are required to be made by CCA for the repair or maintenance of any improvements on the CCA Leased Premises other than routine repairs and maintenance in the ordinary course of business. CCA has valid leasehold interests in the CCA Leased Premises, which leasehold interests are free and clear of all Liens, other than Liens for Taxes, assessments and other governmental charges which are not yet due and payable and Liens which do not interfere with CCA's ability to operate its business as currently conducted.

(ii) As of the date hereof, there is no condemnation, eminent domain or similar proceeding pending against CCA or, to the Knowledge of CCA, threatened with respect to any portion of the CCA Leased Premises.

(iii) As of the date hereof, to the Knowledge of CCA, the buildings and other facilities located on the CCA Leased Premises are free of any material latent structural or engineering defects or any material patent structural or engineering defects.

(iv) The CCA Leased Premises are in good condition and repair and are free from any material defects, including physical, structural, mechanical, construction or electrical defects or defects in the utility systems.

(v) CCA has marketable and legal title to, or valid leasehold interests in, all of its properties except for defects in title, easements, restrictive covenants and similar Liens and encumbrances that do not interfere with CCA's ability to operate its business as currently conducted.

(w) *Sale of Products; Performance of Services.*

(i) Since January 1, 2001, each product, system, program, or other asset designed, developed, manufactured, assembled, sold, installed, repaired, licensed or otherwise made available by CCA to any Person:

A. has conformed and complied in all material respects with the terms and requirements of any applicable warranty or other Contract delivered in connection therewith and with all applicable law, except where any nonconformance or noncompliance has been cured or converted; and

B. has been free of any design defect or other defect or deficiency at the time it was sold or otherwise made available, other than any immaterial defect that would not adversely affect in any material respect such product, system, program, Intellectual Property or other asset (or the operation or performance thereof) or any bug or defect that has since been corrected, remediated or cured.

(ii) Since January 1, 2001, all installation services, programming services, repair services, maintenance services, support services, training services, upgrade services and other services that have been performed by CCA were performed properly and in full conformity with the terms and requirements of all applicable warranties and other Contracts delivered in connection therewith and with all applicable laws.

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(iii) Since January 1, 2001, no customer or other Person has asserted or threatened to assert any claim against CCA (i) under or based upon any warranty provided by or on behalf of CCA, or (ii) under or based upon any other warranty relating to any product, system, program, or other asset designed, developed, manufactured, assembled, sold, installed, repaired, licensed or otherwise made available by CCA or any services performed by CCA, except in any case set forth in (i) or (ii) above where such claim has been resolved and did not have and would not reasonably be expected to have a Material Adverse Effect on CCA.

(x) *Inventories.* CCA's inventory of goods, including all raw materials, work in progress and finished products, consist of items of merchantable quality and quantity usable or salable in the ordinary course of business, and are salable at prevailing market prices not less than the book value amounts thereof, and are not obsolete, damaged, slow-moving or defective.

Section 3.3 *Representations and Warranties of CCA and CCA Sub.* CCA and CCA Sub represent and warrant to StorCOMM as follows:

(a) *Organization.* CCA Sub is a corporation duly incorporated, validly existing and in good standing under the laws of Delaware. CCA Sub is a direct wholly owned subsidiary of CCA. CCA, as the sole stockholder of CCA Sub, has duly approved this Agreement and the transactions contemplated hereby.

(b) *Capital Structure.* On the date hereof, the authorized capital stock of CCA Sub consists of 1,000 shares of CCA Sub Common Stock.

(c) *Authority.* CCA Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by CCA Sub and the consummation by CCA Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of CCA Sub. This Agreement has been duly executed and delivered by CCA Sub and constitutes a valid and binding agreement of CCA Sub, enforceable against CCA Sub in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and similar Applicable Laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(d) *No Conflicts.* The execution and delivery by CCA Sub of this Agreement and the consummation by CCA Sub of the transactions contemplated hereby will not contravene or conflict with the CCA Sub Certificate or the CCA Sub By-Laws.

(e) *No Business Activities.* CCA Sub has not conducted any activities other than in connection with the organization of CCA Sub, the negotiation, execution and performance of this Agreement and the consummation of the transactions contemplated hereby. As of the date hereof, CCA Sub has no Subsidiaries.

#### **ARTICLE IV COVENANTS RELATING TO CONDUCT OF BUSINESS**

Section 4.1 *Covenants of StorCOMM.* During the period from the date of this Agreement and continuing until the Effective Time, StorCOMM agrees as to itself and its Subsidiaries that (except as required or otherwise expressly contemplated or permitted by this Agreement or *Section 4.1* (including its subsections) of the StorCOMM Disclosure Schedule or as required by a Governmental Entity or to the extent that CCA shall otherwise consent in writing, which consent shall not be unreasonably withheld or delayed):

(a) *Ordinary Course.*

(i) StorCOMM and its Subsidiaries shall carry on their respective businesses in the usual, regular and ordinary course, in substantially the same manner as heretofore conducted, and shall

use all reasonable efforts to preserve intact their present business organizations, keep available the services of their current officers and other key employees and preserve their relationships with customers, suppliers and others having business dealings with them to the end that their ongoing businesses shall not be impaired at the Effective Time.

(ii) Other than investments permitted by *Section 4.1(g)*, StorCOMM shall not, and shall not permit any of its Subsidiaries to, (A) enter into any new material line of business or (B) incur or commit to any capital expenditures or any obligations or liabilities in connection with any capital expenditures other than capital expenditures and obligations or liabilities in connection therewith incurred or committed to in the ordinary course of business consistent with past practice, and in no event in excess of \$0.5 million in any calendar quarter or \$0.5 million in the aggregate.

(b) *Dividends; Changes in Share Capital.* StorCOMM shall not, and shall not permit any of its Subsidiaries to, and shall not propose to, (i) declare or pay any dividends on or make other distributions (whether in cash, stock or property) in respect of any of its capital stock, except for dividends by any direct or indirect wholly owned Subsidiaries of StorCOMM, (ii) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock, except for any such transaction by a wholly owned Subsidiary of StorCOMM which remains a wholly owned Subsidiary after consummation of such transaction or (iii) repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock.

(c) *Issuance of Securities.* StorCOMM shall not, and shall not permit any of its Subsidiaries to, issue, deliver, sell, pledge or otherwise encumber, or authorize or propose the issuance, delivery, sale, pledge or encumbrance of, any shares of its capital stock of any class, any StorCOMM Voting Debt or any securities convertible into or exercisable for, or any rights, warrants, calls or options to acquire, any such shares or StorCOMM Voting Debt, or enter into any commitment, arrangement, undertaking or agreement with respect to any of the foregoing, other than (i) the issuance of StorCOMM Common Stock upon the exercise of StorCOMM Stock Options outstanding on the date hereof in accordance with their present terms or pursuant to StorCOMM Stock Options or other stock based awards granted pursuant to clause (ii) below, (ii) the granting of StorCOMM Stock Options or other stock based awards to acquire shares of StorCOMM Common Stock granted under StorCOMM Stock Plan in effect on the date hereof, (iii) issuances, sales or deliveries by a wholly owned Subsidiary of StorCOMM of capital stock of such Subsidiary to such Subsidiary's parent or another wholly owned Subsidiary of StorCOMM, (iv) issuances permitted by *Section 4.1(e)*, (v) issuances upon conversion of the StorCOMM Convertible Notes, (vi) issuances upon the exercise of the StorCOMM Warrants.

(d) *Governing Documents.* Except to the extent required to comply with its obligations hereunder or with Applicable Laws, StorCOMM shall not amend or propose to so amend its certificate of incorporation, by-laws or other governing documents.

(e) *No Acquisitions.* StorCOMM shall not, and shall not permit any of its Subsidiaries to, acquire or agree to acquire by merger or consolidation, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, limited liability entity, joint venture, association or other business organization or division thereof or otherwise acquire or agree to acquire any material assets (excluding the acquisition of assets used in the operations of the businesses of StorCOMM and its Subsidiaries in the ordinary course consistent with past practice, which assets do not constitute a business unit, division or all or substantially all of the assets of the transferor); provided, however, that the foregoing shall not prohibit (x) internal reorganizations or consolidations involving existing Subsidiaries of StorCOMM, or (y) the creation of new direct or indirect wholly owned Subsidiaries of StorCOMM organized to conduct or continue activities otherwise permitted by this Agreement.

(f) *No Dispositions.* Other than (i) internal reorganizations or consolidations involving existing Subsidiaries of StorCOMM or (ii) as may be required by or in conformance with Applicable Laws in order to permit or facilitate the consummation of the transactions contemplated hereby, StorCOMM shall not, and shall not permit any of its Subsidiaries to, sell, lease, license or otherwise encumber or subject to any Lien or otherwise dispose of, or agree to sell, lease, license or otherwise encumber or subject to any Lien or otherwise dispose of, any of its material assets (including capital stock of Subsidiaries of StorCOMM but excluding inventory in the ordinary course of business consistent with past practice).

(g) *Investments; Indebtedness.* StorCOMM shall not, and shall not permit any of its Subsidiaries to (i) make any loans, advances or capital contributions to, or investments in, any other Person, other than (A) loans or investments by StorCOMM or a Subsidiary of StorCOMM to or in StorCOMM or a Subsidiary of StorCOMM, (B) pursuant to any contract or other legal obligation of StorCOMM or any of its Subsidiaries as in effect at the date of this Agreement, (C) employee loans or advances for travel, business, relocation or other reimbursable expenses made in the ordinary course of business consistent with past practice or (D) in the ordinary course of business consistent with past practice which are not, individually or in the aggregate, material to StorCOMM and its Subsidiaries taken as a whole (provided that none of the transactions referred to in this clause or (D) presents a material risk of making it more difficult to obtain any approval or authorization required in connection with the Merger under Applicable Laws) or (ii) create, incur, assume or suffer to exist any indebtedness, issuances of debt securities, guarantees, loans or advances not in existence as of the date of this Agreement except in the ordinary course of business consistent with past practice which are not, individually or in the aggregate, material to StorCOMM and its Subsidiaries taken as a whole (other than any such indebtedness, issuances of debt securities, guarantees, loans or advances that refinance or replace any such indebtedness, debt securities, guarantees, loans or advances in existence on the date of this Agreement, provided that such refinancing or replacement does not impair or delay the consummation of the Merger). Notwithstanding the foregoing or anything else contained in this Agreement, StorCOMM shall be entitled to restructure its debt obligations outstanding as of the date of this Agreement, provided, that the terms of any such restructured debt shall be subject to the prior written approval of CCA.

(h) *Tax-Free Qualification.* StorCOMM shall use its reasonable best efforts not to, and shall use its reasonable best efforts not to permit any of its Subsidiaries to, take any action (including any action otherwise permitted by this *Section 4.1*) that would prevent or impede the Merger from qualifying as a reorganization under Section 368(a) of the Code.

(i) *Compensation.* Except (x) as set forth in *Section 4.1(c)*, (y) as required by Applicable Laws or by the terms of any collective bargaining agreement or other agreement currently in effect between StorCOMM or any of its Subsidiaries and any executive officer or employee thereof or (z) in the ordinary course of business consistent with past practice, StorCOMM shall not increase the amount of compensation or employee benefits of any director, officer or employee of StorCOMM or any of its Subsidiaries, pay any pension, retirement, savings or profit-sharing allowance to any employee that is not required by any existing plan or agreement, enter into any Contract with any of its employees regarding his or her employment, compensation or benefits, increase or commit to increase any employee benefits, issue any additional StorCOMM Stock Options, adopt or amend or make any commitment to adopt or amend any StorCOMM Plan or make any contribution, other than regularly scheduled contributions, to any StorCOMM Plan. StorCOMM shall not accelerate the vesting of, or the lapsing of restrictions with respect to, any stock options or other stock-based compensation, except as required by Applicable Laws, by the terms of the plan or agreement under which such option or other stock-based compensation was granted or in the ordinary course of business consistent with past practice or in accordance with this Agreement, and any option committed to be granted or granted after the date hereof shall not accelerate as a result of the approval or consummation of any transaction contemplated by this Agreement.

(j) *Accounting Methods; Income Tax Elections.* Except as required by a Governmental Entity, StorCOMM shall not, and shall not permit any of its Subsidiaries to, change its methods of accounting in effect as of the date hereof, except as required by changes in GAAP as concurred in by StorCOMM's independent public accountants. StorCOMM shall not, and shall not permit any of its Subsidiaries to, (i) change its fiscal year or (ii) make any material Tax election or settle or compromise any material income Tax liability, other than in the ordinary course of business consistent with past practice.

(k) *Certain Agreements and Arrangements.* StorCOMM shall not, and shall not permit any of its Subsidiaries to, enter into any Contracts that limit or otherwise restrict StorCOMM or any of its Subsidiaries or any of their respective affiliates or any successor thereto, or that would, after the Effective Time, limit or restrict CCA or any of its Subsidiaries or any of their respective affiliates or any successor thereto, from engaging or competing in any line of business or in any geographic area which agreements or arrangements, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries, after giving effect to the Merger.

(l) *Litigation.* StorCOMM shall not, and shall not permit any of its Subsidiaries to, settle or compromise any threatened or pending Actions for an amount in excess of \$200,000 in the aggregate or enter into any consent decree, injunction or similar restraint or form of equitable relief in settlement of any threatened or pending Actions.

(m) *No Related Actions.* StorCOMM will not, and will not permit any of its Subsidiaries to, agree or commit to do any of the foregoing actions.

(n) *StorCOMM SEC Filings.* Prior to the Closing, StorCOMM shall cooperate fully with, including promptly providing any information requested by, CCA and its counsel to prepare or cause to be prepared all filings required to be made by any officer, director or stockholder of StorCOMM under Sections 13 or 16 of the Exchange Act, and any rule promulgated thereunder (the "StorCOMM SEC Filings"), as a result of the Merger. Immediately, after the Closing, StorCOMM shall cooperate fully with CCA and its counsel to cause the StorCOMM SEC Filings to be filed with the SEC as required by the Exchange Act.

Section 4.2 *Covenants of CCA and CCA Sub.* During the period from the date of this Agreement and continuing until the Effective Time, CCA and CCA Sub each agrees that (except as required or otherwise expressly contemplated or permitted by this Agreement or *Section 4.2* (including its subsections) of the CCA Disclosure Schedule or as required by a Governmental Entity or to the extent that StorCOMM shall otherwise consent in writing, which consent shall not be unreasonably withheld or delayed):

(a) *Dividends; Changes in Share Capital.* CCA shall not, and shall not permit any of its Subsidiaries to, and shall not propose to, (i) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock, except for any such transaction by a wholly owned Subsidiary of CCA which remains a wholly owned Subsidiary after consummation of such transaction or (ii) repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock.

(b) *Issuance of Securities.* CCA shall not, and shall not permit any of its Subsidiaries to, issue, deliver, sell, pledge or otherwise encumber, or authorize or propose the issuance, delivery, sale, pledge or encumbrance of, any shares of its capital stock of any class, any CCA Voting Debt or any securities convertible into or exercisable for, or any rights, warrants, calls or options to acquire, any such shares or CCA Voting Debt, or enter into any commitment, arrangement, undertaking or agreement with respect to any of the foregoing, other than (i) the issuance of CCA Common Stock upon the exercise of CCA Stock Options outstanding on the date hereof in accordance with their present terms or pursuant to CCA Stock

Options or other stock based awards granted pursuant to clause (ii) below, (ii) the granting of CCA Stock Options or other stock based awards of or to acquire not more than 100,000 shares in the aggregate in any calendar quarter of CCA Common Stock granted under CCA Stock Plan in effect on the date hereof in the ordinary course of business consistent with past practice, (iii) issuances, sales or deliveries by a wholly owned Subsidiary of CCA of capital stock of such Subsidiary to such Subsidiary's parent or another wholly owned Subsidiary of CCA, and (iv) issuances permitted by *Section 4.2(e)*.

(c) *Governing Documents.* Except to the extent required to comply with its obligations hereunder or with Applicable Laws, CCA shall not amend or propose to so amend its certificate of incorporation, by-laws or other governing documents.

(d) *Tax-Free Qualification.* CCA shall use its reasonable best efforts not to, and shall use its reasonable best efforts not to permit any of its Subsidiaries to, take any action (including any action otherwise permitted by this *Section 4.2*) that would prevent or impede the Merger from qualifying as a reorganization under Section 368(a) of the Code.

(e) *Accounting Methods; Income Tax Elections.* Except as disclosed in CCA Filed SEC Reports, or as required by a Governmental Entity, CCA shall not, and shall not permit any of its Subsidiaries to, change its methods of accounting in effect at September 30, 2002, except as required by changes in GAAP as concurred in by CCA's independent public accountants and except that CCA shall be permitted to change its fiscal year from August 31 to January 1.

(f) *Certain Agreements and Arrangements.* CCA shall not, and shall not permit any of its Subsidiaries to, enter into any Contracts that limit or otherwise restrict CCA or any of its Subsidiaries or any of their respective affiliates or any successor thereto, or that would, after the Effective Time, limit or restrict CCA or any of its Subsidiaries or any of their respective affiliates or any successor thereto, from engaging or competing in any line of business or in any geographic area which agreements or arrangements, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries, after giving effect to the Merger.

(g) *No CCA Sub Business Activities.* CCA Sub will not conduct any activities other than in connection with the organization of CCA Sub, the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby.

(h) *No Related Actions.* CCA will not, and will not permit any of its Subsidiaries to, agree or commit to do any of the foregoing actions.

*Section 4.3 Governmental Filings.* Each of CCA and CCA Sub, on the one hand, and StorCOMM, on the other hand, shall (a) confer on a regular and frequent basis with the other and (b) report to the other (to the extent permitted by Applicable Laws or any applicable confidentiality agreement) on operational matters. Each party shall file all reports required to be filed by each of them with the SEC (and all other Governmental Entities) between the date of this Agreement and the Effective Time and shall (to the extent permitted by Applicable Laws or any applicable confidentiality agreement) deliver to the other parties copies of all such reports, announcements and publications promptly after the same are filed.

*Section 4.4 Control of Other Party's Business.* Nothing contained in this Agreement shall give CCA, directly or indirectly, the right to control or direct StorCOMM's operations prior to the Effective Time. Nothing contained in this Agreement shall give StorCOMM, directly or indirectly, the right to control or direct the operations of CCA prior to the Effective Time. Prior to the Effective Time, each of CCA and StorCOMM shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its respective operations.

**ARTICLE V  
ADDITIONAL AGREEMENTS**Section 5.1 *Preparation of Proxy Statement; Stockholders Meetings.*

(a) As promptly as reasonably practicable following the date hereof, CCA and StorCOMM shall prepare and file with the SEC mutually acceptable proxy materials which shall constitute the Joint Proxy Statement/Prospectus (such proxy statement/prospectus, and any amendments or supplements thereto, the *Joint Proxy Statement/Prospectus* ) and CCA shall prepare and file with the SEC a registration statement on Form S-4 with respect to the issuance of CCA Common Stock in the Merger (the *Form S-4* ). The Joint Proxy Statement/Prospectus will be included in and will constitute a part of the Form S-4 as CCA's prospectus. Each of CCA and StorCOMM shall use reasonable best efforts to have the Joint Proxy Statement/Prospectus cleared by the SEC and the Form S-4 declared effective by the SEC as promptly as reasonably practicable after filing with the SEC and to keep the Form S-4 effective as long as is necessary to consummate the Merger and the transactions contemplated thereby. CCA and StorCOMM shall, as promptly as practicable after receipt thereof, provide the other party copies of any written comments and advise the other party of any oral comments, with respect to the Joint Proxy Statement/Prospectus or the Form S-4 received from the SEC. The parties shall cooperate and provide the other party with a reasonable opportunity to review and comment on any amendment or supplement to the Joint Proxy Statement/Prospectus and the Form S-4 prior to filing such with the SEC, and will provide each other with a copy of all such filings made with the SEC.

Notwithstanding any other provision herein to the contrary, no amendment or supplement (including by incorporation by reference) to the Joint Proxy Statement/Prospectus or the Form S-4 shall be made without the approval of both CCA and StorCOMM, which approval shall not be unreasonably withheld or delayed; *provided* that with respect to documents filed by a party which are incorporated by reference in the Form S-4 or Joint Proxy Statement/Prospectus, this right of approval shall apply only with respect to information relating to the other party or its business, financial condition or results of operations; and *provided, further*, that CCA, in connection with a Change in the CCA Recommendation, and StorCOMM, in connection with a Change in the StorCOMM Recommendation (each of a Change in the CCA Recommendation and a Change in the StorCOMM Recommendation being hereinafter sometimes referred to as a *Change* ), may amend or supplement the Joint Proxy Statement/Prospectus or the Form S-4 (including by incorporation by reference) pursuant to a Qualifying Amendment to effect such a Change, and in such event, this right of approval shall apply only with respect to information relating to the other party or its business, financial condition or results of operations, and shall be subject to the right of each party to have its Board of Directors' deliberations and conclusions accurately described. CCA will use reasonable best efforts to cause the Joint Proxy Statement/Prospectus to be mailed to CCA's stockholders, and StorCOMM will use reasonable best efforts to cause the Joint Proxy Statement/Prospectus to be mailed to StorCOMM's stockholders, in each case as promptly as practicable after the Form S-4 is declared effective under the Securities Act. CCA shall also take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified or to file a general consent to service of process) required to be taken under any applicable state securities laws in connection with the issuance of CCA Common Stock in the Merger and StorCOMM and CCA shall furnish all information concerning StorCOMM and CCA and the holders of StorCOMM Common Stock as may be reasonably requested in connection with any such action. Each of CCA and StorCOMM will advise the other, promptly after it receives notice thereof, of the time when the Form S-4 has become effective, the issuance of any stop order with respect to the Form S-4, the suspension of the qualification of the CCA Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Joint Proxy Statement/Prospectus or the Form S-4. If at any time prior to the Effective Time any information relating to CCA or StorCOMM, or any of their respective affiliates, officers or directors, is discovered by CCA or StorCOMM which should be set forth in an

amendment or supplement to the Form S-4 or the Joint Proxy Statement/Prospectus so that any of such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other parties hereto and, to the extent required by Applicable Laws, an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and disseminated to the stockholders CCA and StorCOMM.

(b) StorCOMM shall duly take all lawful action to call, give notice of, convene and hold a meeting of its stockholders on a date determined in accordance with the mutual agreement of CCA and StorCOMM (the *StorCOMM Stockholders Meeting*) for the purpose of obtaining the Required StorCOMM Vote with respect to the transactions contemplated by this Agreement and shall take all lawful action to solicit the approval and adoption of this Agreement and the Merger by the Required StorCOMM Vote; and the Board of Directors of StorCOMM shall recommend approval and adoption of this Agreement and the Merger by the stockholders of StorCOMM to the effect as set forth in *Section 3.1(f)* (the *StorCOMM Recommendation*), and shall not (i) withdraw, modify or qualify (or propose to withdraw, modify or qualify) in any manner adverse to CCA the StorCOMM Recommendation or (ii) take any action or make any statement in connection with the StorCOMM Stockholders Meeting inconsistent with such recommendation (collectively, a *Change in the StorCOMM Recommendation*); provided, however, that the Board of Directors of StorCOMM May make a Change in the StorCOMM Recommendation pursuant to *Section 5.8*. Notwithstanding any Change in the StorCOMM Recommendation, this Agreement shall be submitted to the stockholders of StorCOMM at the StorCOMM Stockholders Meeting for the purpose of approving and adopting this Agreement and the Merger and nothing contained herein shall be deemed to relieve StorCOMM of such obligation.

(c) CCA shall duly take all lawful action to call, give notice of, convene and hold a meeting of its stockholders on a date determined in accordance with the mutual agreement of CCA and StorCOMM (the *CCA Stockholders Meeting*) for the purpose of obtaining the Required CCA Vote with respect to the transactions contemplated by this Agreement and shall take all lawful action to solicit the approval of the issuance of CCA Common Stock in the Merger pursuant to this Agreement by the Required CCA Vote, and the Board of Directors of CCA shall recommend approval of the issuance of CCA Common Stock in the Merger pursuant to this Agreement by the stockholders of CCA to the effect as set forth in *Section 3.2(f)* (the *CCA Recommendation*) and shall not (i) withdraw, modify or qualify (or propose to withdraw, modify or qualify) in any manner adverse to StorCOMM the CCA Recommendation or (ii) take any action or make any statement in connection with the CCA Stockholders Meeting inconsistent with such recommendation (collectively, a *Change in the CCA Recommendation*); provided, however, that the Board of Directors of CCA May make a Change in the CCA Recommendation pursuant to *Section 5.8*. Notwithstanding any Change in the CCA Recommendation, the issuance of CCA Common Stock in the Merger pursuant to this Agreement shall be submitted to the stockholders of CCA at the CCA Stockholders Meeting for the purpose of approving the issuance of CCA Common Stock in the Merger pursuant to this Agreement and nothing contained herein shall be deemed to relieve CCA of such obligation.

#### Section 5.2 *CCA Board of Directors and Management.*

(a) CCA shall take all requisite action such that, immediately following the Effective Time, its Board of Directors shall initially consist of six (6) directors, four (4) of whom shall be designated by CCA prior to the Effective Time and two (2) of whom shall be designated by StorCOMM prior to the Effective Time. The By-laws of CCA shall be amended as of the Effective Time to provide that (i) if a director designated by CCA resigns, dies or is removed during the period beginning at the Effective Time and ending on the expiration of the current term of the class of which such director is a member (such period for each such director, the *Transition Period*), such director shall be replaced by the remaining

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CCA designees (or their successors) (the *CCA Directors* ), (ii) if a director designated by StorCOMM resigns, dies or is removed during the Transition Period such director shall be replaced by the remaining StorCOMM designees (or their successors) (the *StorCOMM Directors* ), (iii) if the CCA Directors or the StorCOMM Directors are entitled to designate a successor for a director who resigns, dies or is removed, the CCA Directors or the StorCOMM Directors shall also be entitled to designate a successor for such director to serve on any of the Audit Committee, the Compensation and Management Development Committee and the Governance and Board Composition Committee of the Board on which such director served and (iv) for a period of two years after the Effective Time of the Merger, the affirmative vote of at least 75% of the whole Board of Directors of CCA (without taking into account any vacancies) shall be required (A) to change the number of directors comprising the whole Board of Directors of CCA, (B) to change the number of directors comprising each of the Audit Committee, the Compensation and Management Development Committee and the Governance and Board Composition Committee of the Board, or (C) to amend the foregoing provisions of the CCA By-Laws. Notwithstanding the foregoing, if the StorCOMM Directors are elected or appointed to CCA's Board of Directors and this Agreement is terminated prior to completion of the Merger, the StorCOMM Directors will immediately resign from CCA's Board of Directors. The remaining CCA Directors will select individuals to fill the resulting vacancies on CCA's Board of Directors, who will serve until the next annual meeting of CCA's shareholders or until such director's successor has been elected and qualified.

(b) CCA shall take all requisite action such that, immediately following the Effective Time, Steven Besbeck shall be appointed as the President and Chief Executive Officer of CCA, and such other individuals as CCA and StorCOMM shall otherwise agree prior to the Effective Time shall be appointed as officers of CCA, such officers to hold office until their respective successors are duly elected and qualified, or their earlier death, resignation or removal.

Section 5.3 *Headquarters.* Following the Effective Time, the headquarters for CCA shall be located in Calabasas, California.

Section 5.4 *Employment Agreements.* Prior to the Effective Time, CCA will offer to enter into employment agreements, to be effective as of the Effective Time, with (i) each of the individuals listed in *Exhibit A*, such employment agreements to be on substantially the terms set forth in the respective term sheets included in the Schedules to *Exhibit A* and (ii) such other individuals, and on such terms, as CCA and StorCOMM shall agree.

Section 5.5 *Fiscal Year.* It is the intention of CCA and StorCOMM that the fiscal year of CCA will end on December 31 of each year.

Section 5.6 *Access to Information.* Upon reasonable notice, each of CCA and StorCOMM shall (and shall cause its Subsidiaries to) afford to the officers, employees, accountants, counsel, financial advisors and other representatives of the other reasonable access during normal business hours, during the period prior to the Effective Time, to all its books, records, properties, plants and personnel and, during such period, such party shall (and shall cause its Subsidiaries to) furnish promptly to the other party (i) a copy of each report, schedule, registration statement and other document filed, published, announced or received by it during such period pursuant to the requirements of Federal or state securities laws, as applicable (other than documents which such party is not permitted to disclose under Applicable Laws), and (ii) all other information concerning it and its business, properties and personnel as such other party may reasonably request; *provided, however*, that either party may restrict the foregoing access to the extent that (A) any Applicable Laws or Contract requires such party or its Subsidiaries to restrict or prohibit access to any such properties or information or (B) the information is subject to confidentiality obligations to a third party. The parties will hold any such information obtained pursuant to this *Section 5.6(a)* in confidence in accordance with, and will otherwise be subject to, the provisions of the confidentiality agreement dated October 19, 2004 between CCA and StorCOMM (the *Confidentiality Agreement* ). Any

investigation by either CCA or StorCOMM shall not affect the representations and warranties of the other or the conditions to the respective obligations of the parties to consummate the Merger.

Section 5.7 *Reasonable Best Efforts.*

(a) Subject to the terms and conditions of this Agreement, each party will use its commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, and to assist and cooperate with the other parties in doing or causing to be done, all things necessary, proper or advisable under this Agreement and Applicable Laws to consummate the Merger and the other transactions contemplated by this Agreement as soon as practicable after the date hereof, including (i) preparing and filing as promptly as practicable all documentation to effect all necessary applications, notices, petitions and filings and to obtain as promptly as practicable all StorCOMM Necessary Consents and CCA Necessary Consents and all other consents, waivers, licenses, orders, registrations, approvals, permits, rulings, authorizations and clearances necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Merger or any of the other transactions contemplated by this Agreement (collectively, the *Required Approvals* ) and (ii) taking all reasonable steps as may be necessary to obtain all Required Approvals. In furtherance and not in limitation of the foregoing, each party hereto agrees to make (i) appropriate filings, if any are required, with any foreign regulatory authorities in accordance with applicable competition, merger control, antitrust, investment or similar Applicable Laws, and (ii) all other necessary filings with other Governmental Entities relating to the Merger, and, in each case, to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to such Applicable Laws or by such authorities and to use reasonable best efforts to cause the receipt of the Required Approvals under such other Applicable Laws or from such authorities as soon as practicable and to avoid or eliminate each and every impediment under any antitrust, competition, or trade regulation law that may be asserted by any Governmental Entity or any private party with respect to this Agreement so as to make effective as promptly as practicable the transactions contemplated hereby and avoid any administrative, judicial or other action or proceeding, including any action or proceeding by a private party, which would otherwise have the effect of preventing or delaying the Closing beyond the Termination Date.

(b) Each of CCA and StorCOMM shall, in connection with the efforts referenced in *Section 5.7(a)* to obtain all Required Approvals, use its commercially reasonable efforts to (i) cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party, (ii) promptly inform the other party of any communication received by such party from, or given by such party to, the Antitrust Division of the Department of Justice (the *DOJ* ), the Federal Trade Commission (the *FTC* ) or any other Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby, and (iii) permit the other party to review any communication given by it to, and consult with each other in advance of any meeting or conference with, the DOJ, the FTC or any such other Governmental Entity or, in connection with any proceeding by a private party, with any other Person, and to the extent appropriate or permitted by the DOJ, the FTC or such other applicable Governmental Entity or other Person, give the other party the opportunity to attend and participate in such meetings and conferences.

(c) In furtherance and not in limitation of the covenants of the parties contained in *Section 5.7(a)* and *Section 5.7(b)*, if any administrative, judicial or other action or proceeding, including any proceeding by a private party, is instituted (or threatened to be instituted) challenging any transaction contemplated by this Agreement as violative of any Applicable Laws, or if any statute, rule, regulation, executive order, decree, injunction or administrative order is enacted, entered, promulgated or enforced by a Governmental Entity which would make the Merger or the other transactions contemplated hereby illegal or would otherwise prohibit or materially impair or delay the consummation of the Merger or the other transactions contemplated hereby, each of CCA and StorCOMM shall cooperate in all respects with each other to avoid, contest and resist any such action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order, whether temporary, preliminary or permanent, that is in effect and that prohibits, prevents or restricts consummation of the Merger or the other transactions contemplated by this Agreement and to have such statute, rule, regulation, executive order, decree, injunction or administrative order repealed, rescinded or made inapplicable so as to permit consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing or any other provision of this Agreement, nothing in this *Section 5.7* shall limit a party's right to terminate this Agreement pursuant to *Section 7.1(b)* or *Section 7.1(c)* so long as such party has complied with its obligations under this *Section 5.7*.

*Section 5.8 Acquisition Proposals.*

(a) Without limiting any party's other obligations under this Agreement (including under *ARTICLE IV* hereof), each of StorCOMM and CCA agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall use its reasonable best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, (i) initiate, solicit, encourage or knowingly facilitate (including by way of furnishing information) any inquiries or the making of any proposal or offer with respect to, or a transaction to effect, any Acquisition Proposal, (ii) have any discussion with or provide any confidential information or data to any Person relating to an Acquisition Proposal, or engage in any negotiations concerning an Acquisition Proposal, or knowingly facilitate any effort or attempt to make or implement an Acquisition Proposal, (iii) approve or recommend, or propose publicly to approve or recommend, any Acquisition Proposal or (iv) approve or recommend, or propose to approve or recommend, or execute or enter into, any letter of intent, agreement in principle, merger agreement, acquisition agreement, option agreement or other similar agreement or propose publicly or agree to do any of the foregoing related to any Acquisition Proposal.

(b) For purposes of this Agreement, *Acquisition Proposal* means (i) with respect to StorCOMM, any inquiry, proposal or offer from any Person with respect to (A) any purchase or sale of a business or asset of StorCOMM and its Subsidiaries that constitutes 20% or more of the net revenues, net income or assets of StorCOMM and its Subsidiaries, taken as a whole, (B) a merger, reorganization, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving StorCOMM or any of its Significant Subsidiaries (as defined in Rule 1-02 of Regulation S-X of the SEC), or (C) any purchase or sale of, or tender or exchange offer for, the equity securities of StorCOMM that, if consummated, would result in any Person (or the stockholders of such Person) beneficially owning securities representing 20% or more of the total voting power of StorCOMM (or of the surviving parent entity in such transaction) or any of its Significant Subsidiaries, including any single or multi-step transaction or series of related transactions (other than a proposal or offer made by CCA or an affiliate thereof), and (ii) with respect to CCA, any inquiry, proposal or offer from any Person with respect to (A) any purchase or sale of a business or asset of CCA and its Subsidiaries that constitutes 20% or more of the net revenues, net income or assets of CCA and its Subsidiaries, taken as a whole, (B) a merger, reorganization, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving CCA or any of its Significant Subsidiaries or (C) any purchase

or sale of, or tender or exchange offer for, the equity securities of CCA that, if consummated, would result in any Person (or the stockholders of such Person) beneficially owning securities representing 20% or more of the total voting power of CCA (or of the surviving parent entity in such transaction) or any of its Significant Subsidiaries, including any single or multi-step transaction or series of related transactions (other than a proposal or offer made by StorCOMM or an affiliate thereof).

(c) Notwithstanding anything in this Agreement to the contrary, each of StorCOMM and CCA or its respective Board of Directors shall be permitted to (i) to the extent applicable, comply with Rule 14d-9 and Rule 14e-2 promulgated under the Exchange Act with regard to an Acquisition Proposal, (ii) effect a Change in the StorCOMM Recommendation or a Change in the CCA Recommendation, as the case may be, or (iii) engage in any discussions or negotiations with, or provide any information to, any Person in response to an unsolicited bona fide written Acquisition Proposal by any such Person in order to be informed with respect thereto in order to make any determination permitted in clause (ii), if and only to the extent that, in any such case referred to in clause (ii) or (iii), (A) its Stockholders Meeting shall not have occurred, (B) (x) in the case of clause (ii) above, it has received an unsolicited bona fide written Acquisition Proposal (for purposes of this clause (B), references to 20% in the definition of Acquisition Proposal shall be deemed to be references to 50%) from a third party and its Board of Directors concludes in good faith that such Acquisition Proposal constitutes a Superior Proposal and (y) in the case of clause (iii) above, its Board of Directors concludes in good faith that there is a reasonable likelihood that such Acquisition Proposal would constitute a Superior Proposal, (C) its Board of Directors, after consultation with outside counsel, determines in good faith that it is required to take such action in the exercise of its fiduciary duties to stockholders under Applicable Laws, (D) prior to providing any information or data to any Person in connection with an Acquisition Proposal by any such Person, its Board of Directors receives from such Person an executed confidentiality agreement having provisions that are at least as restrictive to such Person as the comparable provisions contained in the Confidentiality Agreement and (E) prior to providing any information or data to any Person or entering into discussions or negotiations with any Person, it notifies the other parties promptly of such inquiries, proposals or offers received by, any such information requested from, or any such discussions or negotiations sought to be initiated or continued with, it or any of its representatives indicating, in connection with such notice, the name of such Person and the material terms and conditions of any inquiries, proposals or offers, and furnishes to the other parties a copy of any such written inquiry, proposal or offer. Each of StorCOMM and CCA agrees that it will promptly keep each other informed of the status and terms of any such inquiries, proposals or offers and the status and terms of any such discussions or negotiations. Each of StorCOMM and CCA agrees that it will, and will cause its officers, directors and representatives to, immediately cease and cause to be terminated any activities, discussions or negotiations existing as of the date of this Agreement with any Persons conducted heretofore with respect to any Acquisition Proposal, and request the return or destruction of all non-public information furnished in connection therewith. Each of StorCOMM and CCA agrees that it will use reasonable best efforts to promptly inform its directors, officers, key employees, agents and representatives of the obligations undertaken in this Section 5.8. Nothing in this Section 5.8 shall (x) permit StorCOMM or CCA to terminate this Agreement (except as specifically provided in ARTICLE VII) or (y) affect any other obligation of StorCOMM or CCA under this Agreement. Neither StorCOMM nor CCA shall submit to the vote of its stockholders any Acquisition Proposal other than the Merger.

(d) For purposes of this Agreement, *Superior Proposal* means with respect to StorCOMM or CCA, as the case may be, a bona fide written proposal made by a Person other than either such party which is (i) for a merger, reorganization, consolidation, share exchange, business combination, recapitalization or similar transaction involving such party as a result of which the other Person thereto or its stockholders will own 50% or more of the combined voting power of the entity surviving or resulting from such transaction (or the ultimate parent entity thereof), and (ii) is not subject to any financing contingency or due diligence condition and is otherwise on terms which the Board of Directors of such

party in good faith concludes (following receipt of the advice of its financial advisors and outside counsel), taking into account, among other things, all legal, financial, regulatory and other aspects of the proposal and the Person making the proposal, (x) would, if consummated, result in a transaction that is more favorable to its stockholders (in their capacities as stockholders), from a financial point of view, than the transactions contemplated by this Agreement and (y) is reasonably capable of being completed.

Section 5.9 *Employee Benefits Matters.*

(a) *Continuation and Comparability of Benefits.* From and after the Effective Time, the CCA Plans and the StorCOMM Plans in effect at the Effective Time shall remain in effect with respect to employees and former employees of CCA and its Subsidiaries and employees and former employees of StorCOMM and its Subsidiaries covered by such plans at the Effective Time (whether or not such covered employees have then satisfied waiting periods or other preconditions to participation under such plans) (collectively, the *Continuing Employees* ), until such time as CCA shall determine, subject to Applicable Laws and the terms of such plans. Prior to the Closing Date, CCA and StorCOMM shall cooperate in reviewing, evaluating and analyzing the CCA Plans and the StorCOMM Plans with a view towards developing appropriate new benefit plans for Continuing Employees. It is the intention of CCA and StorCOMM, to the extent permitted by Applicable Laws, to develop new benefit plans, as soon as reasonably practicable after the Effective Time, which, among other things, (i) treat similarly situated employees on a substantially equivalent basis, taking into account all relevant factors and (ii) do not discriminate between Continuing Employees who were covered by CCA Plans, on the one hand, and those covered by StorCOMM Plans, on the other, at the Effective Time. Nothing in this *Section 5.9* shall be interpreted as preventing CCA or the Surviving Corporation from amending, modifying or terminating any CCA Plan or StorCOMM Plan or other contract, arrangement, commitment or understanding, in accordance with its terms and Applicable Laws.

(b) *Pre-Existing Limitations; Deductibles; Service Credit.* With respect to any employee benefit plans in which any Continuing Employees who were employees of CCA or StorCOMM (or their Subsidiaries) prior to the Effective Time first become eligible to participate on or after the Effective Time, and in which the Continuing Employees did not participate prior to the Effective Time (the *Post-Closing Plans* ), CCA shall: (i) waive all pre-existing conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to the Continuing Employees and their eligible dependents under any Post-Closing Plans in which such employees may be eligible to participate after the Effective Time, except to the extent such pre-existing conditions, exclusions or waiting periods under the analogous pre-Effective Time employee benefit plan had not been satisfied or completed as of the Effective Time; (ii) provide each Continuing Employee and his or her eligible dependents with credit for any co-payments and deductibles paid prior to the Effective Time under the analogous pre-Effective Time employee benefit plan in satisfying any applicable deductible or out-of-pocket requirements under any Post-Closing Plans in which such employees may be eligible to participate after the Effective Time; and (iii) recognize all service of the Continuing Employees with CCA and StorCOMM, and their respective affiliates, for all purposes (including, without limitation, purposes of eligibility to participate, vesting credit, entitlement to benefits, and, except with respect to defined benefit pension plans, benefit accrual) in any Post-Closing Plan in which such employees may be eligible to participate after the Effective Time, to the extent such service is taken into account under the applicable New CCA Plan; provided that the foregoing shall not apply to the extent it would result in duplication of benefits.

Section 5.10 *Fees and Expenses.* Subject to *Section 7.2(d)*, whether or not the Merger is consummated, all Expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such Expenses, except Expenses incurred in connection with the filing, printing and mailing of the Form S-4 and the Joint Proxy Statement/Prospectus, and the expenses of the Closing Financing referred to in *Section 6.1(k)* below, which shall be shared equally by StorCOMM and CCA. As used in this Agreement, *Expenses* means all out-of-pocket expenses (including all fees and

expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement and the transactions contemplated hereby, including the preparation, filing, printing and mailing of the Form S-4 and the Joint Proxy Statement/Prospectus and the solicitation of stockholder approvals and all other matters related to the transactions contemplated hereby.

Section 5.11 *Directors and Officers Indemnification and Insurance.* CCA shall (i) indemnify and hold harmless, and provide advancement of expenses to, all past and present directors, officers and employees of StorCOMM and its Subsidiaries (in all of their capacities as such), to the same extent such persons are indemnified or have the right to advancement of expenses as of the date of this Agreement by StorCOMM pursuant to StorCOMM's certificate of incorporation, by-laws and indemnification agreements, if any, in existence on the date hereof with any such directors, officers and employees of StorCOMM and its Subsidiaries for acts or omissions occurring at or prior to the Effective Time (including for acts or omissions occurring in connection with the approval of this Agreement and the consummation of the transactions contemplated hereby) and (ii) cause to be maintained for a period of six years after the Effective Time the current policies of directors' and officers' liability insurance and fiduciary liability insurance, if any, maintained by StorCOMM (provided that CCA May substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured) with respect to claims arising from facts or events that occurred on or before the Effective Time; *provided, however*, that in no event shall CCA be required to expend in any one year an amount in excess of 200% of the annual premiums currently paid by StorCOMM for such insurance; and, provided, further, that if the annual premiums for such insurance coverage exceed such amount, CCA shall be obligated to obtain a policy with the greatest coverage available for a cost not exceeding such amount.

Section 5.12 *Public Announcements.* StorCOMM and CCA each shall use reasonable best efforts to develop a joint communications plan and each party shall use reasonable best efforts (i) to ensure that all press releases and other public statements with respect to the transactions contemplated hereby shall be consistent with such joint communications plan, and (ii) unless otherwise required by Applicable Laws or by obligations pursuant to any listing agreement with or rules of any securities exchange, to consult with each other before issuing any press release or, to the extent practicable, otherwise making any public statement with respect to this Agreement or the transactions contemplated hereby.

Section 5.13 *Accounting Matters.*

(a) StorCOMM shall use reasonable best efforts to cause to be delivered to CCA two letters from StorCOMM's independent public accountants, one dated approximately the date on which the Form S-4 shall become effective and one dated the Closing Date, addressed to StorCOMM and CCA, in form and substance reasonably satisfactory to CCA and reasonably customary in scope and substance for comfort letters delivered by independent public accountants in connection with registration statements similar to the Form S-4.

(b) CCA shall use reasonable best efforts to cause to be delivered to StorCOMM two letters from CCA's independent public accountants, one dated approximately the date on which the Form S-4 shall become effective and one dated the Closing Date, addressed to CCA and StorCOMM, in form and substance reasonably satisfactory to StorCOMM and reasonably customary in scope and substance for comfort letters delivered by independent public accountants in connection with registration statements similar to the Form S-4.

Section 5.14 *Listing of Shares of CCA Common Stock.* CCA shall use reasonable best efforts to cause the shares of CCA Common Stock to be issued in the Merger and the shares of CCA Common Stock to be reserved for issuance upon exercise of the StorCOMM Stock Options that are converted into options

to acquire CCA Common Stock to be approved for listing on the American Stock Exchange, subject to official notice of issuance, prior to the Closing Date.

Section 5.15 *Affiliates*. Not less than 45 days prior to the Effective Time, StorCOMM shall deliver to CCA a letter identifying all persons who, in the judgment of StorCOMM, may be deemed at the time this Agreement is submitted for approval by the stockholders of StorCOMM, affiliates of StorCOMM for purposes of Rule 145 under the Securities Act and applicable SEC rules and regulations, and such list shall be updated as necessary to reflect changes from the date hereof. StorCOMM shall use reasonable best efforts to cause each person identified on such list to deliver to CCA not less than 20 days prior to the Effective Time, a written agreement substantially in the form attached as **Exhibit B** hereto (an *Affiliate Agreement* ).

Section 5.16 *Section 16 Matters*. Prior to the Effective Time, CCA and StorCOMM shall take all such steps as may be required to cause any dispositions of StorCOMM Common Stock (including derivative securities with respect to StorCOMM Common Stock) or acquisitions of CCA Common Stock (including derivative securities with respect to CCA Common Stock) resulting from the transactions contemplated by this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to StorCOMM or CCA to be exempt under Rule 16b-3 promulgated under the Exchange Act.

Section 5.17 *Takeover Statutes*. If any fair price , moratorium , control share acquisition or other form of antitakeover statute or regulation shall become applicable to the transactions contemplated hereby, each of CCA and StorCOMM and their respective Boards of Directors shall use all reasonable efforts to grant such approvals and take such actions as are reasonably necessary so that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated hereby and otherwise act to eliminate or minimize the effects of such statute or regulation on the transactions contemplated hereby.

Section 5.18 *Advice of Changes*. Each of CCA and StorCOMM shall as promptly as reasonably practicable after becoming aware thereof advise the other of (a) any representation or warranty made by it contained in this Agreement that is qualified as to materiality becoming untrue or inaccurate in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect, (b) the failure by it to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement or (c) any change or event (i) having, or which, insofar as can reasonably be foreseen, would have, in the case of StorCOMM, a Material Adverse Effect on StorCOMM and its Subsidiaries, and, in the case of CCA, a Material Adverse Effect on CCA and its Subsidiaries, or (ii) which has resulted, or which, insofar as can reasonably be foreseen, would result, in any of the conditions set forth in *ARTICLE VI* not being satisfied; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

## **ARTICLE VI**

### **CONDITIONS PRECEDENT**

Section 6.1 *Conditions to Each Party's Obligation to Effect the Merger*. The respective obligations of each party to effect the Merger are subject to the satisfaction or waiver prior to the Effective Time of the following conditions:

(a) *Stockholder Approval*. (i) CCA shall have obtained the Required CCA Vote in connection with the approval and adoption of this Agreement and the Merger and the issuance of CCA Common Stock in the Merger pursuant to this Agreement by the stockholders of CCA and (ii) StorCOMM shall have obtained the Required StorCOMM Vote in connection with the approval and adoption of this Agreement and the Merger by the stockholders of StorCOMM.

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(b) *No Injunctions or Restraints, Illegality.* No Applicable Laws shall have been adopted, promulgated or enforced by any Governmental Entity, and no temporary restraining order, preliminary or permanent injunction or other order issued by a court or other Governmental Entity of competent jurisdiction (an *Injunction* ) shall be in effect, having the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger.

(c) *No Pending Governmental Actions.* No proceeding initiated by any Governmental Entity seeking, and which is reasonably likely to result in the granting of, an Injunction shall be pending.

(d) *Governmental and Regulatory Approvals.* Other than the filing provided for under *Section 1.3*, all consents, approvals, orders or authorizations of, actions of, filings and registrations with and notices to any Governmental Entity (i) set forth in *Section 6.1(d)* of the StorCOMM Disclosure Schedule or *Section 6.1(d)* of the CCA Disclosure Schedule or (ii) required of StorCOMM, CCA or any of their Subsidiaries to consummate the Merger and the other transactions contemplated hereby, the failure of which to be obtained or taken would reasonably be expected to have a Material Adverse Effect on CCA and its Subsidiaries, taken together after giving effect to the Merger, shall have been obtained and shall be in full force and effect.

(e) *AMEX Listing.* The shares of CCA Common Stock to be issued in the Merger and to be reserved for issuance in connection with the Merger shall have been approved for listing on the American Stock Exchange, subject to official notice of issuance.

(f) *Effectiveness of the Form S-4.* The Form S-4 shall have been declared effective by the SEC under the Securities Act and no stop order suspending the effectiveness of the Form S-4 shall then be in effect and no proceedings for that purpose shall be pending before or threatened by the SEC.

(g) *Escrow Agreement.* CCA and StorCOMM shall have entered into an escrow agreement in substantially the form set forth on *Exhibit C* attached hereto (the *Escrow Agreement* ).

(h) *Closing of Financing.* CCA shall have closed simultaneously with the closing of the sale of up to ONE MILLION FIVE HUNDRED THOUSAND (1,500,000) of its Common Stock (the *Closing Financing* ).

*Section 6.2 Additional Conditions to Obligations of StorCOMM.* The obligation of StorCOMM to effect the Merger is subject to the satisfaction or waiver by StorCOMM prior to the Effective Time of the following additional conditions:

(a) *Representations and Warranties.* Each of the representations and warranties of CCA and CCA Sub set forth in this Agreement, disregarding all qualifications and exceptions contained therein relating to materiality or Material Adverse Effect, shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent that such representations and warranties speak as of another date); and StorCOMM shall have received a certificate of CCA executed by an executive officer of CCA to such effect.

(b) *Performance of Obligations of CCA and CCA Sub.* Each of CCA and CCA Sub shall have performed or complied with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date that are qualified as to materiality or Material Adverse Effect and shall have performed or complied in all material respects with all other agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date that are not so qualified, and StorCOMM shall have received a certificate of CCA executed by an executive officer of CCA to such effect.

(c) *CCA Stockholder Support Agreement.* The CCA Stockholder Support Agreement, dated the date hereof, shall be in full force and effect through the Closing and no party shall be in breach thereof.



Section 6.3 *Additional Conditions to Obligations of CCA.* The obligation of CCA to effect the Merger is subject to the satisfaction or waiver by CCA prior to the Effective Time of the following additional conditions:

- (a) *Representations and Warranties.* Each of the representations and warranties of StorCOMM set forth in this Agreement, disregarding all qualifications and exceptions contained therein relating to materiality or Material Adverse Effect, shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent that such representations and warranties speak as of another date); and CCA shall have received a certificate of StorCOMM executed by an executive officer of StorCOMM to such effect.
- (b) *Performance of Obligations of StorCOMM.* StorCOMM shall have performed or complied with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date that are qualified as to materiality or Material Adverse Effect and shall have performed or complied in all material respects with all other agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date that are not so qualified, and CCA shall have received a certificate of StorCOMM executed by an executive officer of StorCOMM to such effect.
- (c) *Delivery of StorCOMM Audited Financial Statements.* StorCOMM shall have delivered to CCA, in such form as is satisfactory to CCA, StorCOMM's audited financial statements for the fiscal years ended December 31, 2003 and 2004.
- (d) *StorCOMM Stockholder Support Agreement.* The StorCOMM Stockholder Support Agreement, dated the date hereof, shall be in full force and effect through the Closing and no party shall be in breach thereof.
- (e) *Unsecured StorCOMM Shareholder Debt Limitation.* No more than ONE MILLION DOLLARS (\$1,000,000) of Unsecured StorCOMM Shareholder Debt will remain on StorCOMM's books at the Closing.
- (f) *Receipt of a Fairness Opinion.* Receipt of a fairness opinion in form and substance acceptable to CCA from the CCA Financial Advisor that the transaction is fair to CCA from a financial point of view.
- (g) *Execution of Employee Documents.* All employees of StorCOMM shall have executed all standard documents required to be executed by employees of CCA, including CCA's Code of Ethics, Confidentiality Agreement and Health Insurance Portability and Accountability Act Certificate.
- (h) *Employment Agreements.* Samuel G. Elliott and William W. Peterson shall have entered into employment agreements with CCA, to be effective as of the Effective Time, such employment agreements to be acceptable to the employees and CCA.
- (i) *StorCOMM Stockholder Debt or Preferred Stock Conversion.* All issued and outstanding StorCOMM Preferred Stock and all StorCOMM Convertible Notes shall have been converted to Common Stock of StorCOMM in accordance with the terms and conditions of (i) the StorCOMM Preferred Stock as set forth in StorCOMM's certificate of incorporation and any amendments or certificates of determination thereto and (ii) the provisions of Section 6 of each of the StorCOMM Convertible Notes (or, in each case, on such other terms and conditions as shall have been approved in writing by CCA prior to such conversion).
- (j) *Increase in Authorized Common Stock.* StorCOMM shall have increased its authorized Common Stock in an amount and on terms and conditions as shall have been approved in writing by CCA prior to such increase.

**ARTICLE VII  
TERMINATION AND AMENDMENT**

Section 7.1 *Termination*. This Agreement may be terminated at any time prior to the Effective Time, by action taken or authorized by the Board of Directors of the terminating party or parties, and except as provided below, whether before or after approval of the matters presented in connection with the Merger by the stockholders of CCA or StorCOMM:

- (a) by mutual written consent of CCA and StorCOMM;
- (b) by either CCA or StorCOMM if the Effective Time shall not have occurred on or before January 31, 2006 (the *Termination Date*); provided, however, that the right to terminate this Agreement under this *Section 7.1(b)* shall not be available to any party whose failure to fulfill any obligation under this Agreement (including such party's obligations set forth in *Section 5.7*) has been the cause of, or resulted in, the failure of the Effective Time to occur on or before the Termination Date;
- (c) by either CCA or StorCOMM if any Governmental Entity (i) shall have issued an order, decree or ruling or taken any other action (which such party shall have used its reasonable best efforts to resist, resolve or lift, as applicable, in accordance with *Section 5.7*) permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement, and such order, decree, ruling or other action shall have become final and nonappealable or (ii) shall have failed to issue an order, decree or ruling, or to take any other action, necessary to fulfill any conditions set forth in *Section 6.1(d)*, and the failure to issue such order, decree or ruling or take such action shall have become final and nonappealable; provided, however, that the right to terminate this Agreement under this *Section 7.1(c)* shall not be available to any party whose failure to comply with *Section 5.7* has been the cause of, or resulted in, such action or inaction;
- (d) by either CCA or StorCOMM if (i) the approval by the stockholders of CCA required for the issuance of CCA Common Stock in the Merger shall not have been obtained by reason of the failure to obtain the Required CCA Vote or (ii) the approval by the stockholders of StorCOMM required for the consummation of the Merger shall not have been obtained by reason of the failure to obtain the Required StorCOMM Vote, in each case upon the taking of such vote at a duly held meeting of stockholders of CCA or StorCOMM, as the case may be, or at any adjournment thereof;
- (e) by CCA, if (i) StorCOMM's Board of Directors shall have (A) failed to make the StorCOMM Recommendation, (B) withdrawn the StorCOMM Recommendation or (C) modified or qualified, in any manner adverse to CCA, the StorCOMM Recommendation without also simultaneously reaffirming the StorCOMM Recommendation (or resolved or proposed to take any such action referred to in clause (A), (B) or (C)), in each case whether or not permitted by the terms hereof, or (ii) StorCOMM shall have breached its obligations under this Agreement by reason of a failure to call the StorCOMM Stockholders Meeting in accordance with *Section 5.1(b)* or a failure to prepare and mail to its stockholders the Joint Proxy Statement/Prospectus in accordance with *Section 5.1(a)*;
- (f) by StorCOMM, if (i) CCA's Board of Directors shall have (A) failed to make the CCA Recommendation, (B) withdrawn the CCA Recommendation or (C) modified or qualified, in any manner adverse to StorCOMM, the CCA Recommendation without also simultaneously reaffirming the CCA Recommendation (or resolved or proposed to take any such action referred to in clause (A), (B) or (C)), in each case whether or not permitted by the terms hereof or (ii) CCA shall have breached its obligations under this Agreement by reason of a failure to call the CCA Stockholders Meeting in accordance with *Section 5.1(c)* or a failure to prepare and mail to its stockholders the Joint Proxy Statement/Prospectus in accordance with *Section 5.1(a)*;

(g) by CCA, if StorCOMM shall have breached or failed to perform any of its representations, warranties, covenants or other agreements contained in this Agreement, such that the conditions set forth in *Section 6.3(a)* or *Section 6.3(b)* are not capable of being satisfied on or before the Termination Date; or

(h) by StorCOMM, if either CCA or CCA Sub shall have breached or failed to perform any of its representations, warranties, covenants or other agreements contained in this Agreement, such that the conditions set forth in *Section 6.2(a)* or *Section 6.2(b)* are not capable of being satisfied on or before the Termination Date.

Section 7.2 *Effect of Termination.*

(a) In the event of termination of this Agreement by either CCA or StorCOMM as provided in *Section 7.1*, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of StorCOMM, CCA or CCA Sub or their respective officers or directors under this Agreement, except that (i) the provisions of *Section 3.1(m)*, *Section 3.2(l)*, the second sentence of *Section 5.6(a)*, *Section 5.10*, this *Section 7.2*, *ARTICLE VIII* and *ARTICLE IX* shall survive such termination, and (ii) notwithstanding anything to the contrary contained in this Agreement, none of StorCOMM, CCA or CCA Sub shall be relieved or released from any liabilities or damages arising out of its willful breach of any provision of this Agreement.

(b) If:

(i) A. (x) either CCA or StorCOMM shall terminate this Agreement pursuant to *Section 7.1(d)* (provided that the basis for such termination is the failure of StorCOMM's stockholders to approve the transactions contemplated hereby) or pursuant to *Section 7.1(b)* without the StorCOMM Stockholder Meeting having occurred or (y) CCA shall terminate this Agreement pursuant to *Section 7.1(g)* as a result of any intentional breach or failure to perform by StorCOMM (unless covered by clause (ii) below), and

B. at any time after the date of this Agreement and before such termination an Acquisition Proposal with respect to StorCOMM shall have been publicly announced or otherwise communicated to the senior management, Board of Directors or stockholders of StorCOMM and

C. within twelve months of such termination StorCOMM or any of its Subsidiaries enters into any definitive agreement with respect to, or consummates, any Acquisition Proposal (provided that for purposes of this *Section 7.2(b)(i)(C)* the references in the definition of Acquisition Proposal to 20% shall be to 50%) or

(ii) CCA shall terminate this Agreement pursuant to *Section 7.1(e)*;

then StorCOMM shall promptly, but in no event later than one Business Day after the date of such termination (or in the case of clause (i), if later, the date StorCOMM or its Subsidiary enters into such agreement with respect to or consummates such Acquisition Proposal), pay CCA an amount equal to CCA's reasonable expenses incurred in connection with the proposed Merger prior to the date of termination not to exceed \$250,000, by wire transfer of immediately available funds.

(c) If:

(i) A. (x) either CCA or StorCOMM shall terminate this Agreement pursuant to *Section 7.1(d)* (provided that the basis for such termination is the failure of CCA's stockholders to approve the transactions contemplated hereby) or pursuant to *Section 7.1(b)* without the CCA Stockholders Meeting having occurred or (y) StorCOMM shall terminate this Agreement pursuant to *Section 7.1(h)* as a result of any intentional breach or failure to perform by CCA or CCA Sub (unless covered by clause (ii) below), and

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B. at any time after the date of this Agreement and before such termination an Acquisition Proposal with respect to CCA shall have been publicly announced or otherwise communicated to the senior management, Board of Directors or stockholders of CCA and

C. within twelve months of such termination CCA or any of its Subsidiaries enters into any definitive agreement with respect to, or consummates, any Acquisition Proposal (provided that for purposes of this *Section 7.2(c)(i)(C)* the references in the definition of Acquisition Proposal to 20% shall be to 50%) or

(ii) StorCOMM shall terminate this Agreement pursuant to *Section 7.1(f)*;

then CCA shall promptly, but in no event later than one Business Day after the date of such termination (or in the case of clause (i), if later, the date CCA or its Subsidiary enters into such agreement with respect to or consummates such Acquisition Proposal), pay StorCOMM an amount equal to StorCOMM's reasonable expenses incurred in connection with the proposed Merger prior to the date of termination not to exceed \$250,000, by wire transfer of immediately available funds.

(d) The parties acknowledge that the agreements contained in this *Section 7.2* are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, neither party would enter into this Agreement; accordingly, if either party fails promptly to pay any amount due pursuant to this *Section 7.2*, and, in order to obtain such payment, the other party commences a suit which results in a judgment against such party for the fee set forth in this *Section 7.2*, such party shall pay to the other party its costs and expenses (including attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the fee from the date such payment is required to be made until the date such payment is actually made at the prime rate of Citibank, N.A. in effect on the date such payment was required to be made. The parties agree that any remedy or amount payable pursuant to this *Section 7.2* shall not preclude any other remedy or amount payable hereunder, and shall not be an exclusive remedy, for any willful breach of any provision of this Agreement.

*Section 7.3 Amendment.* This Agreement may be amended by the parties hereto, by action taken or authorized by their respective Boards of Directors, at any time before or after approval of the matters presented in connection with the Merger by the stockholders of CCA and StorCOMM, but, after any such approval, no amendment shall be made which by law or in accordance with the rules of any relevant stock exchange requires further approval by such stockholders without such further approval. This Agreement May not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

*Section 7.4 Extension; Waiver.* At any time prior to the Effective Time, the parties hereto, by action taken or authorized by their respective Boards of Directors, may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

## **ARTICLE VIII GENERAL PROVISIONS**

*Section 8.1 Non-Survival of Representations, Warranties and Agreements of CCA.* None of the representations, warranties, covenants and other agreements of CCA in this Agreement or in any instrument delivered by CCA pursuant to this Agreement, including any rights arising out of any breach of such representations, warranties, covenants and other agreements, shall survive the Effective Time, except

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for those covenants and agreements contained herein and therein that by their terms apply or are to be performed in whole or in part after the Effective Time.

Section 8.2 *Notices.* All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or by telecopy or telefacsimile, upon confirmation of receipt, (b) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service, or (c) on the fifth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

(a) *if to CCA or CCA Sub to:*

Creative Computer Applications, Inc.

26115-A Mureau Road

Calabasas, CA 91302-3128

Fax: (818) 880-4398

Attention: Steven M. Besbeck

*with a copy to:*

Sheppard, Mullin, Richter & Hampton LLP

800 Anacapa Street

Santa Barbara, CA 93101

Fax: (805) 568-1955

Attention: Joe Nida, Esq.

(b) *if to StorCOMM to:*

StorCOMM, Inc.

7 Corporate Plaza

8649 Baypine Road

Jacksonville, Florida 32256

Fax: 904.730.8537

Attention: Samuel G. Elliott

*with a copy to:*

Bradford G. Peters

Blackfin Capital, LLC

622 Third Avenue, 39th Floor

New York, New York, 10017

Fax: 917-256-8116

Interpretation. When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words include , includes or including are used in this Agreement, they shall be deemed to be followed by the words without limitation . The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

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Section 8.3 *Counterparts.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that the parties need not sign the same counterpart.

Section 8.4 *Entire Agreement; No Third Party Beneficiaries.*

(a) This Agreement, the Confidentiality Agreement and the exhibits and schedules hereto and the other agreements and instruments of the parties delivered in connection herewith constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof.

(b) This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, other than *Section 5.11* (which is intended to be for the benefit of the Persons covered thereby).

Section 8.5 *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of California (without giving effect to choice of law principles thereof).

Section 8.6 *Severability.* If any provision of this Agreement or the application thereof to any Person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon any such determination, the parties shall negotiate in good faith in an effort to agree upon a suitable and equitable substitute provision to effect the original intent of the parties.

Section 8.7 *Assignment.* Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other parties, and any attempt to make any such assignment without such consent shall be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 8.8 *Submission to Jurisdiction; Waivers.* Each of StorCOMM, CCA and CCA Sub irrevocably agrees that any legal action or proceeding with respect to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by another party hereto or its successors or permitted assigns may be brought and determined in any federal or state court located in the State of California, and each of StorCOMM, CCA and CCA Sub hereby irrevocably submits with regard to any such action or proceeding for itself and in respect to its property, generally and unconditionally, to the exclusive jurisdiction of the aforesaid courts. Each of StorCOMM, CCA and CCA Sub hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, (a) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to lawfully serve process, (b) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (c) to the fullest extent permitted by Applicable Laws, that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper and (iii) this Agreement, or the subject matter hereof, May not be enforced in or by such courts.

Section 8.9 *Enforcement*. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms. It is accordingly agreed that the parties shall be entitled to specific performance of the terms hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

Section 8.10 *Definitions*. As used in this Agreement:

- (a) *affiliate* means (except as specifically otherwise defined), as to any person, any other person which, directly or indirectly, controls, or is controlled by, or is under common control with, such person. As used in this definition, *control* (including, with its correlative meanings, *controlled by* and *under common control with* ) means the possession, directly or indirectly, of the power to direct or cause the direction of management or policies of a person, whether through the ownership of securities or partnership or other ownership interests, by contract or otherwise.
- (b) *Applicable Laws* means all applicable laws, statutes, orders, rules, regulations, policies or guidelines promulgated, or judgments, decisions or orders entered, by any Governmental Entity.
- (c) *beneficial ownership* or *beneficially own* shall have the meaning under Section 13(d) of the Exchange Act and the rules and regulations thereunder.
- (d) *Board of Directors* means the Board of Directors of any specified Person and any committees thereof.
- (e) *Business Day* means any day on which banks are not required or authorized to close in the City of New York.
- (f) *CCA Group Member* means CCA and its affiliates and their respective directors, officers, employees, stockholders, agents, attorneys, consultants, advisors and representatives and their respective successors and assigns.
- (g) A *CCA Plan* means any employee benefit plan, program, policy, practice or other arrangement providing benefits to any current or former employee, officer or director of CCA or any of its Subsidiaries or any beneficiary or dependent thereof that is sponsored or maintained by CCA or any of its Subsidiaries or to which CCA or any of its Subsidiaries contributes or is obligated to contribute, whether or not written, including any employee benefit plan within the meaning of Section 3(3) of ERISA (whether or not such plan is subject to ERISA) and any bonus, incentive, deferred compensation, vacation, stock purchase, stock option, severance, employment, change of control or fringe benefit plan, program or agreement.
- (h) *CCA Stock Plan* means the 1997 Stock Option Plan.
- (i) *ERISA* means the Employee Retirement Income Security Act of 1974, as amended.
- (j) *Indemnification-Related Expenses* means any and all reasonable out-of-pocket expenses incurred in connection with investigating, defending or asserting any claim, action, suit or proceeding incident to any matter indemnified against hereunder (including, without limitation, court filing fees, court costs, arbitration fees or costs, witness fees and reasonable fees and disbursements of legal counsel, investigators, expert witnesses, accountants and other professionals).
- (k) *Known* or *Knowledge* means, (i) with respect to CCA, the knowledge of Steven Besbeck after reasonable inquiry and (ii) with respect to StorCOMM, the knowledge of any of Sam Elliott after reasonable inquiry.
- (l) *Material Adverse Effect* means, with respect to any entity (or group of entities taken as a whole), any event, change, circumstance or effect that is or is reasonably likely to be materially adverse to (i) the business, condition (financial or otherwise) results of operations assets, liabilities, properties or



prospects of such entity (or, if with respect thereto, of such group of entities taken as a whole), other than any event, change, circumstance or effect (v) resulting from the public announcement or pendency of the transactions contemplated hereby, (w) resulting from any action taken in connection with the transactions contemplated hereby pursuant to the terms of this Agreement, (x) relating to the economy or financial markets in general, (y) relating in general to the industries in which such entity (or group of entities taken as a whole) operates and not specifically relating to such entity (or group of entities taken as a whole) or (z) relating to any action or omission of CCA, StorCOMM or CCA Sub or any Subsidiary of any of them taken with the express prior written consent of the other parties hereto or (ii) the ability of such entity (or group of entities taken as a whole) to consummate the transactions contemplated by this Agreement. For all purposes of this Agreement, any reference to a Material Adverse Effect on StorCOMM and its Subsidiaries shall mean a Material Adverse Effect on StorCOMM and its Subsidiaries taken as a whole and any reference to a Material Adverse Effect on CCA and its Subsidiaries shall mean a Material Adverse Effect on CCA and its Subsidiaries taken as a whole.

(m) A *Multiemployer Plan* means any multiemployer plan within the meaning of Section 4001(a)(3) of ERISA.

(n) *Person* means an individual, corporation, limited liability entity, partnership, association, trust, unincorporated organization, other entity or group (as defined in the Exchange Act), including any Governmental Entity.

(o) *Qualifying Amendment* means an amendment or supplement to the Joint Proxy Statement/Prospectus or the Form S-4 (including by incorporation by reference) to the extent it contains (i) a Change, (ii) a statement of the reasons of the Board of Directors of CCA or StorCOMM (as the case may be) for making the Change and (iii) additional information reasonably related to the foregoing.

(p) *StorCOMM Convertible Notes* means (i) the StorCOMM, Inc. 8% Secured Promissory Notes dated as of March 15, 2004 issued by StorCOMM pursuant to the Second Amended and Restated Secured Note Purchase Agreement to TITAB, LLC and C. Ian Sym-Smith, respectively, in the original principal amounts of \$5,539,894.42 and \$3,828,190.91, respectively, and under which the outstanding balances of principal and interest as of June 30, 2005 were \$7,315,278 and \$5,343,568, respectively, and (ii) convertible unsecured notes payable in the amount of \$850,594 as described in the Form S-4 Summary Selected Historical Consolidated Financial Data of StorCOMM.

(q) A *StorCOMM Plan* means any employee benefit plan, program, policy, practice or other arrangement providing benefits to any current or former employee, officer or director of StorCOMM or any of its Subsidiaries or any beneficiary or dependent thereof that is sponsored or maintained by StorCOMM or any of its Subsidiaries or to which StorCOMM or any of its Subsidiaries contributes or is obligated to contribute, whether or not written, including any employee benefit plan within the meaning of Section 3(3) of ERISA (whether or not such plan is subject to ERISA) and any bonus, incentive, deferred compensation, vacation, stock purchase, stock option, severance, employment, change of control or fringe benefit plan, program or agreement.

(r) *StorCOMM Stock Plan* means the 1998 Stock Incentive Plan.

(s) *Subsidiary* when used with respect to any party means any corporation or other organization, whether incorporated or unincorporated, at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such party or by any one or more of its Subsidiaries, or by such party and one or more of its Subsidiaries.

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(t) *Tax* (and, with correlative meaning, *Taxes* and *Taxable* ) shall mean any federal, state, local or foreign net income, gross income, receipts, windfall profit, severance, property, production, sales, use, license, excise, franchise, employment, payroll, withholding, alternative or add-on minimum, ad valorem, transfer, stamp, or environmental tax, or any other tax, customs, duty or other like assessment or charge of any kind whatsoever, together with any interest or penalty, addition to tax or additional amount imposed by any governmental authority.

(u) *Tax Returns* means any return, report or similar statement (including any attached schedules) required to be filed with respect to any Tax, including any information return, claim for refund, amended return or declaration of estimated Tax.

Each of the following terms is defined in the Section of this Agreement set forth opposite such term:

<b>Term</b>	<b>Section</b>
Acquisition Proposal	5.8(b)
Actions	3.1(j)
Affiliate Agreement	5.15
Agreement	Preamble
CCA Sub	Preamble
CCA Sub By-Laws	1.9
CCA Sub Certificate	1.8
CCA Sub Common Stock	1.6
CCA	Preamble
CCA Common Stock	1.5(a)
CCA Directors	5.2(a)
CCA Disclosure Schedule	3.2
CCA Filed SEC Reports	3.2(d)(ii)
CCA Financial Advisor	3.2(m)
CCA Necessary Consents	3.2(c)(iii)
CCA Permits	3.2(h)(ii)
CCA Preferred Stock	3.2(b)(i)
CCA Recommendation	5.1(c)
CCA SEC Reports	3.2(d)(i)
CCA Stock Options	3.2(b)(i)
CCA Stockholders Meeting	5.1(c)
CCA Voting Debt	3.2(b)(ii)
Certificate	1.5(b)
Certificate of Merger	1.3
CGCL	3.2(f)
Change	5.1(a)
Change in the CCA Recommendation	5.1(c)
Change in the StorCOMM Recommendation	5.1(b)
Closing	1.2
Closing Date	1.2
Code	1.7(b)
Continuing Employees	5.9(a)
Contract	3.1(c)(ii)
Damages	9.2
DOJ	5.7(b)
Effective Time	1.3

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Environmental Laws	3.1(j)
Environmental Liabilities	3.1(j)
Excess Shares	2.2(e)(ii)
Exchange Act	3.1(c)(iii)
Exchange Agent	2.1
Exchange Fund	2.1
Exchange Ratio	1.5(a)
Expenses	5.10
DGCL	1.1
Financial Information	3.1(d)(iii)
Delaware Secretary	1.3
Form S-4	5.1(a)
FTC	5.7(b)
GAAP	3.1(d)(i)
Governmental Entity	3.1(c)(iii)
Hazardous Materials	3.1(j)
Indemnified Persons	9.2
Injunction	6.1(b)
Intellectual Property	3.1(k)
Joint Proxy Statement/Prospectus	5.1(a)
Liens	3.1(a)(ii)
Merger	Recitals
Post-Closing Plans	5.9(b)
Required Approvals	5.7(a)
Required CCA Vote	3.2(g)
Required StorCOMM Vote	3.1(g)
SEC	3.1(a)(ii)
Securities Act	2.3
StorCOMM	Preamble
StorCOMM Common Stock	1.5(a)
StorCOMM Directors	5.2(a)
StorCOMM Disclosure Schedule	3.1
StorCOMM Filed SEC Reports	3.1(d)(ii)
StorCOMM Financial Advisor	3.1(m)
StorCOMM Necessary Consents	3.1(c)(iii)
StorCOMM Permits	3.1(h)(ii)
StorCOMM Preferred Stock	3.1(b)(i)
StorCOMM Recommendation	5.1(b)
StorCOMM Shareholders Meeting	5.1(b)
StorCOMM Shareholders	Recitals
StorCOMM Stock Options	3.1(b)(i)
StorCOMM Voting Debt	3.1(b)(ii)
StorCOMM Warrant	3.1(b)(i)
Surviving Corporation	Recitals
Termination Date	7.1(b)
Transition Period	5.2(a)
Violation	3.1(c)(ii)

Section 8.11 *Disclosure Schedule*. The mere inclusion of an item in the relevant Disclosure Schedule as an exception to a representation, warranty or covenant shall not be deemed an admission by a party that such item represents a material exception or material fact, event or circumstance or that such item has had or would have a Material Adverse Effect with respect to CCA, StorCOMM or CCA Sub, as applicable.

## **ARTICLE IX INDEMNIFICATION**

Section 9.1 *SURVIVAL; RIGHT TO INDEMNIFICATION NOT AFFECTED BY KNOWLEDGE*. All representations, warranties, covenants, and obligations of StorCOMM in this Agreement and any other certificate or document delivered by StorCOMM pursuant to this Agreement will survive the Closing in accordance with *Section 9.3*. The right to indemnification, payment of Damages or any other remedy based on such representations, warranties, covenants, and obligations will not be affected by any investigation conducted with respect to, or any Knowledge acquired (or capable of being acquired) at any time by CCA, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant, or obligation. The waiver of any condition by CCA based on the accuracy of any representation or warranty, or on the performance of or compliance with any covenant or obligation, will not affect CCA's right to indemnification, payment of Damages, or any other remedy based on such representations, warranties, covenants, and obligations.

Section 9.2 *INDEMNIFICATION AND PAYMENT OF DAMAGES BY STORCOMM*. StorCOMM will defend, indemnify and hold harmless CCA and each CCA Group Member (collectively, the *Indemnified Persons*) for, and will pay to the Indemnified Persons the amount of, any Liabilities (including incidental and consequential damages), Indemnification-Related Expenses or diminution of value, whether or not involving a third-Person claim (collectively, *Damages*), arising, directly or indirectly, from or in connection with:

- (a) any breach of any representation or warranty made by StorCOMM in this Agreement or any other certificate or document delivered by StorCOMM pursuant to this Agreement;
- (b) any breach by StorCOMM of any covenant or obligation of StorCOMM in this Agreement;
- (c) any Action (i) brought by or against StorCOMM prior to the Closing Date or (ii) that relates primarily to facts, circumstances or occurrences arising prior to the Closing Date, including, without limitation; or
- (d) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such Person with StorCOMM (or any Person acting on their behalf) in connection with any of the transactions contemplated by this Agreement.

The remedies provided in this *ARTICLE IX* will not be exclusive of or limit any other remedies that may be available to CCA or the other Indemnified Persons.

Section 9.3 *TIME LIMITATIONS*. The covenants and agreements contained herein shall survive until satisfied unless the Agreement explicitly provides for a specific termination date. The parties agree that, regardless of any investigation made at any time by the parties, except as expressly provided otherwise herein, each representation and warranty contained herein (and any related indemnity obligations) shall survive the Closing until and will expire and be of no force and effect on, the conclusion of twelve (12) months after the Closing Date, with the exception of each representation and warranty contained in *Sections 3.1(j), (m) and (o)*, which shall survive the Closing until the conclusion of the statutory period of limitations applicable to the underlying claim, including any waiver, mitigation or

extension thereof. Notwithstanding the foregoing, if an indemnification claim is properly asserted prior to the expiration as provided in this *Section 9.3* of the representation or warranty that is the basis for such claim, then such representation or warranty shall survive until the resolution of such claim.

*Section 9.4 LIMITATIONS ON AMOUNT STORCOMM.* StorCOMM will have no Liability (for indemnification or otherwise) with respect to the matters described in *Section 9.2(a)* until the total of all Damages with respect to such matters exceeds TWO HUNDRED AND FIFTY THOUSAND DOLLARS (\$250,000) (the *Threshold Amount* ), at which time all Damages (including, without limitation, any Damages comprising the Threshold Amount) shall be subject to the indemnification obligation of StorCOMM pursuant to *Section 9.2* of this Agreement; provided, however, that the aggregate amount required to be paid by StorCOMM under this *Section 9.4* shall not exceed the amount of the Escrow shares provided in *Section 9.8* below.

*Section 9.5 PROCEDURE FOR INDEMNIFICATION THIRD PARTY CLAIMS.* Promptly after receipt by an indemnified party under *Section 9.2* of notice of the commencement of any Action against it, such indemnified party will, if a claim is to be made against an indemnifying party under such Section, give notice to the indemnifying party of the commencement of such claim, but the failure to notify the indemnifying party will not relieve the indemnifying party of any liability that it may have to any indemnified party, except to the extent that the indemnifying party demonstrates that the defense of such action is prejudiced by the indemnified party's failure to give such notice, and then only to the extent of such prejudice.

(a) If any Action referred to in *Section 9.5(a)* is brought against an indemnified party and it gives notice to the indemnifying party of the commencement of such Action, the indemnifying party will be entitled to participate in such Action and, to the extent that it wishes (unless (i) the indemnifying party is also a party to such Action and the indemnified party determines in good faith that joint representation would be inappropriate, (ii) the indemnifying party fails to provide reasonable assurance to the indemnified party of its financial capacity to defend such Action and provide indemnification with respect to such Action or (iii) the indemnifying party fails to provide notice of its election to assume the defense of such Action in accordance with the last sentence of this *Section 9.5(a)*, to assume the defense of such Action with counsel satisfactory to the indemnified party and, after notice from the indemnifying party to the indemnified party of its election to assume the defense of such Action, the indemnifying party will not, as long as it diligently conducts such defense, be liable to the indemnified party under this *Section 9* for any fees of other counsel or any other expenses with respect to the defense of such Action, in each case subsequently incurred by the indemnified party in connection with the defense of such Action, other than reasonable costs of investigation. If the indemnifying party assumes the defense of a Action, (i) it will be conclusively established for purposes of this Agreement that the claims made in that Action are within the scope of and subject to indemnification; (ii) no compromise or settlement of such claims may be effected by the indemnifying party without the indemnified party's consent unless (A) there is no finding or admission of any violation of any law or any violation of the rights of any Person and no effect on any other claims that may be made against the indemnified party, and (B) the sole relief provided is monetary damages that are paid in full by the indemnifying party or its insurance carrier; and (iii) the indemnified party will have no Liability with respect to any compromise or settlement of such claims effected without its consent. If notice is given to an indemnifying party of the commencement of any Action and the indemnifying party does not, within ten (10) calendar days after the indemnified party's notice is given, give notice to the indemnified party of its election to assume the defense of such Action, the indemnifying party will be bound by any determination made in such Action or any compromise or settlement effected by the indemnified party.

*Section 9.6 PROCEDURE FOR INDEMNIFICATION OTHER CLAIMS.* A claim for indemnification for any matter not involving a third-Person claim may be asserted by notice to the party from whom indemnification is sought.

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Section 9.7 *FINAL DETERMINATION.* After the giving of any claim for indemnification pursuant to this *Section 9*, the amount of indemnification to which an indemnified party shall be entitled under this *Section 9* shall be determined: (a) by the written agreement between the indemnified party and the indemnifying party; (b) by a final judgment or decree of any court of competent jurisdiction; (c) by any other means to which the indemnified party and the indemnifying party shall agree in writing. The judgment or decree of a court shall be deemed final when the time for appeal, if any, shall have expired and no appeal shall have been taken or when all appeals taken shall have been finally determined. All amounts due to the indemnified party as so finally determined shall be paid by wire transfer within three (3) Business Days after such final determination, together with interest thereon from the date of the receipt of notice of an indemnification claim by the indemnified party to the indemnifying party, at a rate of 10%.

Section 9.8 *ESCROW.* At the Closing, TWO HUNDRED FIFTY THOUSAND (250,000) of the shares of CCA Common Stock to be received by the shareholders listed on *Schedule 9.8* pursuant to *Section 1.5* (the *Escrow Shares* ), shall be held by and deposited with U.S. Bank National Association (the *Escrow Agent* ) and not distributed to the shareholders of StorCOMM except as provided below and in the Escrow Agreement. The Escrow Shares shall be used to satisfy any indemnification obligation owed to any Indemnified Person pursuant to *ARTICLE IX*. The Escrow Agent shall hold the Escrow Shares pursuant to the terms and conditions of the Escrow Agreement, which shall provide that the Escrow Shares less all costs and expenses of the Escrow Agent and less any amounts for which CCA is entitled to indemnification pursuant to the provisions of *ARTICLE IX* shall be delivered to the shareholders of StorCOMM listed on *Schedule 9.8* on the first anniversary of the Closing Date (the *Escrow Termination Date* ); provided, however, if any claim for indemnification has been made by an Indemnified Person pursuant to this Agreement and has not been finally resolved prior to the Escrow Termination Date, the Escrow Agent will withhold from delivery to the shareholders of StorCOMM the number of Escrow Shares subject to the claim for indemnification until such time as the claim for indemnification has been settled or finally adjudicated. The number of Escrow Shares transferred to an Indemnified Person to satisfy an indemnification claim pursuant to *ARTICLE IX* shall be based on the value of such Escrow Shares as determined by the average closing share price of CCA's Common Stock during the preceding 30 calendar days.

For income tax purposes, each shareholder of StorCOMM shall be treated as the owner of such shareholder's portion of the Escrow Shares while the Escrow Agent holds the Escrow Shares. Consistent with the foregoing, while the Escrow Agent holds the Escrow Shares, (i) any dividends and distributions declared and paid by CCA in respect of the Escrow Shares shall be paid to the shareholders of StorCOMM according to their pro rata portion of the Escrow Holdback (except that any stock dividends shall be delivered to the Escrow Agent to be held in accordance with the Escrow Agreement), (ii) the number of Escrow Shares shall be adjusted for any combinations, splits, recapitalizations and the like with respect to such Escrow Shares, and any additional CCA Common Stock to be issued in connection therewith shall be delivered to the Escrow Agent to be held in accordance with the Escrow Agreement and (iii) the shareholders of StorCOMM will have the right to vote the Escrow Shares until such time, if at all, as any such Escrow Shares are delivered to an Indemnified Person in accordance with *ARTICLE IX* and the Escrow Agreement.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement and Plan of Reorganization, as amended, to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

**CREATIVE COMPUTER APPLICATIONS, INC.**

By: /s/ STEVEN M. BESBECK  
Name: Steven M. Besbeck  
Title: *President & CEO*

**CCA SUB, INC.**

By: /s/ STEVEN M. BESBECK  
Name: Steven M. Besbeck  
Title: *President*

**STORCOMM, INC.**

By: /s/ BRADFORD G. PETERS  
Name: Bradford G. Peters  
Title: *Director*

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**CREATIVE COMPUTER APPLICATIONS, INC.**

October 20, 2004

StorCOMM, Inc.  
7 Corporate Plaza  
8649 Baypine Road  
Jacksonville, Florida 32256  
Attn: Samuel G. Elliott, Chief Executive Officer  
Facsimile: (904) 730-8537

Re: Agreement and Plan of Reorganization, dated August 16, 2005, by and among Creative Computer Applications, Inc. ( CCA ), StorCOMM, Inc. ( StorCOMM ) and Xymed.com, Inc. (the Agreement ).

**Dear Mr. Elliott,**

This letter confirms our agreement that Section 1.5(a) of the Agreement is hereby amended as follows:

Section 1.5                                      *Conversion of StorCOMM Common Stock.* At the Effective Time, by virtue of the Merger and without any action on the part of CCA, StorCOMM, CCA Sub or the holders of any capital stock of CCA, StorCOMM or CCA Sub:

(a)                                      Subject to *Section 2.2(e)*, each share of common stock, par value \$.001 per share, of StorCOMM ( *StorCOMM Common Stock* ) issued and outstanding immediately prior to the Effective Time, other than shares of StorCOMM Common Stock held in StorCOMM 's treasury or owned by any Subsidiary of StorCOMM, shall be converted into the right to receive 0.024728 of a share (the *Exchange Ratio* ) of common stock, no par value, of CCA ( *CCA Common Stock* ). Assuming the Merger had been completed as of June 30, 2005, CCA would have issued approximately THREE MILLION SEVEN HUNDRED THREE THOUSAND NINE HUNDRED (3,703,900) shares of CCA Common Stock, on a fully diluted basis, in the Merger.

Except as modified hereby, the Agreement shall continue to be and shall remain in full force and effect in accordance with its terms. Any terms used herein and not otherwise defined shall have the meaning ascribed to such terms in the Agreement.

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Please acknowledge your agreement to the provisions in this letter by signing below.

Sincerely,

**CREATIVE COMPUTER APPLICATIONS, INC.**

By: /s/ Steven M. Besbeck  
Steven M. Besbeck  
Chief Executive Officer

**XYMED.COM, INC.**

By: /s/ Steven M. Besbeck  
Steven M. Besbeck  
President

**AGREED AND ACCEPTED:**

**STORCOMM, INC.**

By: /s/ Samuel G. Elliott  
Samuel G. Elliott  
Chief Executive Officer

c.c. Sheppard, Mullin, Richter & Hampton LLP  
800 Anacapa Street  
Santa Barbara, CA 93101  
Attn: Joseph E. Nida  
Facsimile: (805) 568-5516

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**Annex B**

**COMMON STOCK AND WARRANT PURCHASE AGREEMENT**

THIS COMMON STOCK AND WARRANT PURCHASE AGREEMENT (the *Agreement* ) is entered into as of August 18, 2005, by and among **CREATIVE COMPUTER APPLICATIONS, INC.**, a California corporation (the *Company* ), with headquarters located at 26115-A Mureau Road, Calabasas, California 91302, and the purchasers (collectively, the *Purchasers* and each a *Purchaser* ) set forth on **Schedule I** hereof, with regard to the following:

**RECITALS**

A. The Company and Purchasers are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the provisions of Regulation D ( *Regulation D* ), as promulgated by the United States Securities and Exchange Commission (the *SEC* ) under the Securities Act of 1933, as amended (the *Securities Act* ).

B. The Purchasers desire to (a) purchase, upon the terms and conditions stated in this Agreement, shares of the Company's Common Stock, no par value per share (the *Common Stock* ) and (b) purchase, upon the terms and conditions stated in this Agreement, the Stock Purchase Warrants (the *Warrants* ) to purchase shares of Common Stock, in the form attached hereto as **Exhibit A**. The shares of Common Stock issuable upon exercise of or otherwise pursuant to the Warrants are referred to herein as *Warrant Shares*. The shares of Common Stock issued to the Purchasers hereunder (exclusive of the Warrant Shares) are referred to herein as the *Common Shares*. The Common Shares, the Warrants and the Warrant Shares are collectively referred to herein as the *Securities* .

C. Contemporaneously with the execution and delivery of this Agreement, the parties hereto are executing and delivering a Registration Rights Agreement in the form attached hereto as **Exhibit B** (the *Registration Rights Agreement*, and collectively with this Agreement, the Warrants and any other documents or agreements executed in connection with the transactions contemplated hereunder, the *Transaction Documents* ), pursuant to which the Company has agreed to provide certain registration rights under the Securities Act, the rules and regulations promulgated thereunder and applicable state securities laws.

D. Contemporaneously with the Closing of this transaction, the Company contemplates a merger of equals between itself and **StorCOMM, Inc.**, a privately held Delaware corporation ( *StorCOMM* ) (the *CCA-StorCOMM Merger* ).

**AGREEMENTS**

NOW, THEREFORE, in consideration of their respective promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Purchasers hereby agree as follows:

**ARTICLE I  
PURCHASE AND SALE OF COMMON STOCK AND WARRANTS**

1.1 *Purchase of Common Stock and Warrants*. Subject to the terms and conditions of this Agreement, the issuance, sale and purchase of the Common Shares and Warrants shall be consummated in a *Closing*. The purchase price (the *Purchase Price* ) shall be **TWO DOLLARS (\$2.00)** per Unit, for up to **ONE MILLION FIVE HUNDRED THOUSAND (1,500,000)** Units. Each *Unit* will consist of (a) one (1) share of Common Stock, and (b) one-fifth (1/5th) of a Warrant for the purchase of one (1) Warrant Share at an exercise price of **THREE DOLLARS (\$3.00)** per share, with a term of two (2) years. On the date of the Closing, subject to the satisfaction or waiver of the conditions set forth in

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**ARTICLES VI and VII** hereof, the Company shall issue and sell to each Purchaser, and each Purchaser severally agrees to purchase from the Company, the number of Common Shares and a Warrant to purchase the number of Warrant Shares set forth on **Schedule 1** hereto. Each Purchaser's obligation to purchase Common Shares and Warrants hereunder is distinct and separate from each other Purchaser's obligation to purchase, and no Purchaser shall be required to purchase hereunder more than the number of Common Shares and a Warrant to purchase the number of Warrant Shares set forth on **Schedule 1** hereto. The obligations of the Company with respect to each Purchaser shall be separate from the obligations of each other Purchaser and shall not be conditioned as to any Purchaser upon the performance of obligations of any other Purchaser.

1.2 *Form of Payment.* Each Purchaser shall pay the aggregate Purchase Price for the Units being purchased by such Purchaser as set forth on **Schedule 1** hereto, by wire transfer to the account designated by the Company at the escrow account (the *Escrow*) described below. At that time, the Company will deliver the Common Stock and Warrants into the Escrow. The Closing of this transaction will occur simultaneously with the closing of the CCA-StorCOMM Merger, and the aggregate Purchase Price will be deposited by the Purchasers into an Escrow to be established with **U.S. BANK** (the *Escrow Agent*). The form of Escrow Agreement is attached hereto as **Exhibit C**. The Escrow will be closed upon delivery by the Company to the Escrow Agent of a Certificate issued by the State of Delaware showing that the CCA-StorCOMM Merger has occurred. The funds will be delivered to the Company and the Transfer Agent will deliver the certificates representing the Common Shares and the Warrants to the Purchasers.

1.3 *Closing Fee.* At the Closing, the Company will direct the Escrow Agent to pay to **GREAT AMERICAN INVESTORS, INC.** (the *Placement Agent*) five percent (5%) of the aggregate Purchase Price deposited in the Escrow as a placement fee. The Company hereby agrees to indemnify and hold harmless the Placement Agent and its officers, directors, employees, agents and shareholders, individually and collectively (*Placement Agent Indemnified Person(s)*) from and against any and all claims, liabilities, losses, damages, costs and reasonable expenses incurred by any Placement Agent Indemnified Person (including reasonable fees and disbursements of counsel) which are related to or arising out of: (i) any untrue statement of any material fact made by the Company; or (ii) any omission of material fact necessary to make any statement not misleading, made by the Company. The Company will not however, be responsible for any claims, liabilities, losses, damages, or expenses, which resulted directly or indirectly from the Placement Agent's negligence or willful misconduct.

1.4 *Closing Date.* Subject to the satisfaction (or waiver) of the conditions set forth in **ARTICLES VI and VII** below, the date and time of the issuance, sale and purchase of the Common Shares and Warrants pursuant to this Agreement shall be at 10:00 a.m. California time, on August 18, 2005.

## **ARTICLE II PURCHASER'S REPRESENTATIONS AND WARRANTIES**

Each Purchaser represents and warrants to the Company, as of the date hereof and as of the Closing, severally and not jointly with respect to itself and its purchase hereunder and not with respect to any other Purchaser or the purchase hereunder by any other Purchaser, that the following statements are true and correct:

2.1 *Investment Purpose.* Purchaser is purchasing the Common Shares and the Warrants for Purchaser's own account for investment only and not with a view toward or in connection with the public sale or distribution thereof. Purchaser will not, directly or indirectly, offer, sell, pledge or otherwise transfer its Common Shares, Warrants or any interest therein except pursuant to transactions that are exempt from the registration requirements of the Securities Act and/or sales registered under the Securities Act. Purchaser understands that Purchaser must bear the economic risk of this investment indefinitely, unless the Securities are registered pursuant to the Securities Act and any applicable state

securities laws or an exemption from such registration is available, and that the Company has no present intention of registering any such Securities other than as contemplated by the Registration Rights Agreement.

2.2 *Accredited Investor Status.* Purchaser is an accredited investor as that term is defined in Rule 501(a) of Regulation D.

2.3 *Reliance on Exemptions.* Purchaser understands that the Common Shares and Warrants are being offered and sold to Purchaser in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and Purchaser's compliance with, the representations, warranties, agreements, acknowledgments and understandings of Purchaser set forth herein in order to determine the availability of such exemptions and the eligibility of Purchaser to acquire the Common Shares and Warrants.

2.4 *Information.* The Company has made available all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been specifically requested by Purchaser, including without limitation the documents publicly filed by the Company with the SEC (such documents collectively, the *SEC Documents*). Purchaser has been afforded the opportunity to ask questions of the Company, was permitted to meet with the Company's officers and has received what the Purchaser believes to be complete and satisfactory answers to any such inquiries. Neither such inquiries nor any other due diligence investigation conducted by Purchaser or any of its representations shall modify, amend or affect Purchaser's right to rely on the Company's representations and warranties contained in **ARTICLE III**. Purchaser understands that Purchaser's investment in the Securities involves a high degree of risk, including without limitation the risks and uncertainties disclosed in the SEC Documents.

2.5 *Governmental Review.* Purchaser understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

2.6 *Transfer or Resale.* Purchaser understands that (i) except as provided in the Registration Rights Agreement, the Securities have not been and are not being registered under the Securities Act or any state securities laws, and may not be offered, sold, pledged or otherwise transferred unless subsequently registered thereunder or an exemption from such registration is available (which exemption the Company expressly agrees may be established as contemplated in clauses (b) and (c) of *Section 5.1* hereof); (ii) any sale of such Securities made in reliance on Rule 144 under the Securities Act (or a successor rule) (*Rule 144*) may be made only in accordance with the terms of Rule 144 and further, if Rule 144 is not applicable, any resale of such Securities without registration under the Securities Act under circumstances in which the seller may be deemed to be an underwriter (as that term is defined in the Securities Act) may require compliance with some other exemption under the Securities Act or the rules and regulations of the SEC thereunder in order for such resale to be allowed, (iii) the Company is under no obligation to register such Securities under the Securities Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder (in each case, other than pursuant to this Agreement or the Registration Rights Agreement) and (iv) the Company has agreed to register the Common Shares and Warrant Shares as provided in the Registration Rights Agreement.

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2.7 *Legends.* Purchaser understands that, subject to **ARTICLE V** hereof, the certificates for the Warrants and, until such time as the Warrant Shares and Common Shares have been registered under the Securities Act as contemplated by the Registration Rights Agreement or otherwise may be sold by Purchaser pursuant to Rule 144 (subject to and in accordance with the procedures specified in **ARTICLE V** hereof), the certificates for the Common Shares and the Warrant Shares will bear a restrictive legend (the *Legend* ), which will include language in substantially the following form:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE SECURITIES REPRESENTED HEREBY MAY NOT BE OFFERED OR SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER APPLICABLE SECURITIES LAWS OR UNLESS OFFERED, SOLD OR TRANSFERRED PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THOSE LAWS.

2.8 *Authorization; Enforcement.* This Agreement and the Registration Rights Agreement have been duly and validly authorized, executed and delivered on behalf of Purchaser and are valid and binding agreements of Purchaser enforceable in accordance with their respective terms, except to the extent that such validity or enforceability may be subject to or affected by any bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of, creditors' rights or remedies of creditors generally, or by other equitable principles of general application.

2.9 *Residency.* Purchaser is a resident of the jurisdiction set forth under Purchaser's name on the signature page hereto executed by Purchaser.

2.10 *Hedging Transactions.* Purchaser does not have an existing short position with respect to the Company's Common Stock.

### **ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY**

The Company represents and warrants to each Purchaser as of the date hereof and as of the Closing (without giving effect to the CCA-StorCOMM Merger) that the following statements are true and correct, except as set forth on the disclosure schedules attached hereto as **Schedule 3** (the *Company Disclosure Schedules* ) and accept as disclosed in the SEC Documents. Notwithstanding the foregoing or anything else contained herein, none of the representations and warranties by the Company contained herein shall relate to or take into account the effects of the CCA-StorCOMM Merger.

3.1 *Organization and Qualification.* Each of the Company and its subsidiaries is a corporation duly organized and existing in good standing under the laws of the jurisdiction in which it is incorporated, and has the requisite corporate power to own its properties and to carry on its business as now being conducted. The Company and each of its subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction where the failure so to qualify or be in good standing could reasonably be expected to have a Material Adverse Effect. *Material Adverse Effect* means any effect which, individually or in the aggregate with all other effects, reasonably would be expected to be materially adverse to the business, operations, properties, financial condition, operating results or prospects of the Company and its subsidiaries, taken as a whole on a consolidated basis or on the transactions contemplated hereby.

3.2 *Authorization; Enforcement.* (a) The Company has the requisite corporate power and authority to enter into and perform under the Transaction Documents, and to issue, sell and perform its obligations with respect to the Securities in accordance with the terms hereof and thereof and in

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accordance with the terms and conditions of the Securities; (b) the execution, delivery and performance of the Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Common Shares and the Warrants, and the reservation for issuance of the Warrant Shares) have been duly authorized by all necessary corporate action and no further consent or authorization of the Company, its board of directors, or its stockholders or any other Person is required with respect to any of the transactions contemplated hereby or thereby; (c) this Agreement, the Registration Rights Agreement, the Common Shares, and the Warrants have been duly executed and delivered by the Company; and (d) this Agreement, the Registration Rights Agreement, the Common Shares, and the Warrants constitute legal, valid and binding obligations of the Company enforceable against the Company in accordance with their respective terms, except (i) to the extent that such validity or enforceability may be subject to or affected by any bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of, creditors rights or remedies of creditors generally, or by other equitable principles of general application, and (ii) as rights to indemnity and contribution under the Registration Rights Agreement may be limited by federal or state securities laws. *Person* means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated association, corporation, entity or government (whether federal, state, county, city or otherwise, including, without limitation, any instrumentality, division, agency or department thereof).

3.3 *Capitalization.* The capitalization of the Company as of March 31, 2005, including the authorized capital stock, the number of shares issued and outstanding, the number of shares reserved for issuance pursuant to the Company's stock option plans, the number of shares reserved for issuance pursuant to securities (other than the Warrants) exercisable for, or convertible into or exchangeable for, any shares of Common Stock and the number of shares to be reserved for issuance upon exercise of the Warrants is set forth on **Schedule 3.3** hereof. All of such outstanding shares of capital stock have been, or upon issuance will be, validly issued, fully paid and nonassessable. No shares of capital stock of the Company (including the Common Shares and the Warrant Shares) are subject to preemptive rights or any other similar rights of the stockholders of the Company or any liens or encumbrances. Except as disclosed in **Schedule 3.3** hereof, as of the date of this Agreement, (i) there are no outstanding options, warrants, scrip, rights to subscribe for, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exercisable or exchangeable for, any shares of capital stock of the Company or any of its subsidiaries, or contracts, commitments, understandings or arrangements by which the Company or any of its subsidiaries is or may become bound to issue additional shares of capital stock of the Company or any of its subsidiaries, (ii) issuance of the Securities will not trigger anti-dilution rights for any other outstanding or authorized securities of the Company, and (iii) there are no agreements or arrangements under which the Company or any of its subsidiaries is obligated to register the sale of any of its or their securities under the Securities Act (except the Registration Rights Agreement). The Company has made available to Purchaser true and correct copies of the Company's Articles of Incorporation as in effect on the date hereof ( *Articles of Incorporation* ), and the Company's By-laws as in effect on the date hereof (the *By-laws* ). The Company has set forth on **Schedule 3.3** hereof all instruments and agreements (other than the Articles of Incorporation and By-laws) governing securities convertible into or exercisable or exchangeable for Common Stock of the Company (and the Company shall provide to Purchaser copies thereof upon the request of Purchaser).

3.4 *No Conflicts.* The execution, delivery and performance of the Transaction Documents by the Company, and the consummation by the Company of transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance, as applicable, of the Securities) do not and will not (a) result in a violation of the Articles of Incorporation or By-laws or (b) conflict with, or constitute a default (or an event which, with notice or lapse of time or both, would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its subsidiaries is a party, or result in a

violation of any law, rule, regulation, order, judgment or decree (including U.S. federal and state securities laws) applicable to the Company or any of its subsidiaries, or by which any property or asset of the Company or any of its subsidiaries, is bound or affected (except for such possible conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect). Neither the Company nor any of its subsidiaries is in violation of its Articles of Incorporation or other organizational documents. Neither the Company nor any of its subsidiaries, is in default (and no event has occurred which has not been waived which, with notice or lapse of time or both, could reasonably be expected to put the Company or any of its subsidiaries in default) under, nor has there occurred any event giving others (with notice or lapse of time or both) any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its subsidiaries is a party, except for possible violations, defaults or rights as would not, individually or in the aggregate, have a Material Adverse Effect. The businesses of the Company and its subsidiaries are not being conducted, and shall not be conducted so long as a Purchaser owns any of the Securities, in violation of any law, ordinance or regulation of any governmental entity, except for possible violations the sanctions for which either individually or in the aggregate would not have a Material Adverse Effect. Except as (A) such as may be required under the Securities Act in connection with the performance of the Company's obligations under the Registration Rights Agreement, (B) filing of a Form D with the SEC, and (C) compliance with the state securities or Blue Sky laws of applicable jurisdictions, the Company is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency or any regulatory or self-regulatory agency in order for it to execute, deliver or perform any of its obligations under this Agreement or the Registration Rights Agreement or to perform its obligations in accordance with the terms hereof or thereof.

3.5 *Consents.* The execution, delivery and performance by the Company of the Transaction Documents and the offer, issuance and sale of the Securities require no consent of, action by or in respect of, or filing with, any Person, governmental body, agency, or official other than (i) filings that have been made pursuant to applicable state securities laws, (ii) post-sale filings pursuant to applicable state and federal securities laws, and (iii) any consent, action or filing that either individually or in the aggregate would not have a Material Adverse Effect. Subject to the accuracy of the representations and warranties of each Purchaser set forth in **ARTICLE II** hereof, the Company has taken all action necessary to exempt (i) the issuance and sale of the Common Shares, (ii) the issuance of the Common Shares, (iii) the issuance of the Warrants, and (iv) the issuance of the Warrant Shares, from the provisions of any stockholder rights plan or other poison pill arrangement, any anti-takeover, business combination or control share law or statute binding on the Company or to which the Company or any of its assets and properties may be subject and any provision of the Company's Articles of Incorporation or By-laws that is or could reasonably be expected to become applicable to the Purchasers as a result of the transactions contemplated hereby, including without limitation, the issuance of the Securities and the ownership, disposition or voting of the Securities by the Purchasers or the exercise of any right granted to the Purchaser pursuant to this Agreement or the other Transaction Documents.

3.6 *SEC Documents; Financial Statements.* Since December 31, 2004, the Company has timely filed the SEC Documents required to be filed by it with the SEC pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the *Exchange Act*). The Company has made available to each Purchaser true and complete copies of the SEC Documents. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted 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. None of the statements made in any such SEC Documents which is required to be updated or amended under applicable law has not been so updated or amended. The consolidated financial statements of the Company included in the

SEC Documents have been prepared in accordance with U.S. generally accepted accounting principles, consistently applied, and the rules and regulations of the SEC during the periods involved (except (i) as may be otherwise indicated in such consolidated financial statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they do not include footnotes or are condensed or summary statements) and present accurately and completely the consolidated financial position of the Company and its consolidated subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth in a manner clearly evident to a sophisticated institutional investor in the consolidated financial statements or the notes thereto of the Company included in the SEC Documents, the Company has no liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business consistent with past practice subsequent to the date of such financial statements and (ii) obligations under contracts and commitments incurred in the ordinary course of business consistent with past practice and not required under generally accepted accounting principles to be reflected in such financial statements. To the extent required by the rules of the SEC applicable thereto, the SEC Documents contain a complete and accurate list of all material undischarged written or oral contracts, agreements, leases or other instruments to which the Company or any subsidiary is a party or by which the Company or any subsidiary is bound or to which any of the properties or assets of the Company or any subsidiary is subject (each a *Contract*). None of the Company, its subsidiaries or, to the Company's Knowledge, any of the other parties thereto, is in breach or violation of any Contract, which breach or violation would have a Material Adverse Effect. No event, occurrence or condition exists which, with the lapse of time, the giving of notice, or both, could become a default by the Company or its subsidiaries thereunder which could reasonably be expected to have a Material Adverse Effect. For purposes of this Agreement, *Company's Knowledge* means the actual knowledge of the executive officers (as defined in Rule 405 under the Securities Act) of the Company, after due inquiry.

3.7 *Absence of Certain Changes.* Since March 31, 2005, there has been no material adverse change and no material adverse development in the business, properties, operations, financial condition, results of operations or prospects of the Company, or clearly evident to a sophisticated institutional investor from the SEC Documents, including, without limitation:

- (i) any change in the consolidated assets, liabilities, financial condition or operating results of the Company from that reflected in the financial statements included in the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2005, except for changes in the ordinary course of business which have not and could not reasonably be expected to have a Material Adverse Effect, individually or in the aggregate;
- (ii) any declaration or payment of any dividend, or any authorization or payment of any distribution, on any of the capital stock of the Company, or any redemption or repurchase of any securities of the Company;
- (iii) any material damage, destruction or loss, whether or not covered by insurance to any assets or properties of the Company or its subsidiaries;
- (iv) any waiver, not in the ordinary course of business, by the Company or any subsidiary of a material right or of a material debt owed to it;
- (v) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by the Company or a subsidiary, except in the ordinary course of business and which is not material to the assets, properties, financial condition, operating results or business of the Company and its subsidiaries taken as a whole (as such business is presently conducted and as it is proposed to be conducted);

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- (vi) any change or amendment to the Company's Articles of Incorporation or By-laws, or material change to any material contract or arrangement by which the Company or any subsidiary is bound or to which any of their respective assets or properties is subject;
- (vii) any material labor difficulties or labor union organizing activities with respect to employees of the Company or any subsidiary;
- (viii) any material transaction entered into by the Company or a subsidiary other than in the ordinary course of business;
- (ix) the loss of the services of any key employee, or material change in the composition or duties of the senior management of the Company or any subsidiary;
- (x) the loss or threatened loss of any customer which has had or could reasonably be expected to have a Material Adverse Effect; or
- (xi) any other event or condition of any character that has had or could reasonably be expected to have a Material Adverse Effect.

3.8 *Absence of Litigation.* There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, or self-regulatory organization or body pending or, to the Company's Knowledge or any of its subsidiaries, threatened against or affecting the Company, any of its subsidiaries, or any of their respective directors or officers in their capacities as such. There are no facts known to the Company which, if known by a potential claimant or governmental authority, could reasonably be expected to give rise to a claim or proceeding which, if asserted or conducted with results unfavorable to the Company or any of its subsidiaries, could reasonably be expected to have a Material Adverse Effect.

3.9 *Tax Matters.* The Company and each subsidiary has timely prepared and filed all tax returns required to have been filed by the Company or such subsidiary with all appropriate governmental agencies and timely paid all taxes shown thereon or otherwise owed by it. The charges, accruals and reserves on the books of the Company in respect of taxes for all fiscal periods are adequate in all material respects, and there are no material unpaid assessments against the Company or any subsidiary nor, to the Company's Knowledge, any basis for the assessment of any additional taxes, penalties or interest for any fiscal period or audits by any federal, state or local taxing authority except for any assessment which is not material to the Company and its subsidiaries, taken as a whole. All taxes and other assessments and levies that the Company or any subsidiary is required to withhold or to collect for payment have been duly withheld and collected and paid to the proper governmental entity or third party when due. There are no tax liens or claims pending or, to the Company's Knowledge, threatened against the Company or any subsidiary or any of their respective assets or property. There are no outstanding tax sharing agreements or other such arrangements between the Company and any subsidiary or other corporation or entity.

3.10 *Transactions with Affiliates.* Except as disclosed in the SEC Documents, none of the officers or directors of the Company and, to the Company's Knowledge, none of the employees of the Company is presently a party to any transaction with the Company or any subsidiary (other than as holders of stock options and/or warrants, and for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director or such employee or, to the Company's Knowledge, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee or partner.

3.11 *Internal Controls.* The Company and the subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as

necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any difference. The Company maintains and will continue to maintain a standard system of accounting established and administered in accordance with GAAP and the applicable requirements of the Exchange Act. The Company's officers certified to the Company's internal controls as of the filing of the Company's Form 10-QSB for the quarter ending March 31, 2005 and since that date, that there have been no significant changes in the Company's internal controls (as such term is defined in Section 307(b) of Regulation S-K) or, to the Company's Knowledge, any other facts that would significantly affect the Company's internal controls. The Company is not required at this date to certify its internal controls under Section 404 of the Sarbanes-Oxley Act of 2002 and has not taken any steps necessary to evaluate its internal controls to determine whether it will be able to take such a certification.

3.12 *Disclosure.* No information relating to or concerning the Company set forth in this Agreement contains an untrue statement of a material fact. No information relating to or concerning the Company set forth in any of the SEC Documents contains a statement of material fact that was untrue as of the date such SEC Document was filed with the SEC. The Company has not omitted to state a material fact necessary in order to make the statements made herein or therein, in light of the circumstances under which they were made, not misleading. Except for the execution and performance of this Agreement, no material fact (within the meaning of the federal securities laws of the United States and of applicable state securities laws) exists with respect to the Company which has not been publicly disclosed.

3.13 *Acknowledgment Regarding Purchaser's Purchase of the Securities.* The Company acknowledges and agrees that Purchaser is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement or the transactions contemplated hereby, that this Agreement and the transaction contemplated hereby, and the relationship between each Purchaser and the Company, are arms-length, and that any statement made by Purchaser (except as set forth in **ARTICLE II**), or any of its representatives or agents, in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation, is merely incidental to Purchaser's purchase of the Securities and has not been relied upon as such in any way by the Company, its officers or directors. The Company further represents to Purchaser that the Company's decision to enter into this Agreement and the transactions contemplated hereby has been based solely on an independent evaluation by the Company and its representatives.

3.14 *No General Solicitation.* Neither the Company nor any distributor participating on the Company's behalf in the transactions contemplated hereby (if any) nor any person acting for the Company, or any such distributor, has conducted any general solicitation, as described in Rule 502(c) under Regulation D, with respect to any of the Securities being offered hereby.

3.15 *No Integrated Offering.* Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales of any security or solicited any offers to buy any security under circumstances that would prevent the parties hereto from consummating the transactions contemplated hereby pursuant to an exemption from the registration under the Securities Act pursuant to the provisions of Regulation D. The transactions contemplated hereby are exempt from the registration requirements of the Securities Act, assuming the accuracy of the representations and warranties herein contained of each Purchaser.

3.16 *No Brokers.* The Company has taken no action which would give rise to any claim by any person for brokerage commissions, finder's fees or similar payments by Purchaser relating to this Agreement or the transactions contemplated hereby.

3.17 *Intellectual Property.*

(i) To the Company's Knowledge, all Intellectual Property of the Company and its subsidiaries is currently in compliance with all legal requirements (including timely filings, proofs and payments of fees) and is valid and enforceable, except where the failure to be in compliance or to be valid and enforceable has not and could not reasonably be expected to have a Material Adverse Effect on the Company and its subsidiaries taken as a whole. No Intellectual Property of the Company or its subsidiaries which is necessary for the conduct of Company's and each of its subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted has been or is now involved in any cancellation, dispute or litigation, and, to the Company's Knowledge, no such action is threatened. No patent of the Company or its subsidiaries has been or is now involved in any interference, reissue, re-examination or opposition proceeding. *Intellectual Property* means all of the following: (a) patents, patent applications, patent disclosures and inventions (whether or not patentable and whether or not reduced to practice); (b) trademarks, service marks, trade dress, trade names, corporate names, logos, slogans and Internet domain names, together with all goodwill associated with each of the foregoing; (c) copyrights and copyrightable works; (d) registrations, applications and renewals for any of the foregoing; and (e) proprietary computer software (including but not limited to data, data bases and documentation).

(ii) All of the licenses and sublicenses and consent, royalty or other agreements concerning Intellectual Property which are necessary for the conduct of the Company's and each of its subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted to which the Company or any subsidiary is a party or by which any of their assets are bound (other than generally commercially available, non custom, off the shelf software application programs having a retail acquisition price of less than \$10,000 per license) (collectively, *License Agreements*) are valid and binding obligations of the Company or its subsidiaries that are parties thereto and, to the Company's Knowledge, the other parties thereto, enforceable in accordance with their terms, except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally, and there exists no event or condition which will result in a material violation or breach of or constitute (with or without due notice or lapse of time or both) a default by the Company or any of its subsidiaries under any such License Agreement.

(iii) The Company and its subsidiaries own or have the valid right to use all of the Intellectual Property that is necessary for the conduct of the Company's and each of its subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted and for the ownership, maintenance and operation of the Company's and its subsidiaries' properties and assets, free and clear of all liens, encumbrances, adverse claims or obligations to license all such owned Intellectual Property, other than licenses entered into in the ordinary course of the Company's and its subsidiaries' businesses. The Company and its subsidiaries have a valid and enforceable right to use all third party Intellectual Property and confidential information used or held for use in the respective businesses of the Company and its subsidiaries.

(iv) To the Company's Knowledge, the conduct of the Company's and its subsidiaries' businesses as currently conducted does not infringe or otherwise impair or conflict with (collectively, *Infringe*) any Intellectual Property rights of any third party or any confidentiality obligation owed to a third party, and, to the Company's Knowledge, the Intellectual Property and confidential information of the Company and its subsidiaries which are necessary for the conduct of Company's and each of its subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted are not being Infringed by any third party. There is no litigation or order pending or outstanding or, to the Company's Knowledge, threatened or imminent, that seeks to

limit or challenge or that concerns the ownership, use, validity or enforceability of any Intellectual Property or confidential information of the Company and its subsidiaries and the Company's and its subsidiaries' use of any Intellectual Property or confidential information owned by a third party, and, to the Company's Knowledge, there is no valid basis for the same.

(v) The consummation of the transactions contemplated hereby will not result in the alteration, loss, impairment of or restriction on the Company's or any of its subsidiaries' ownership or right to use any of the Intellectual Property or confidential information which is necessary for the conduct of Company's and each of its subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted.

(vi) The Company and its subsidiaries have taken reasonable steps to protect the Company's and its subsidiaries' rights in their Intellectual Property. Each employee, consultant and contractor who has had access to confidential information which is necessary for the conduct of Company's and each of its subsidiaries' respective businesses as currently conducted or as currently proposed to be conducted has executed an agreement to maintain the confidentiality of such confidential information and has executed appropriate agreements that are substantially consistent with the Company's standard forms thereof. Except under confidentiality obligations, there has been no material disclosure of any of the Company's or its subsidiaries' confidential information to any third party.

3.18 *Environmental Matters.* Neither the Company nor any subsidiary is in violation of any statute, rule, regulation, decision or order of any governmental agency or body or any court, domestic or foreign, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, *Environmental Laws* ), owns or operates any real property contaminated with any substance that is subject to any Environmental Laws, is liable for any off-site disposal or contamination pursuant to any Environmental Laws, or is subject to any claim relating to any Environmental Laws; and there is no pending or, to the Company's Knowledge, threatened investigation that might lead to such a claim.

3.19 *Certificates, Authorities and Permits.* The Company and each subsidiary possess adequate certificates, authorities or permits issued by appropriate governmental agencies or bodies necessary to conduct the business now operated by it, and neither the Company nor any subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit that, if determined adversely to the Company or such subsidiary, could reasonably be expected to have a Material Adverse Effect, individually or in the aggregate.

3.20 *Key Employees.* No Key Employee, to the Company's Knowledge, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement, non-competition agreement, or any other contract or agreement or any restrictive covenant, and the continued employment of each Key Employee does not subject the Company or any of its subsidiaries to any liability with respect to any of the foregoing matters. No Key Employee has, to the Company's Knowledge, any intention to terminate his employment with, or services to, the Company or any of its subsidiaries. *Key Employee* means **STEVEN M. BESBECK**, the President and Chief Executive Officer.

3.21 *Labor Matters.*

(i) The Company is not a party to or bound by any collective bargaining agreements or other agreements with labor organizations. The Company has not violated in any material respect any laws, regulations, orders or contract terms, affecting the collective bargaining rights of employees, labor organizations or any laws, regulations or orders affecting employment

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discrimination, equal opportunity employment, or employees' health, safety, welfare, wages and hours.

(ii) (A) There are no labor disputes existing, or to the Company's Knowledge, threatened, involving strikes, slow-downs, work stoppages, job actions, disputes, lockouts or any other disruptions of or by the Company's employees, (B) there are no unfair labor practices or petitions for election pending or, to the Company's Knowledge, threatened before the National Labor Relations Board or any other federal, state or local labor commission relating to the Company's employees, (C) no demand for recognition or certification heretofore made by any labor organization or group of employees is pending with respect to the Company and (D) to the Company's Knowledge, the Company enjoys good labor and employee relations with its employees and labor organizations.

(iii) To the Company's Knowledge, the Company is, and at all times has been, in full compliance in all material respects with all applicable laws respecting employment (including laws relating to classification of employees and independent contractors) and employment practices, terms and conditions of employment, wages and hours, and immigration and naturalization. There are no claims pending against the Company before the Equal Employment Opportunity Commission or any other administrative body or in any court asserting any violation of Title VII of the Civil Rights Act of 1964, the Age Discrimination Act of 1967, 42 U.S.C. §§ 1981 or 1983 or any other federal, state or local law, statute or ordinance barring discrimination in employment.

(iv) The Company is not a party to, or bound by, any employment or other contract or agreement that contains any severance, termination pay or change of control liability or obligation, including, without limitation, any excess parachute payment, as defined in Section 2806(b) of the Internal Revenue Code.

#### **ARTICLE IV COVENANTS**

4.1 *Reasonable Efforts.* The parties shall use their commercially reasonable efforts to timely satisfy each of the conditions described in **ARTICLES VI** and **VII** of this Agreement and to seek its Board of Directors' approval of this Agreement.

4.2 *Securities Laws; Disclosure; Press Release.* The Company agrees to file a Form D with respect to the Securities with the SEC as required under Regulation D. The Company shall, on or prior to the date of Closing, take such action as is necessary to sell the Securities to each Purchaser under applicable securities laws of the states of the United States. The Company agrees to file a Form 8-K disclosing this Agreement and the transactions contemplated hereby with the SEC within four (4) business days following the date of Closing. The Company and each Purchaser shall consult with each other in connection with the Form 8-K disclosing this Agreement and the transactions contemplated hereby, and in issuing any other press releases with respect to the transactions contemplated hereby, and no Purchaser shall issue any such press release or otherwise make any such public statement without the prior consent of the Company, which consent shall not unreasonably be withheld, except if such disclosure is required by law, in which case the disclosing party shall promptly provide the other party with prior notice of such public statement or communication.

4.3 *Reporting Status.* So long as any Purchaser beneficially owns any of the Securities, the Company shall use commercially reasonable efforts to timely file all reports required to be filed with the SEC pursuant to the Exchange Act, and the Company shall not voluntarily terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would permit such termination.

4.4 *Reservation of Common Stock.* The Company has currently **ONE MILLION EIGHT HUNDRED THOUSAND (1,800,000)** shares of Common Stock duly authorized and reserved for issuance of the Common Shares and the Warrant Shares. Such shares, as well as any additional shares of Common Stock subsequently authorized by the Company's stockholders and Board of Directors for issuance of the Common Shares, and, in the case of the Warrant Shares, upon the exercise of the Warrants in accordance with the terms thereof, as applicable, shall be reserved by the Company, and the Company shall continue to reserve and keep available at all times, free of preemptive rights, a sufficient number of shares of Common Stock for the purpose of enabling the Company to issue the Warrant Shares pursuant to any exercise of the Warrants.

4.5 *Listing of Common Stock.* The Company hereby agrees to use commercially reasonable efforts to maintain the listing of the Common Stock on the American Stock Exchange. The Company further agrees, if, following the effective date of a registration statement covering the Warrant Shares, the Company applies to have the Common Stock traded on any other trading market, it will include in such application all of the Warrant Shares, and will take such other action as is reasonably necessary to cause all of the Warrant Shares to be listed on such other trading market as promptly as possible. The Company will take all action reasonably necessary to continue the listing and trading of its Common Stock on a trading market and will use its commercially reasonable efforts to comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the trading market.

4.6 *Right of First Offer.* Subject to the terms and conditions specified in this Section 4.6, the Company hereby grants to each Purchaser a right of first offer with respect to future sales by the Company of its Shares (as hereinafter defined). Each time the Company proposes to offer any shares of, or securities convertible into or exercisable or exchangeable for any shares of, any class of its capital stock ( *Shares* ), the Company shall first make an offering of such Shares to each Purchaser in accordance with the following provisions:

(i) The Company shall deliver a notice by certified mail ( *Notice* ) to the Purchasers stating (i) its bona fide intention to offer such Shares, (ii) the number of such Shares to be offered, and (iii) the price and terms, if any, upon which it proposes to offer such Shares.

(ii) By written notification received by the Company, within ten (10) business days after receipt of the Notice, each Purchaser may elect to purchase or obtain, at the price and on the terms specified in the Notice, up to that portion of such Shares which equals the proportion that the number of shares of Common Stock issued and held, or issuable upon exercise of the Warrants then held, by such Purchaser bears to the total number of shares of Common Stock outstanding as of the date of the Notice (assuming full conversion and exchange of all the then outstanding shares of the capital stock of the Company convertible into or exchangeable for Common Stock) (such proportion hereinafter referred to as such Purchaser's *Pro Rata Share* ). If all of the Shares offered to the Purchasers are not purchased by the Purchasers, the Company shall reoffer any remaining Shares to the Purchasers purchasing their full allotment upon the terms set forth in Sections 4.6(i) and 4.6(ii), except that such Purchasers must exercise or decline such additional purchase rights within ten (10) calendar days after the receipt of such reoffer.

(iii) If all Shares referred to in the Notice are not elected to be obtained as provided in Section 4.6(ii) hereof, the Company may, during the 90 day period following the expiration of the period provided in subsection 4.6(ii) hereof, offer the remaining unsubscribed portion of such Shares to any person or persons at a price not less than, and upon terms no more favorable to the offeree than those specified in the Notice. If the Company does not enter into an agreement for the sale of the Shares within such period, or if such agreement is not consummated within 90 days of the execution thereof, the right provided hereunder shall be deemed to be revived and such Shares shall not be offered unless first reoffered to the Purchasers in accordance herewith.

(iv) The right of first offer in this 4.6 shall not be applicable (i) to shares of capital stock (or options, warrants or other rights to purchase or subscribe for such capital stock) issuable or issued to (x) employees, consultants, directors or advisors of the Company pursuant to a stock option plan, restricted stock plan or other similar arrangement approved by the Company's Board of Directors, or (y) vendors, financial institutions, equipment leasing companies, lessors or customers of the Company pursuant to arrangements approved by the Company's Board of Directors, (ii) to the issuance of securities pursuant to the conversion, exercise or exchange of convertible, exercisable or exchangeable securities outstanding as of the date of this Agreement, (iii) to the issuance of securities in connection with a bona fide acquisition by the Company of any business or assets or any joint venture or strategic allegiance or similar transaction, the terms of which are approved by the Board of Directors, (iv) to the issuance of securities in connection with any stock split, stock dividend, combination or other recapitalization of the Company, and (v) to the issuance of any securities pursuant to any transactions approved by the Board of Directors, primarily for the purpose of (a) joint ventures, licensing or research and development activities, or (b) distribution or manufacture of this corporation's products or services.

(v) Notwithstanding any other provision of this Section 4.6, any Purchaser may waive his, her or its rights with respect to any particular offer or right given under, or any provision contained in Section 4.6 by notice in writing to the Company.

4.7 *Corporate Existence.* So long as any Purchaser beneficially owns any Securities, the Company shall maintain its corporate existence, except in the event of a merger, consolidation or sale of all or substantially all of the Company's assets, as long as the surviving or successor entity in such transaction assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith.

4.8 *Hedging Transactions.* No Purchaser has an existing short position with respect to the Company's Common Stock. Each Purchaser agrees not to, directly or indirectly, enter into any short sales with respect to the Common Stock prior to the date on which such Purchaser is entitled to sell, transfer the number of shares of Common Stock as to which such Purchaser proposes to establish a short position. This *Section 4.8* shall not prohibit such Purchaser from at any time entering into options contracts with respect to the Common Stock, including puts and calls including delivering Common Stock in satisfaction of any exercised options.

4.9 *Election of Director.* So long as the Purchasers collectively own not less than SEVEN HUNDRED AND FIFTY THOUSAND (750,000) shares of Common Stock of the Company, the Purchasers collectively may, by a vote of a majority of the Common Shares owned by them, appoint one (1) nominee to the Company's Board of Directors. Such nominee will be entitled to such indemnification and officers' and directors' liability insurance coverage which is applicable to the other Directors of the Company.

4.10 *Use of Proceeds.* The Company will use the proceeds of the sale of the Securities to complete the CCA-StorCOMM Merger and for working capital needs consistent with financial budgets approved from time to time by the Company's Board of Directors.

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**ARTICLE V****LEGEND REMOVAL, TRANSFER, CERTAIN SALES, ADDITIONAL SHARES**

5.1 *Removal of Legend.* The Legend shall be removed and the Company shall issue a certificate without such Legend to the holder of any Security upon which it is stamped, and a certificate for a security shall be originally issued without the Legend, if, (a) the sale of such Security is registered under the Securities Act, (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions and reasonably satisfactory to the Company and its counsel (the reasonable cost of which shall be borne by the Company if, after one (1) year, neither an effective registration statement under the Securities Act or Rule 144 is available in connection with such sale) to the effect that a public sale or transfer of such Security may be made without registration under the Securities Act pursuant to an exemption from such registration requirements or (c) such Security can be sold pursuant to Rule 144 and the holder provides the Company with reasonable assurances that the Security can be so sold without restriction or (d) such Security can be sold pursuant to Rule 144(k). The Company may not make any notation on its records or give instructions to any transfer agent of the Company that enlarge the restrictions on transfer set forth in this Section. Each Purchaser agrees to sell all Securities, including those represented by a certificate(s) from which the Legend has been removed, or which were originally issued without the Legend, pursuant to an effective registration statement, in accordance with the manner of distribution described in such registration statement and to deliver a prospectus in connection with such sale, or in compliance with an exemption from the registration requirements of the Securities Act. In the event the Legend is removed from any Security or any Security is issued without the Legend and the Security is to be disposed of other than pursuant to the registration statement or pursuant to Rule 144, then prior to, and as a condition to, such disposition such Security shall be relegended as provided herein in connection with any disposition if the subsequent transfer thereof would be restricted under the Securities Act. Also, in the event the Legend is removed from any Security or any Security is issued without the Legend and thereafter the effectiveness of a registration statement covering the resale of such Security is suspended or the Company determines that a supplement or amendment thereto is required by applicable securities laws, then upon reasonable advance notice to Purchaser holding such Security, the Company may require that the Legend be placed on any such Security that cannot then be sold pursuant to an effective registration statement or Rule 144 or with respect to which the opinion referred to in clause (b) next above has not been rendered, which Legend shall be removed when such Security may be sold pursuant to an effective registration statement or Rule 144 or such holder provides the opinion with respect thereto described in clause (b) next above.

5.2 *Transfer Agent Instructions.* The Company agrees that following the effective date of the registration statement or at such time as such legend is no longer required under *Section 5.1*, it will, no later than ten (10) days following the delivery by a Purchaser to the Company or the Company's transfer agent of a certificate representing Warrant Shares issued with a restrictive legend (such date, the *Legend Removal Date*), deliver or cause to be delivered to such Purchaser a certificate representing such Securities that is free from all restrictive and other legends, registered in the name of each Purchaser or its nominee for the Warrant Shares in such amounts determined in accordance with the terms of the Warrants. The Company covenants that no instruction other than such instructions referred to in this **ARTICLE V**, and stop transfer instructions to give effect to *Section 2.6* hereof in the case of the Warrant Shares prior to registration of the Warrant Shares under the Securities Act, will be given by the Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of the Company. Nothing in this Section shall affect in any way each Purchaser's obligations and agreement set forth in *Section 5.1* hereof to resell the Securities pursuant to an effective registration statement and to deliver a prospectus in connection with such sale or in compliance with an exemption from the registration requirements of applicable securities laws. If (a) a Purchaser provides the Company with an opinion of counsel, which opinion of counsel shall be in form, substance and scope customary for opinions of counsel in comparable transactions and reasonably satisfactory to the Company and its counsel



(the reasonable cost of which shall be borne by the Company if, after one (1) year, neither an effective registration statement under the Securities Act or Rule 144 is available in connection with such sale), to the effect that the Securities to be sold or transferred may be sold or transferred pursuant to an exemption from registration or (b) a Purchaser transfers Securities to an affiliate which is an accredited investor (within the meaning of Regulation D under the Securities Act) and which delivers to the Company in written form the same representations, warranties and covenants made by Purchaser hereunder or pursuant to Rule 144, the Company shall permit the transfer, and, in the case of the Warrant Shares, promptly instruct its transfer agent to issue one or more certificates in such name and in such denomination as specified by such Purchaser. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to a Purchaser by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this **ARTICLE V** will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this **ARTICLE V**, that a Purchaser shall be entitled, in addition to all other available remedies to an injunction restraining any breach and requiring immediate issuance and transfer, without the necessity of showing economic loss and without any bond or other security being required.

#### **ARTICLE VI CONDITIONS TO THE COMPANY'S OBLIGATION TO SELL**

6.1 *Conditions to the Company's Obligation to Sell.* The obligation of the Company hereunder to issue and sell the Common Shares and Warrants to a Purchaser at the Closing is subject to the satisfaction, as of the date of the Closing and with respect to such Purchaser, of each of the following conditions thereto, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

- (i) Such Purchaser shall have executed and delivered the signature page to this Agreement and the Registration Rights Agreement;
- (ii) Such Purchaser shall have wired its aggregate Purchase Price set forth on **Schedule I** hereto to the Escrow;
- (iii) The representations and warranties of such Purchaser shall be true and correct as of the date when made and as of the Closing with the same force and effect as though such representations and warranties had been made on and as of the date of Closing (except for representations and warranties that speak as of a specific date), and such Purchaser shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the applicable Purchaser at or prior to the Closing;
- (iv) No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which restricts or prohibits the consummation of any of the transactions contemplated by this Agreement;
- (v) The Company shall have obtained all waivers, authorizations, approvals and consents needed to consummate the transaction contemplated by this Agreement which the Company agrees to diligently procure;
- (vi) Purchaser shall have delivered an officer's certificate, in form and substance reasonably acceptable to the Company, as to the accuracy of such Purchaser's representations and warranties pursuant to **ARTICLE II**; and

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(vii) The CCA-StorCOMM Merger shall have been completed, which the Company agrees to diligently prosecute.

**ARTICLE VII  
CONDITIONS TO EACH PURCHASER'S OBLIGATION TO PURCHASE**

7.1 The obligation of each Purchaser hereunder to purchase the Common Shares and Warrants to be purchased by it on the date of the Closing is subject to the satisfaction of each of the following conditions, provided that these conditions are for each Purchaser's sole benefit and may be waived by such Purchaser at any time in such Purchaser's sole discretion:

- (i) The Company shall have executed and delivered the signature page to this Agreement and the Registration Rights Agreement;
- (ii) The Company shall have delivered to the Escrow duly issued certificates for the Common Shares being so purchased by Purchaser and Warrants being issued to such Purchaser at the Closing;
- (iii) The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing with the same force and effect as though such representations and warranties had been made on and as of the date of Closing (except for representations and warranties that speak as of a specific date and without taking into account the effects of the CCA-StorCOMM Merger), and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing;
- (iv) No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction or any self regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement;
- (v) The Company shall have delivered an officer's certificate, in form and substance reasonably acceptable to the Purchaser, as to the accuracy of the Company's representations and warranties pursuant to **ARTICLE III**; and
- (vi) The CCA-StorCOMM Merger shall have been completed.

**ARTICLE VIII  
GOVERNING LAW; MISCELLANEOUS**

8.1 *Governing Law: Jurisdiction.* This Agreement shall be governed by and construed in accordance with the California Corporation Law (in respect of matters of corporation law) and the laws of the State of California (in respect of all other matters) applicable to contracts made and to be performed in the State of California. The parties hereto irrevocably consent to the jurisdiction of the United States federal courts and state courts located in the County of Los Angeles in the State of California in any suit or proceeding based on or arising under this Agreement or the transactions contemplated hereby and irrevocably agree that all claims in respect of such suit or proceeding may be determined in such courts. The Company and each Purchaser irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding in such forum. The Company and each Purchaser further agrees that service of process upon the Company or such Purchaser, as applicable, mailed by the first class mail in accordance with *Section 8.6* shall be deemed in every respect effective service of process upon the Company or such Purchaser in any suit or proceeding arising hereunder. Nothing herein shall affect Purchaser's right to serve process in any other manner permitted by law. The parties hereto agree that a

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final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner. The parties hereto irrevocably waive any right to a trial by jury under applicable law.

8.2 *Counterparts.* This Agreement may be executed in two or more counterparts, including, without limitation, by facsimile transmission, all of which counterparts shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. In the event any signature page is delivered by facsimile transmission, the party using such means of delivery shall cause additional original executed signature pages to be delivered to the other parties as soon as practicable thereafter.

8.3 *Headings.* The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

8.4 *Severability.* If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

8.5 *Entire Agreement; Amendments.* This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor any Purchaser makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived other than by an instrument in writing signed by the party to be charged with enforcement and no provision of this Agreement may be amended other than by an instrument in writing signed by the Company and each Purchaser.

8.6 *Notice.* Any notice herein required or permitted to be given shall be in writing and may be personally served or delivered by nationally-recognized overnight courier or by facsimile machine confirmed teletype, and shall be deemed delivered at the time and date of receipt (which shall include telephone line facsimile transmission). The addresses for such communications shall be:

***if to the Company:***

Creative Computer Applications, Inc.  
26115-A Mureau Road  
Calabasas, CA 91302  
Attention: Steven M. Besbeck  
Facsimile: 818-880-4398

***with copy to:***

Sheppard Mullin Richter & Hampton, LLP  
800 Anacapa Street  
Santa Barbara, CA 93101  
Attention: Joseph E. Nida, Esq.  
Facsimile: (805) 568-1955

***If to the Purchasers:***

***See Schedule 1***

***with a copy to:***

Jay Weil, Esq.  
27 Viewpoint Road  
Wayne, New Jersey 07470  
Attn: Jay Weil, Esq.  
Facsimile: 212-688-7273

If to any other Purchaser, to such address set forth under such Purchaser's name on the signature page hereto executed by such Purchaser. Each party shall provide notice to the other parties of any change in address.

8.7 *Successors and Assigns.* This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor any Purchaser shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, each Purchaser may assign its rights and obligations hereunder to any of its affiliates, as that term is defined under the Securities Act, without the consent of the Company so long as such affiliate is an accredited investor (within the meaning of Regulation D under the Securities Act) and agrees in writing to be bound by this Agreement. This provision shall not limit each Purchaser's right to transfer the Securities pursuant to the terms of this Agreement or to assign such Purchaser's rights hereunder to any such transferee. In that regard, if Purchaser sells all or part of its Common Shares to someone that acquires the shares subject to restrictions on transferability (other than restrictions, if any, arising out of the transferee's status as an affiliate of the Company), Purchaser shall be permitted to assign its rights hereunder, in whole or in part, to such transferee.

8.8 *Third Party Beneficiaries.* This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

8.9 *Survival; Indemnification.* The representations and warranties of the Company and the agreements and covenants shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of Purchaser. The Company agrees to indemnify and hold harmless each Purchaser and each of each Purchaser's officers, directors, employees, partners, agents and affiliates from and against any and all losses, claims, damages, liabilities and expenses (including without limitation reasonable attorneys' fees and disbursements and other expenses incurred in connection with investigating, preparing or defending any action, claim or proceeding, pending or threatened and the costs of enforcement thereof) (collectively, *Losses*) arising as a result of or related to any breach or alleged breach by the Company of any of its representations or covenants set forth herein, including advancement of expenses as they are incurred. The representations and warranties of the Purchasers shall survive the Closing hereunder and each Purchaser shall indemnify and hold harmless the Company and each of its officers, directors, employees, partners, agents and affiliates from and against any and all Losses arising as a result of the breach of such Purchaser's representations and warranties.

8.10 *Further Assurances.* Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

8.11 *Remedies.* No provision of this Agreement providing for any remedy to a Purchaser shall limit any remedy which would otherwise be available to such Purchaser at law or in equity. Nothing in this Agreement shall limit any rights a Purchaser may have with any applicable federal or state securities laws with respect to the investment contemplated hereby. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to a Purchaser. Accordingly, the Company acknowledges that the remedy at law for a material breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that a Purchaser shall be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate compliance, without the necessity of showing economic loss and without any bond or other security being required.

8.12 *Final Agreement.* This Agreement, when executed by the parties hereto, shall constitute the final agreement between the parties and upon such execution Purchasers and the Company accept the terms hereof and have no cause of action against each other for prior negotiations preceding the execution of this Agreement. This Agreement shall supersede the Term Sheet For Potential Investment between the parties hereto.

8.13 *Termination.* If the CCA-StorCOMM Merger shall not have been completed by November 30, 2005, then without any further action of any party hereto being required, unless such date shall be extended by a written agreement of all of the parties, this Agreement shall be terminated. The Escrow Agreement shall also provide that if the CCA-StorCOMM Merger shall not have been completed by November 30, 2005, all Escrow Property (as such term is defined in the Escrow Agreement) shall be returned to the party which deposited it with the Escrow Agreement.

IN WITNESS WHEREOF, the undersigned Purchasers and the Company have caused this Agreement to be duly executed as of the date first above written.

**COMPANY:**

**CREATIVE COMPUTER APPLICATIONS, INC.**

By: /s/ STEVEN M. BESBECK  
Name: Steven M. Besbeck  
Title: *President and Chief Executive Officer*

**PURCHASERS:**

**ANN KRUEGER and KYLE KRUEGER,  
joint tenants by the entirety**

By: /s/ ANN KRUEGER  
**ANN KRUEGER**

By: /s/ Kyle Krueger  
**KYLE KRUEGER**

**GREGORY H. EKIZIAN REVOCABLE TRUST**

By: /s/ GREGORY H. EKIZIAN  
Name: Gregory H. Ekizian  
Title: *CEO*

**TEBO PARTNERS II, LLC,**

a Kansas limited liability company

By: /s/ TODD TUMBLESON  
Name: Todd Tumbleson  
Title: *CEO*

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Annex C

FORM OF WARRANT

NEITHER THIS WARRANT NOR ANY SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE OF THIS WARRANT HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER (THE *SECURITIES ACT* ). THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON EXERCISE OF THIS WARRANT MAY NOT BE OFFERED, SOLD, OR OTHERWISE TRANSFERRED IN THE ABSENCE OF REGISTRATION UNDER THE SECURITIES ACT OR UNLESS SUCH OFFER, SALE OR TRANSFER IS EXEMPT FROM SUCH REGISTRATION.

CREATIVE COMPUTER APPLICATIONS, INC.  
COMMON STOCK WARRANT

No.

August 18, 2005

CREATIVE COMPUTER APPLICATIONS, INC., a California corporation (the *Company* ), hereby certifies that \_\_\_\_\_, its permissible transferees, designees, successors and assigns (collectively, the *Holder* ), for value received, is entitled to purchase from the Company at any time commencing on the effective date (the *Effective Date* ), which shall be the date of the Closing (as defined in Purchase Agreement, dated as of **August 18, 2005**, by and among the Company and the Purchasers listed on *Schedule 1* thereto), and terminating on the second anniversary of such date (the *Termination Date* ) up to \_\_\_\_\_ shares (each, a *Share* and collectively the *Shares* ) of the Company's common stock no par value per Share (the *Common Stock* ), at an exercise price per Share equal to \$3.00 (the *Exercise Price* ). The number of Shares purchasable hereunder and the Exercise Price are subject to adjustment as provided in *Section 4* hereof.

1. *Exercise of Warrant.*

(a) The purchase right represented by this Common Stock Warrant (this *Warrant* ) is exercisable, in whole or in part, at any time and from time to time from and after the Effective Date through and including the Termination Date.

(b) Upon presentation and surrender of this Warrant, accompanied by a completed Election to Purchase in the form attached hereto as **Exhibit A** (the *Election to Purchase* ) duly executed, at the principal office of the Company currently located at 26115-A Mureau Road, Calabasas, California 91302, Attn: Chief Financial Officer, (or such other office or agency of the Company within the United States as the Company may designate to the Holder) together with a check payable to, or wire transfer to, the Company in the amount of the Exercise Price multiplied by the number of Shares being purchased, the Company or the Company's transfer agent, as the case may be, shall within three (3) business days deliver to the Holder hereof certificates of fully paid and non-assessable Common Stock which in the aggregate represent the number of Shares being purchased. The certificates so delivered shall be in such denominations as may be requested by the Holder and shall be registered in the name of the Holder or such other name as shall be designated by the Holder. All or less than all of the purchase rights represented by this Warrant may be exercised and, in case of the exercise of less than all, the Company, upon surrender hereof, will at the Company's expense deliver to the Holder a new warrant entitling said holder to purchase the number of Shares represented by this Warrant which have not been exercised. This Warrant may only be exercised to the extent the Company has a sufficient number of Shares of Common Stock available for issuance at the time of any exercise.

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2. *Warrant.*

(a) *Exchange, Transfer and Replacement.* At any time prior to the exercise hereof, this Warrant may be exchanged upon presentation and surrender to the Company, alone or with other warrants of like tenor of different denominations registered in the name of the same Holder, for another warrant or warrants of like tenor in the name of such Holder exercisable for the aggregate number of Shares as the warrant or warrants surrendered.

(b) *Replacement of Warrant.* Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction, or mutilation of this Warrant and, in the case of any such loss, theft, or destruction, upon delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Warrant, the Company, at its expense, will execute and deliver in lieu thereof, a new Warrant of like tenor.

(c) *Cancellation; Payment of Expenses.* Upon the surrender of this Warrant in connection with any transfer, exchange or replacement as provided in this Section 2, this Warrant shall be promptly canceled by the Company. The Holder shall pay all taxes and all other expenses (including legal expenses, if any, incurred by the Holder or transferees) and charges payable in connection with the preparation, execution and delivery of Warrants pursuant to this Section 2.

(d) *Warrant Register.* The Company shall maintain, at its principal executive offices (or at the offices of the transfer agent for the Warrant or such other office or agency of the Company as it may designate by notice to the holder hereof), a register for this Warrant (the *Warrant Register*), in which the Company shall record the name and address of the person in whose name this Warrant has been issued, as well as the name and address of each transferee and each prior owner of this Warrant.

3. *Rights and Obligations of Holders of this Warrant.* The Holder of this Warrant shall not, by virtue hereof, be entitled to any rights of a stockholder in the Company, either at law or in equity; *provided, however*, that in the event any certificate representing shares of Common Stock or other securities is issued to the holder hereof upon exercise of this Warrant, such holder shall, for all purposes, be deemed to have become the holder of record of such Common Stock on the date on which this Warrant, together with a duly executed Election to Purchase, was surrendered and payment of the aggregate Exercise Price was made, irrespective of the date of delivery of such Common Stock certificate.

4. *Adjustments.*

(a) *Stock Dividends, Reclassifications, Recapitalizations, Etc.* In the event the Company: (i) pays a dividend in Common Stock or makes a distribution in Common Stock, (ii) subdivides its outstanding Common Stock into a greater number of shares, (iii) combines its outstanding Common Stock into a smaller number of shares or (iv) increases or decreases the number of shares of Common Stock outstanding by reclassification of its Common Stock (including a recapitalization in connection with a consolidation or merger in which the Company is the continuing corporation), then (1) the Exercise Price on the record date of such division or distribution or the effective date of such action shall be adjusted by multiplying such Exercise Price by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately before such event and the denominator of which is the number of shares of Common Stock outstanding immediately after such event, and (2) the number of shares of Common Stock for which this Warrant may be exercised immediately before such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the Exercise Price immediately before such event and the denominator of which is the Exercise Price immediately after such event.

(b) *Cash Dividends and Other Distributions.* In the event that at any time or from time to time the Company shall distribute to all holders of Common Stock (i) any dividend or other distribution of cash, evidences of its indebtedness, shares of its capital stock or any other properties or securities or (ii) any options, warrants or other rights to subscribe for or purchase any of the foregoing (other than in each case,

(w) the issuance of any rights under a shareholder rights plan, (x) any dividend or distribution described in *Section 4(a)*, (y) any rights, options, warrants or securities described in *Section 4(c)* and (z) any cash dividends or other cash distributions from current or retained earnings), then the number of shares of Common Stock issuable upon the exercise of this Warrant shall be increased to a number determined by multiplying the number of shares of Common Stock issuable upon the exercise of this Warrant immediately prior to the record date for any such dividend or distribution by a fraction, the numerator of which shall be such Current Market Value (as hereinafter defined) per share of Common Stock on the record date for such dividend or distribution, and the denominator of which shall be such Current Market Value per share of Common Stock on the record date for such dividend or distribution less the sum of (x) the amount of cash, if any, distributed per share of Common Stock and (y) the fair value (as determined in good faith by the Board of Directors of the Company, whose determination shall be evidenced by a board resolution, a copy of which will be sent to the Holders upon request) of the portion, if any, of the distribution applicable to one share of Common Stock consisting of evidences of indebtedness, shares of stock, securities, other property, warrants, options or subscription or purchase rights; and the Exercise Price shall be adjusted to a number determined by dividing the Exercise Price immediately prior to such record date by the above fraction. Such adjustments shall be made whenever any distribution is made and shall become effective as of the date of distribution, retroactive to the record date for any such distribution. No adjustment shall be made pursuant to this *Section 4(b)* which shall have the effect of decreasing the number of shares of Common Stock issuable upon exercise of this Warrant or increasing the Exercise Price.

(c) *Combination: Liquidation.* (i) In the event of a Combination (as defined below), each Holder shall have the right to receive upon exercise of the Warrant the kind and amount of shares of capital stock or other securities or property which such Holder would have been entitled to receive upon or as a result of such Combination had such Warrant been exercised immediately prior to such event (subject to further adjustment in accordance with the terms hereof). Unless paragraph (ii) is applicable to a Combination, the Company shall provide that the surviving or acquiring Person (the *Successor Company*) in such Combination will assume by written instrument the obligations under this *Section 4* and the obligations to deliver to the Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, the Holder may be entitled to acquire. *Combination* means an event in which the Company consolidates with, merges with or into, or sells all or substantially all of its assets to another Person, where *Person* means any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity; (ii) In the event of (x) a Combination where consideration to the holders of Common Stock in exchange for their shares is payable solely in cash or (y) the dissolution, liquidation or winding-up of the Company, the Holders shall be entitled to receive, upon surrender of their Warrant, distributions on an equal basis with the holders of Common Stock or other securities issuable upon exercise of the Warrant, as if the Warrant had been exercised immediately prior to such event, less the Exercise Price. In case of any Combination described in this *Section 4*, the surviving or acquiring Person and, in the event of any dissolution, liquidation or winding-up of the Company, the Company, shall deposit promptly with an agent or trustee for the benefit of the Holders of the funds, if any, necessary to pay to the Holders the amounts to which they are entitled as described above. After such funds and the surrendered Warrant are received, the Company is required to deliver a check in such amount as is appropriate (or, in the case or consideration other than cash, such other consideration as is appropriate) to such Person or Persons as it may be directed in writing by the Holders surrendering such Warrant.

(d) *Notice of Adjustment.* Whenever the Exercise Price or the number of shares of Common Stock and other property, if any, issuable upon exercise of the Warrant is adjusted, as herein provided, the Company shall deliver to the holders of the Warrant in accordance with *Section 10* a certificate of the Company's Chief Financial Officer setting forth, in reasonable detail, the event requiring the adjustment



and the method by which such adjustment was calculated (including a description of the basis on which (i) the Board of Directors determined the fair value of any evidences of indebtedness, other securities or property or warrants, options or other subscription or purchase rights and (ii) the Current Market Value of the Common Stock was determined, if either of such determinations were required), and specifying the Exercise Price and number of shares of Common Stock issuable upon exercise of Warrant after giving effect to such adjustment.

(e) *Notice of Certain Transactions.* In the event that the Company shall propose (a) to pay any dividend payable in securities of any class to the holders of its Common Stock or to make any other non-cash dividend or distribution to the holders of its Common Stock, (b) to offer the holders of its Common Stock rights to subscribe for or to purchase any securities convertible into shares of Common Stock or shares of stock of any class or any other securities, rights or options, (c) to effect any capital reorganization, reclassification, consolidation or merger affecting the class of Common Stock, as a whole, or (d) to effect the voluntary or involuntary dissolution, liquidation or winding-up of the Company, the Company shall, within the time limits specified below, send to each Holder a notice of such proposed action or offer. Such notice shall be mailed to the Holders at their addresses as they appear in the Warrant Register (as defined in *Section 2(d)*), which shall specify the record date for the purposes of such dividend, distribution or rights, or the date such issuance or event is to take place and the date of participation therein by the holders of Common Stock, if any such date is to be fixed, and shall briefly indicate the effect of such action on the Common Stock and on the number and kind of any other shares of stock and on other property, if any, and the number of shares of Common Stock and other property, if any, issuable upon exercise of each Warrant and the Exercise Price after giving effect to any adjustment pursuant to *Section 4* which will be required as a result of such action. Such notice shall be given as promptly as possible and (x) in the case of any action covered by clause (a) or (b) above, at least ten (10) days prior to the record date for determining holders of the Common Stock for purposes of such action or (y) in the case of any other such action, at least twenty (20) days prior to the date of the taking of such proposed action or the date of participation therein by the holders of Common Stock, whichever shall be the earlier.

(f) *Current Market Value.* *Current Market Value* per share of Common Stock or any other security at any date means (i) if the security is not registered under the Securities Exchange Act of 1934 and/or traded on a national securities exchange, quotation system or bulletin board, as amended (the *Exchange Act* ), (a) the value of the security, determined in good faith by the Board of Directors of the Company and certified in a board resolution, based on the most recently completed arm's-length transaction between the Company and a Person other than an affiliate of the Company or between any two such Persons and the closing of which occurs on such date or shall have occurred within the six-month period preceding such date, or (b) if no such transaction shall have occurred within the six-month period, the value of the security as determined by an independent financial expert or an agreed upon financial valuation model or (ii) if the security is registered under the Exchange Act and/or traded on a national securities exchange, quotation system or bulletin board, the average of the daily closing bid prices (or the equivalent in an over-the-counter market) for each day on which the Common Stock is traded for any period on the principal securities exchange or other securities market on which the common Stock is being traded (each, a *Trading Day* ) during the period commencing thirty (30) days before such date and ending on the date one day prior to such date.

5. *Registration Rights.* The Holder is entitled to the benefit of such registration rights in respect of the Shares as are set forth in the Registration Rights Agreement dated as of August 18, 2005 by and between the Company and the Holder.

6. *Fractional Shares.* In lieu of issuance of a fractional share upon any exercise hereunder, the Company will pay the cash value of that fractional share, calculated on the basis of the Exercise Price.

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7. *Legends.* Prior to issuance of the shares of Common Stock underlying this Warrant, all such certificates representing such shares shall bear a restrictive legend to the effect that the Shares represented by such certificate have not been registered under the 1933 Act, and that the Shares may not be sold or transferred in the absence of such registration or an exemption therefrom, such legend to be substantially in the form of the bold-face language appearing at the top of Page 1 of this Warrant.

8. *Disposition of Warrants or Shares.* The Holder of this Warrant, each transferee hereof and any holder and transferee of any Shares, by his or its acceptance thereof, agrees that no public distribution of Warrants or Shares will be made in violation of the provisions of the 1933 Act. Furthermore, it shall be a condition to the transfer of this Warrant that any transferee thereof deliver to the Company his or its written agreement to accept and be bound by all of the terms and conditions contained in this Warrant.

9. *Merger or Consolidation.* The Company will not merge or consolidate with or into any other corporation, or sell or otherwise transfer its property, assets and business substantially as an entirety to another corporation, unless the corporation resulting from such merger or consolidation (if not the Company), or such transferee corporation, as the case may be, shall expressly assume, by supplemental agreement reasonably satisfactory in form and substance to the Holder, the due and punctual performance and observance of each and every covenant and condition of this Warrant to be performed and observed by the Company.

10. *Notices.* Except as otherwise specified herein to the contrary, all notices, requests, demands and other communications required or desired to be given hereunder shall only be effective if given in writing by certified or registered U.S. mail with return receipt requested and postage prepaid; by private overnight delivery service (e.g. Federal Express); by facsimile transmission (if no original documents or instruments must accompany the notice); or by personal delivery. Any such notice shall be deemed to have been given (a) on the business day immediately following the mailing thereof, if mailed by certified or registered U.S. mail as specified above; (b) on the business day immediately following deposit with a private overnight delivery service if sent by said service; (c) upon receipt of confirmation of transmission if sent by facsimile transmission; or (d) upon personal delivery of the notice. All such notices shall be sent to the following addresses (or to such other address or addresses as a party may have advised the other in the manner provided in this *Section 10*):

if to the Company:

Creative Computer Applications, Inc.

26115-A Mureau Road

Calabasas, CA 91302

Attention: Steven M. Besbeck

Facsimile: 818-880-4398

**with copy to:**

Sheppard Mullin Richter & Hampton, LLP

800 Anacapa Street

Santa Barbara, CA 93101

Attention: Joseph E. Nida, Esq.

Facsimile: (805) 568-1955

**If to the Holder:**

with a copy to:

Jay Weil, Esq.  
27 Viewpoint Road  
Wayne, New Jersey 0747-  
Facsimile: 212-688-7273

Notwithstanding the time of effectiveness of notices set forth in this Section, an Election to Purchase shall not be deemed effectively given until it has been duly completed and submitted to the Company together with this original Warrant and payment of the Exercise Price in a manner set forth in this Section.

11. *Governing Law.* This Warrant shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be performed in the State of California.

12. *Successors and Assigns.* This Warrant shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

13. *Headings.* The headings of various sections of this Warrant have been inserted for reference only and shall not affect the meaning or construction of any of the provisions hereof.

14. *Severability.* If any provision of this Warrant is held to be unenforceable under applicable law, such provision shall be excluded from this Warrant, and the balance hereof shall be interpreted as if such provision were so excluded.

15. *Modification and Waiver.* This Warrant and any provision hereof may be amended, waived, discharged or terminated only by an instrument in writing signed by the Company and the Holder.

16. *Specific Enforcement.* The Company and the Holder acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Warrant were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent or cure breaches of the provisions of this Warrant and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which either of them may be entitled by law or equity.

17. *Assignment.* Subject to prior written approval by the Company, this Warrant may be transferred or assigned, in whole or in part, at any time and from time to time by the then Holder by submitting this Warrant to the Company together with a duly executed Assignment in substantially the form and substance of the Form of Assignment which accompanies this Warrant, as **Exhibit B** hereto, and, upon the Company's receipt hereof, and in any event, within three (3) business days thereafter, the Company shall issue a warrant to the Holder to evidence that portion of this Warrant, if any as shall not have been so transferred or assigned.

*(signature page immediately follows)*

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IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed, manually or by facsimile, by one of its officers thereunto duly authorized.

Date:           , 2005

**CREATIVE COMPUTER APPLICATIONS, INC.**

By:

Name:

Title:

Steven M. Besbeck

*President and Chief Executive Officer*

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**EXHIBIT A  
TO  
WARRANT CERTIFICATE**

**ELECTION TO PURCHASE**

To Be Executed by the Holder  
in Order to Exercise the Warrant

The undersigned Holder hereby elects to purchase \_\_\_\_\_ Shares pursuant to the attached Warrant, and requests that certificates for securities be issued in the name of:

(Please type or print name and address)

(Social Security or Tax Identification Number)

and delivered  
to:

(Please type or print name and address if different from above)

If such number of Shares being purchased hereby shall not be all the Shares that may be purchased pursuant to the attached Warrant, a new Warrant for the balance of such Shares shall be registered in the name of, and delivered to, the Holder at the address set forth below.

In full payment of the purchase price with respect to the Shares purchased and transfer taxes, if any, the undersigned hereby tenders payment of \$ \_\_\_\_\_ by check, money order or wire transfer payable in United States currency to the order of Creative Computer Applications, Inc.

HOLDER:

By:

Name:

Title:

Address:

Dated:

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**EXHIBIT B  
TO  
WARRANT**

**FORM OF ASSIGNMENT**

(To be signed only on transfer of Warrant)

For value received, the undersigned hereby sells, assigns, and transfers unto \_\_\_\_\_ the right represented by the within Warrant to purchase \_\_\_\_\_ shares of Common Stock of Creative Computer Applications, Inc., a California corporation, to which the within Warrant relates, and appoints \_\_\_\_\_ Attorney to transfer such right on the books of Creative Computer Applications Inc., a California Corporation, with full power of substitution of premises.

Dated:

By:

Name:

Title:

(signature must conform to name of holder as specified on the fact of the Warrant)

Address:

Signed in the presence of :

Dated:

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**Annex D**

**REGISTRATION RIGHTS AGREEMENT**

This **REGISTRATION RIGHTS AGREEMENT** is made as of **August 18, 2005**, by and among **CREATIVE COMPUTER APPLICATIONS, INC.**, a California corporation (the **Company** ), with headquarters located at 26115-A Mureau Road, Calabasas, California 91302, and the purchasers (collectively, the **Purchasers** and each a **Purchaser** ) set forth on *Schedule 1* hereof, with regard to the following:

**RECITALS**

**WHEREAS**, the Company and the Purchasers are parties to that certain Common Stock and Warrant Purchase Agreement dated as of August 18, 2005 (the **Purchase Agreement** );

**WHEREAS**, as a condition of the obligations of, and an inducement to, the parties to consummate the purchase by the Purchasers of the Common Shares and Warrants (each as defined in the Purchase Agreement), contemplated by the Purchase Agreement, this Agreement shall be executed and delivered;

**NOW, THEREFORE**, in consideration of their respective promises contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Purchasers hereby agree as follows:

Any capitalized terms not defined herein shall have the meaning set forth in the Purchase Agreement.

**ARTICLE I.**

**REGISTRATION OF SHARES; COMPLIANCE WITH THE SECURITIES ACT**

Section 1.1 **Registration Procedures and Expenses.** The Company shall:

(a) Subject to receipt of necessary information from the Purchasers, including all information requested by *Schedule 2* hereof, use commercial reasonable efforts to prepare and file with the SEC, within sixty (60) days after the Closing of the Purchase Agreement, a registration statement (the **Registration Statement** ) on Form S-3 (or, if Form S-3 is not then available to the Company, on such appropriate form as is then available to the Company) to enable the resale of the Registrable Shares by the Purchasers on a delayed or continuous basis under Rule 415 of the Securities Act. **Registrable Shares** means (a) each Common Share and (b) each Warrant Share until the earlier of: (1) the date on which such share has been resold or otherwise transferred pursuant to the Registration Statement; (2) the date on which such share is transferred in compliance with Rule 144 under the Securities Act or may be sold or transferred pursuant to Rule 144 under the Securities Act (or any other similar provisions then in force) without any volume or manner of sale restrictions thereunder; or (3) the date on which such share ceases to be outstanding (whether as a result of redemption, repurchase and cancellation or otherwise). Prior to the filing of the Registration Statement, the Company will provide to each Purchaser a copy of the **Selling Shareholder** section for their review, and if no comments are received within three (3) days of delivery of this section, then it will be deemed approved.

(b) use commercial reasonable efforts, subject to receipt of necessary information from the Purchasers, including the Registration Statement Questionnaire, to cause the Registration Statement to become effective within 120 days of the Closing of the Purchase Agreement (the **Effective Date Deadline** ).

(c) use commercial reasonable efforts to prepare and file with the SEC such amendments and supplements to the Registration Statement and the Prospectus (as defined in *Section 1.3* below) used in connection therewith and take all such other actions as may be necessary to keep the Registration

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Statement current and effective for a period (the **Registration Period** ) not exceeding, with respect to the Purchaser's Registrable Shares, the earlier of (i) the second anniversary of the Closing of the Purchase Agreement (*provided, however*, that with respect to Registrable Shares that are Warrant Shares, the foregoing date shall be the second anniversary of the date the related Warrant was exercised), (ii) the date on which all Registrable Shares then held by the Purchaser may be sold or transferred in compliance with Rule 144 under the Securities Act (or any other similar provisions then in force) without any volume or manner of sale restrictions thereunder, and (iii) such time as all Registrable Shares held by the Purchaser have been sold (A) pursuant to a registration statement, (B) to or through a broker or dealer or underwriter in a public distribution or a public securities transaction, or (C) in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act under Section 4(1) thereof so that all transfer restrictions and restrictive legends with respect thereto, if any, are removed upon the consummation of such sale;

(d) promptly furnish to the Purchaser with respect to the Registrable Shares registered under the Registration Statement such reasonable number of copies of the Prospectus, including any supplements to or amendments of the Prospectus, in order to facilitate the public sale or other disposition of all or any of the Registrable Shares by the Purchaser;

(e) promptly take such action as may be necessary to qualify, or obtain, an exemption for the Registrable Shares under such of the state securities laws of United States jurisdictions as shall be necessary to qualify, or obtain an exemption for, the sale of the Registrable Shares in states specified in writing by the Purchaser; *provided, however*, that the Company shall not be required to qualify to do business or consent to service of process in any jurisdiction in which it is not now so qualified or has not so consented;

(f) bear all expenses in connection with the procedures in paragraph (a) through (c) of this *Section 1.1* and the registration of the Registrable Shares pursuant to the Registration Statement, regardless of whether a Registration Statement becomes effective, including without limitation: (i) all registration and filing fees and expenses (including filings made with the NASD); (ii) fees and expenses of compliance with federal securities and state blue sky or securities laws; (iii) expenses of printing (including printing certificates for the Registrable Shares and Prospectuses); (iv) all application and filing fees in connection with listing the Registrable Shares on the AMEX; and (v) all fees and disbursements of counsel of the Company and independent certified public accountants of the Company; *provided, however*, that the Purchaser shall be responsible for paying the fees and disbursements for the Purchaser's respective counsel, the underwriting commissions or brokerage fees, and taxes of any kind (including, without limitation, transfer taxes) applicable to any disposition, sale or transfer of the Purchaser's Registrable Shares. The Company shall, in any event, bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties); and

(g) advise the Purchasers, within two (2) business days by e-mail, fax or other type of communication, and, if requested by such person, confirm such advice in writing: (i) after it shall receive notice or obtain knowledge of the issuance of any stop order by the SEC delaying or suspending the effectiveness of the Registration Statement or of the initiation or threat of any proceeding for that purpose, or any other order issued by any state securities commission or other regulatory authority suspending the qualification or exemption from qualification of such Registrable Shares under state securities or blue sky laws; and it will promptly use its commercially reasonable efforts to prevent the issuance of any stop order or other order or to obtain its withdrawal at the earliest possible moment if such stop order or other order should be issued; and (ii) when the Prospectus or any supplements to or amendments of the Prospectus have been filed, and, with respect to the Registration Statement or any post-effective amendment thereto, when the same has become effective.

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Section 1.2 *Transfer of Shares; Suspension.*

(a) The Purchaser agrees that it will not effect any disposition of the Securities or its right to purchase the Registrable Shares that would constitute a sale within the meaning of the Securities Act, except as contemplated in the Registration Statement referred to in *Section 1.1* or in accordance with the Securities Act, and that it will promptly notify the Company of any changes in the information set forth in the Registration Statement regarding the Purchaser or its plan of distribution.

(b) Except in the event that clause (c) below applies, the Company shall, at all times during the Registration Period, promptly (i) prepare and file from time to time with the SEC a post-effective amendment to the Registration Statement or a supplement to the related Prospectus or a supplement or amendment to any document incorporated therein by reference or file any other required document so that such Registration Statement will not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading, and so that, as thereafter delivered to purchasers of the Registrable Shares being sold thereunder, such Prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (ii) provide the Purchaser copies of any documents filed pursuant to *Section 1.2(b)(i)*; and (iii) inform the Purchaser that the Company has complied with its obligations in *Section 1.2(b)(i)* (or that, if the Company has filed a post-effective amendment to the Registration Statement which has not yet been declared effective, the Company will notify the Purchaser to that effect, will use its commercially reasonable efforts to secure the effectiveness of such post-effective amendment as promptly as possible and will promptly notify the Purchaser pursuant to *Section 1.2(b)(iii)* hereof when the amendment has become effective).

(c) Subject to clause (d) below, in the event of (i) any request by the SEC or any other federal or state governmental authority during the period of effectiveness of the Registration Statement for amendments or supplements to a Registration Statement or related Prospectus or for additional information; (ii) the issuance by the SEC or any other federal or state governmental authority of any stop order suspending the effectiveness of a Registration Statement or the initiation of any proceedings for that purpose; (iii) the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; or (iv) any event or circumstance which necessitates the making of any changes in the Registration Statement or Prospectus, or any document incorporated or deemed to be incorporated therein by reference, so that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the Prospectus, it will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, then the Company shall deliver a notice in writing to the Purchaser (the **Suspension Notice**) to the effect of the foregoing and, upon receipt of such Suspension Notice, the Purchaser will refrain from selling any Registrable Shares pursuant to the Registration Statement (a **Suspension**) until the Purchaser's receipt of copies of a supplemented or amended Prospectus prepared and filed by the Company, or until it is advised in writing by the Company that the current Prospectus may be used. In the event of any Suspension, the Company will use its commercially reasonable efforts, consistent with the best interests of the Company and its shareholders, to cause the use of the Prospectus so suspended to be resumed as soon as reasonably practicable after the delivery of a Suspension Notice to the Purchaser; *provided, however*, that the Company may on two occasions only suspend sales pursuant to the Registration Statement for a period of up to thirty (30) days if the Company furnishes to the holders of the Registrable Shares a certificate signed by the Company's Chief Executive Officer stating that in the good faith judgment of the Company's Board of Directors, (i) the offering would interfere in any material respect with any acquisition, corporate reorganization or other material transaction under consideration by

the Company or (ii) there is some other material development relating to the condition (financial or other) of the Company that has not been disclosed to the general public and as to which it is in the Company's best interests not to disclose such development; provided further, however, that the Company may not so suspend sales more than twice in any calendar year without the written consent of the holders of at least a majority of the then-eligible Registrable Shares consisting of outstanding shares of Common Stock.

(d) In the event of a sale of Registrable Shares by the Purchaser under the Registration Statement, the Purchaser must also deliver to the Company's transfer agent, with a copy to the Company, a Certificate of Subsequent Sale substantially in the form attached hereto as *Exhibit A*, so that the Registrable Shares may be properly transferred.

Section 1.3 **Indemnification.** For the purpose of this *Section 1.3*, the term **Registration Statement** shall include any preliminary or final prospectus, exhibit, supplement or amendment included in or relating to the Registration Statement referred to in *Section 1.1* and the term **Rules and Regulations** means the rules and regulations promulgated under the Securities Act.

(a) **Indemnification by the Company.** The Company agrees to indemnify and hold harmless the Purchaser and each person, if any, who controls the Purchaser within the meaning of the Securities Act, against any losses, claims, damages, liabilities or expenses to which the Purchaser or such controlling person may become subject, under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, including the Prospectus, financial statements and schedules, and all other documents filed as a part thereof, as amended at the time of effectiveness of the Registration Statement, including any information deemed to be a part thereof as of the time of effectiveness pursuant to paragraph (b) of Rule 430A, or pursuant to Rule 434 of the Rules and Regulations, or the Prospectus, in the form first filed with the Commission pursuant to Rule 424(b) of the Regulations, or filed as part of the Registration Statement at the time of effectiveness if no Rule 424(b) filing is required (the **Prospectus**), or any amendment or supplement thereto (ii) the omission or alleged omission to state in any of them a material fact required to be stated therein or necessary to make the statements in any of them (in the case of the Prospectus only, in light of the circumstances under which they were made), not misleading, or (iii) any inaccuracy in the representations and warranties of the Company contained in this Agreement, or any failure of the Company to perform its obligations under this Agreement, and will reimburse the Purchaser and each such controlling person for any legal and other expenses as such expenses are reasonably incurred by the Purchaser or such controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; *provided, however*, that the Company will not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon (i) an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, the Prospectus or any amendment or supplement of the Registration Statement or Prospectus in reliance upon and in conformity with information furnished to the Company by or on behalf of the Purchaser expressly for use in the Registration Statement or the Prospectus, or (ii) the failure of the Purchaser to comply with the covenants and agreements contained in the Purchase Agreement or this Agreement, or (iii) the inaccuracy of any representations made by the Purchaser in this Agreement or (iv) any untrue statement or omission of a material fact in any Prospectus that is corrected in any subsequent Prospectus that was delivered to the Purchaser before the pertinent sale or sales by the Purchaser.

(b) **Indemnification by the Purchaser.** The Purchaser will indemnify and hold harmless the Company, each of its directors, each of its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of the Securities Act, against any losses, claims, damages, liabilities or expenses to which the Company, each of its directors, each of its officers who sign

the Registration Statement or controlling person may become subject, under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of or are based upon (i) any failure on the part of the Purchaser to comply with the covenants and agreements contained in the Purchase Agreement or this Agreement or (ii) the inaccuracy of any representation or warranty made by the Purchaser in this Agreement or (iii) any untrue or alleged untrue statement of any material fact contained in the Registration Statement, the Prospectus, or any amendment or supplement to the Registration Statement or Prospectus, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of the Prospectus only, in light of the circumstances under which they were made), not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, the Prospectus, or any amendment or supplement thereto, in reliance upon and in conformity with written information furnished to the Company by or on behalf of the Purchasers expressly for use therein; *provided, however*, that the Purchaser shall not be liable for any such untrue or alleged untrue statement or omission or alleged omission of which the Purchaser has delivered to the Company in writing a correction at least two (2) business days before the occurrence of the transaction from which such loss was incurred, and the Purchaser will reimburse the Company, each of its directors, each of its officers who signed the Registration Statement or controlling person for any legal and other expense reasonably incurred by the Company, each of its directors, each of its officers who signed the Registration Statement or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action for which such person is entitled to be indemnified in accordance with this *Section 1.3(b)*.

(c) ***Indemnification Procedure.***

(i) Promptly after receipt by an indemnified party under this *Section 1.3* of notice of the threat or commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this *Section 1.3*, promptly notify the indemnifying party in writing of the claim; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party for contribution or otherwise under the indemnity agreement contained in this *Section 1.3* except to the extent it is materially prejudiced as a result of such failure.

(ii) In case any such action is brought against any indemnified party and such indemnified party seeks or intends to seek indemnity from an indemnifying party, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with all other indemnifying parties similarly notified, to assume the defense thereof; *provided, however*, if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be a conflict between the positions of the indemnifying party and the indemnified party in conducting the defense of any such action or that there may be legal defenses available to it or other indemnified parties that are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of its election so to assume the defense of such action, the indemnifying party will not be liable to such indemnified party under this *Section 1.3* for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless:

(1) the indemnified party shall have employed such counsel in connection with the assumption of legal defenses in accordance with the proviso to the preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses

of more than one separate counsel, approved by such indemnifying party representing all of the indemnified parties who are parties to such action), or

(2) the indemnifying party shall not have counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of action, in each of which cases the reasonable fees and expenses of counsel shall be at the expense of the indemnifying party.

(d) **Contribution.** If a claim for indemnification under this *Section 1.3* is unavailable to an indemnified party (by reason of public policy or otherwise), then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of any losses, claims, damages, liabilities or expenses referred to in this Agreement, in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the actions, statements or omissions that resulted in such losses, claims, damages, liabilities or expenses as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any losses, claims, damages, liabilities or expenses shall be deemed to include, subject to the limitations set forth in this *Section 1.3*, any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

No party to this Agreement guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any other party to this Agreement who was not guilty of such fraudulent misrepresentation.

**Section 1.4 Termination of Conditions and Obligations.** The restrictions imposed by *Article I* upon the transferability of the Registrable Shares shall cease and terminate as to any particular number of the Registrable Shares upon the passage of two (2) years from the Closing of the Purchase Agreement, *provided, however*, that with respect to the Registrable Shares that are the Warrant Shares, the foregoing date shall be the second anniversary of the date the relevant Warrant was exercised, or at such time as an opinion of counsel satisfactory in form and substance to the Company shall have been rendered to the effect that such conditions are not necessary in order to comply with the Securities Act.

**Section 1.5 Registration Default.** (a) If the Registration Statement covering the Registrable Shares required to be filed by the Company pursuant to Section 1.1 is not for any reason (other than through the fault of the Purchaser) declared effective by the SEC by the Effective Date Deadline, then the Company shall make the payments to each Purchaser as provided in the next sentence as liquidated damages and not as a penalty. The amount to be paid by the Company to each Purchaser shall be determined as of each Computation Date (as defined below), and such amount shall be equal to 1% (the Liquidated Damage Rate) of the product of (i) the per unit Purchase Price of the Units under the Purchase Agreement and (ii) the number of shares of Registrable Shares then held by such Purchaser, for the period from the Effective Date Deadline to the first Computation Date, and for each 30-day period of any subsequent Computation Dates thereafter, in each case calculated on a pro rata basis to the date on which the Registration Statement is declared effective by the SEC (the Periodic Amount). The full Periodic Amount shall be paid by the Company to the Purchaser by wire transfer of immediately available funds within three business days after each Computation Date or three business days after the date on which the Registration Statement is declared effective by the SEC, whichever occurs earlier.

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(b) As used in Section 1.5(a), *Computation Date* means the date which is 30 days after the Effective Date Deadline and, if the Registration Statement to be filed by the Company pursuant to Section 1.1 has not theretofore been declared effective by the SEC, each date which is 30 days after the previous Computation Date until such Registration Statement is so declared effective.

## ARTICLE II. MISCELLANEOUS

Section 2.1 ***Governing Law: Jurisdiction.*** This Agreement shall be governed by and construed in accordance with the California Corporation Law (in respect of matters of corporation law) and the laws of the State of California (in respect of all other matters) applicable to contracts made and to be performed in the State of California. The parties hereto irrevocably consent to the jurisdiction of the United States federal courts and state courts located in the County of Los Angeles in the State of California in any suit or proceeding based on or arising under this Agreement or the transactions contemplated hereby and irrevocably agree that all claims in respect of such suit or proceeding may be determined in such courts. The Company and each Purchaser irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding in such forum. The Company and each Purchaser further agrees that service of process upon the Company or such Purchaser, as applicable, mailed by the first class mail in accordance with *Section 2.6* shall be deemed in every respect effective service of process upon the Company or such Purchaser in any suit or proceeding arising hereunder. Nothing herein shall affect Purchaser's right to serve process in any other manner permitted by law. The parties hereto agree that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner. The parties hereto irrevocably waive any right to a trial by jury under applicable law.

Section 2.2 ***Counterparts.*** This Agreement may be executed in two or more counterparts, including, without limitation, by facsimile transmission, all of which counterparts shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to each other party. In the event any signature page is delivered by facsimile transmission, the party using such means of delivery shall cause additional original executed signature pages to be delivered to the other parties as soon as practicable thereafter.

Section 2.3 ***Headings.*** The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

Section 2.4 ***Severability.*** If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement or the validity or enforceability of this Agreement in any other jurisdiction.

Section 2.5 ***Entire Agreement; Amendments.*** This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor any Purchaser makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived other than by an instrument in writing signed by the party to be charged with enforcement and no provision of this Agreement may be amended other than by an instrument in writing signed by the Company and each Purchaser.

Section 2.6 ***Notices.*** Notices shall be delivered in accordance with the Purchase Agreement.

Section 2.7 ***Successors and Assigns.*** This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor any Purchaser shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, each Purchaser may assign its rights and obligations hereunder to any of its

affiliates, as that term is defined under the Securities Act, without the consent of the Company so long as such affiliate is an accredited investor (within the meaning of Regulation D under the Securities Act) and agrees in writing to be bound by this Agreement. This provision shall not limit each Purchaser's right to transfer the Securities pursuant to the terms of this Agreement or to assign such Purchaser's rights hereunder to any such transferee. In that regard, if a Purchaser sells all or part of its Common Shares to someone that acquires the shares subject to restrictions on transferability (other than restrictions, if any, arising out of the transferee's status as an affiliate of the Company), such Purchaser shall be permitted to assign its rights hereunder, in whole or in part, to such transferee.

Section 2.8 ***Third Party Beneficiaries.*** This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

*[Signature page to follow]*

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IN WITNESS WHEREOF, the undersigned Purchasers and the Company have caused this Agreement to be duly executed as of the date first above written.

**COMPANY:**

**CREATIVE COMPUTER APPLICATIONS, INC.**

By: /s/ STEVEN M. BESBECK  
Name: Steven M. Besbeck  
Title: *President and Chief Executive Officer*

**PURCHASERS:**

**ANN KRUEGER and KYLE KRUEGER,**

**joint tenants by the entirety**

By: /s/ ANN KRUEGER  
**ANN KRUEGER**

By: /s/ KYLE KRUEGER  
**KYLE KRUEGER**

**GREGORY H. EKIZIAN REVOCABLE TRUST**

By: /s/ GREGORY H. EKIZIAN  
Name: Gregory H. Ekizian  
Title: *CEO*

**TEBO PARTNERS II, LLC,**

**a Kansas limited liability company**

By: /s/ TODD TUMBLESON  
Name: Todd Tumbleson  
Title: *CEO*

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**Annex E**

**CERTIFICATE OF AMENDMENT**

**OF**

**ARTICLES OF INCORPORATION**

**OF**

**CREATIVE COMPUTER APPLICATIONS, INC.**

STEVEN M. BESBECK and JAMES R. HELMS hereby certify that::

1. They are the President and the Secretary, respectively, of CREATIVE COMPUTER APPLICATIONS, INC., a California corporation (the Corporation ).

2. Article I of the Articles of Incorporation of the Corporation is amended to read as follows:

The name of this corporation is Aspyra, Inc.

3. The foregoing Certificate of Amendment of Articles of Incorporation has been duly approved by the unanimous written consent of the Board of Directors of this Corporation.

4. The foregoing Certificate has been duly approved by the required vote of the shareholders of this Corporation in accordance with Section 902 of the California Corporations Code. The total number of outstanding shares of Common Stock of the Corporation is 3,483,900 shares. The number of shares in favor of the Certificate of Amendment of Articles of Incorporation equaled or exceeded the vote required. The percentages of votes required was more than fifty percent (50%) of the Common Stock.

We further declare, under penalty of perjury, under the laws of the State of California, that the matters set forth in this Certificate are true and correct of our own knowledge.

Date:

STEVEN M. BESBECK,  
*President*

JAMES R. HELMS,  
*Secretary*

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**Annex G**

**CREATIVE COMPUTER APPLICATIONS, INC.  
2005 EQUITY INCENTIVE PLAN**

1. **Purpose of the Plan.** The purpose of this Plan is to encourage ownership in the Company by key personnel whose long-term service is considered essential to the Company's continued progress and, thereby, encourage recipients to act in the shareholders' interest and share in the Company's success.

2. **Definitions.** As used herein, the following definitions shall apply:

**Act** shall mean the Securities Act of 1933, as amended.

**Administrator** shall mean the Board, any Committees or such delegates as shall be administering the Plan in accordance with Section 4 of the Plan.

**Affiliate** shall mean any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant ownership interest as determined by the Administrator.

**Applicable Laws** shall mean the requirements relating to the administration of stock plans under federal and state laws, any stock exchange or quotation system on which the Company has listed or submitted for quotation the Common Stock to the extent provided under the terms of the Company's agreement with such exchange or quotation system and, with respect to Awards subject to the laws of any foreign jurisdiction where Awards are, or will be, granted under the Plan, to the laws of such jurisdiction.

**Award** shall mean, individually or collectively, a grant under the Plan of Options, Stock Awards, SARs, or Cash Awards.

**Awardee** shall mean a Service Provider who has been granted an Award under the Plan.

**Award Agreement** shall mean an Option Agreement, Stock Award Agreement, SAR Award Agreement, and/or Cash Award Agreement, which may be in written or electronic format, in such form and with such terms as may be specified by the Administrator, evidencing the terms and conditions of an individual Award. Each Award Agreement is subject to the terms and conditions of the Plan.

**Award Transfer Program** shall mean any program instituted by the Administrator which would permit Participants the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Administrator.

**Board** shall mean the Board of Directors of the Company.

**Cash Award** shall mean a bonus opportunity awarded under Section 13 pursuant to which a Participant may become entitled to receive an amount based on the satisfaction of such performance criteria as are specified in the agreement or other documents evidencing the Award (the Cash Award Agreement).

**Change in Control** shall mean any of the following, unless the Administrator provides otherwise:

- (i) any merger or consolidation in which the Company shall not be the surviving entity (or survives only as a subsidiary of another entity whose shareholders did not own all or substantially all of the Common Stock in substantially the same proportions as immediately prior to such transaction);
- (ii) the sale of all or substantially all of the Company's assets to any other person or entity (other than a wholly owned subsidiary);
- (iii) the acquisition of beneficial ownership of a controlling interest (including, without limitation, power to vote) in the outstanding shares of Common Stock by any person or entity (including a group as defined by or under Section 13(d)(3) of the Exchange Act);



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- (iv) the dissolution or liquidation of the Company;
- (v) a contested election of Directors, as a result of which or in connection with which the persons who were Directors before such election or their nominees cease to constitute a majority of the Board; or
- (vi) any other event specified by the Board or a Committee, regardless of whether at the time an Award is granted or thereafter.

Notwithstanding the foregoing, the term **Change in Control** shall not include any under written public offering of Shares registered under the Act.

**Code** shall mean the Internal Revenue Code of 1986, as amended.

**Committee** shall mean a committee of Directors appointed by the Board in accordance with Section 4 of the Plan.

**Common Stock** shall mean the common stock of the Company.

**Company** shall mean Creative Computer Applications, Inc., a California corporation, or its successor.

**Consultant** shall mean any person engaged by the Company or any Affiliate to render services to such entity as an advisor or consultant.

**Conversion Award** has the meaning set forth in Section 4(b)(xii) of the Plan.

**Director** shall mean a member of the Board.

**Dividend Equivalent** shall mean a credit, made at the discretion of the Administrator, to the account of a Participant in an amount equal to the cash dividends paid on one Share for each Share represented by an Award held by such Participant.

**Employee** shall mean an employee of the Company or any Affiliate, including an Officer and/or Director. Within the limitations of Applicable Law, the Administrator shall have the discretion to determine the effect upon an Award and upon an individual's status as an Employee in the case of (i) any individual who is classified by the Company or its Affiliate as leased from or otherwise employed by a third party or as intermittent or temporary, even if any such classification is changed retroactively as a result of an audit, litigation or otherwise, (ii) any leave of absence approved by the Company or an Affiliate, (iii) any transfer between locations of employment with the Company or an Affiliate or between the Company and any Affiliate or between any Affiliates, (iv) any change in the Awardee's status from an employee to a Consultant or Director, and (v) at the request of the Company or an Affiliate an employee becomes employed by any partnership, joint venture or corporation not meeting the requirements of an Affiliate in which the Company or an Affiliate is a party.

**Exchange Act** shall mean the Securities Exchange Act of 1934, as amended.

**Exchange Program** shall mean a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have lower exercise prices and different terms), Awards of a different type, and/or cash, and/or (ii) the exercise price of an outstanding Award is reduced. The terms and conditions of any Exchange Program will be determined by the Administrator in its sole discretion.

**Fair Market Value** shall mean, unless the Administrator determines otherwise, as of any date, the average of the highest and lowest quoted sales prices for such Common Stock as of such date (or if no sales were reported on such date, the average on the last preceding day on which a sale was made), as reported in such source as the Administrator shall determine.

**Grant Date** shall mean the date upon which an Award is granted to an Awardee pursuant to this Plan.

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**Incentive Stock Option** shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code and the regulations promulgated thereunder.

**Nonstatutory Stock Option** shall mean an Option not intended to qualify as an Incentive Stock Option.

**Officer** shall mean a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

**Option** shall mean a right granted under Section 8 of the Plan to purchase a certain number of Shares at such exercise price, at such times, and on such other terms and conditions as are specified in the agreement or other documents evidencing the Award (the **Option Agreement** ). Both Options intended to qualify as Incentive Stock Options and Nonstatutory Stock Options may be granted under the Plan.

**Participant** shall mean the Awardee or any person (including any estate) to whom an Award has been assigned or transferred as permitted hereunder.

**Plan** shall mean this Creative Computer Applications, Inc. 2005 Equity Incentive Plan.

**Prior Plan** shall mean the Company's 1997 Stock Option Plan authorizing up to 800,000 Shares for issuance pursuant to stock options.

**Qualifying Performance Criteria** shall have the meaning set forth in Section 14(b) of the Plan.

**Related Corporation** shall mean any parent or subsidiary (as defined in Sections 424(e) and (f) of the Code) of the Company.

**Service Provider** shall mean an Employee, Director, or Consultant.

**Share** shall mean a share of the Common Stock, as adjusted in accordance with Section 15 of the Plan.

**Stock Award** shall mean an award or issuance of Shares or Stock Units made under Section 11 of the Plan, the grant, issuance, retention, vesting and/or transferability of which is subject during specified periods of time to such conditions (including continued service or performance conditions) and terms as are expressed in the agreement or other documents evidencing the Award (the **Stock Award Agreement** ).

**Stock Appreciation Right** or **SAR** shall mean an Award, granted alone or in connection with an Option, that pursuant to Section 12 of the Plan is designated as a SAR. The terms of the SAR are expressed in the agreement or other documents evidencing the Award (the **SAR Agreement** ).

**Stock Unit** shall mean a bookkeeping entry representing an amount equivalent to the fair market value of one Share, payable in cash, property or Shares. Stock Units represent an unfunded and unsecured obligation of the Company, except as otherwise provided for by the Administrator.

**10% Shareholder** shall mean the owner of stock (as determined under Section 424(d) of the Code) possessing more than 10% of the total combined voting power of all classes of stock of the Company (or any Related Corporation).

**Termination of Service** shall mean ceasing to be a Service Provider. However, for Incentive Stock Option purposes, Termination of Service will occur when the Awardee ceases to be an employee (as determined in accordance with Section 3401(c) of the Code and the regulations promulgated thereunder) of the Company or one of its Related Corporations. The Administrator shall determine whether any corporate transaction, such as a sale or spin-off of a division or business unit, or a joint venture, shall be deemed to result in a Termination of Service.

**Total and Permanent Disability** shall have the meaning set forth in Section 22(e)(3) of the Code.

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**3. Stock Subject to the Plan.**

(a) *Aggregate Limits.*

(i) The maximum aggregate number of Shares that may be issued under the Plan through Awards is 1,290,875 Shares. Such limitation shall consist of (A) the number of Shares available for issuance, as of the effective date of the Plan, under the Prior Plan, plus (B) those Shares that are issuable upon exercise of options granted pursuant to the Prior Plan that expire or become unexercisable for any reason without having been exercised in full after the effective date of the Plan, plus (C) an additional increase of 1,000,000 Shares to be approved by the Company's shareholders on the effective date of the Plan. Notwithstanding the foregoing, the maximum aggregate number of Shares that may be issued under the Plan through Incentive Stock Options is 1,290,875 Shares. The limitations of this Section 3(a)(i) shall be subject to the adjustments provided for in Section 15 of the Plan.

(ii) Upon payment in Shares pursuant to the exercise of an Award, the number of Shares available for issuance under the Plan shall be reduced only by the number of Shares actually issued in such payment. If any outstanding Award expires or is terminated or canceled without having been exercised or settled in full, or if Shares acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company, the Shares allocable to the terminated portion of such Award or such forfeited or repurchased Shares shall again be available to grant under the Plan. Notwithstanding the foregoing, the aggregate number of shares of Common Stock that may be issued under the Plan upon the exercise of Incentive Stock Options shall not be increased for restricted Shares that are forfeited or repurchased. Notwithstanding anything in the Plan, or any Award Agreement to the contrary, Shares attributable to Awards transferred under any Award Transfer Program shall not be again available for grant under the Plan. The Shares subject to the Plan may be either Shares reacquired by the Company, including Shares purchased in the open market, or authorized but unissued Shares.

(b) *Code Section 162(m) Limit.* Subject to the provisions of Section 15 of the Plan, the aggregate number of Shares subject to Awards granted under this Plan during any calendar year to any one Awardee shall not exceed 200,000, except that in connection with his or her initial service, an Awardee may be granted Awards covering up to an additional 500,000 Shares. Notwithstanding anything to the contrary in the Plan, the limitations set forth in this Section 3(b) shall be subject to adjustment under Section 15 of the Plan only to the extent that such adjustment will not affect the status of any Award intended to qualify as performance based compensation under Code Section 162(m).

**4. Administration of the Plan.**

(a) *Procedure.*

(i) *Multiple Administrative Bodies.* The Plan shall be administered by the Board, a Committee and/or their delegates.

(ii) *Section 162.* To the extent that the Administrator determines it to be desirable to qualify Awards granted hereunder as performance-based compensation within the meaning of Section 162(m) of the Code, Awards to covered employees within the meaning of Section 162(m) of the Code or Employees that the Committee determines may be covered employees in the future shall be made by a Committee of two or more outside directors within the meaning of Section 162(m) of the Code.

(iii) *Rule 16b-3.* To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3 promulgated under the Exchange Act ( Rule 16b-3 ), Awards to Officers and Directors shall be made in such a manner to satisfy the requirement for exemption under Rule 16b-3.

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(iv) *Other Administration.* The Board or a Committee may delegate to an authorized Officer or Officers of the Company the power to approve Awards to persons eligible to receive Awards under the Plan who are not (A) subject to Section 16 of the Exchange Act or (B) at the time of such approval, covered employees under Section 162(m) of the Code.

(v) *Delegation of Authority for the Day-to-Day Administration of the Plan.* Except to the extent prohibited by Applicable Law, the Administrator may delegate to one or more individuals the day-to-day administration of the Plan and any of the functions assigned to it in this Plan. Such delegation may be revoked at any time.

(b) *Powers of the Administrator.* Subject to the provisions of the Plan and, in the case of a Committee or delegates acting as the Administrator, subject to the specific duties delegated to such Committee or delegates, the Administrator shall have the authority, in its discretion:

(i) to select the Service Providers of the Company or its Affiliates to whom Awards are to be granted hereunder;

(ii) to determine the number of shares of Common Stock to be covered by each Award granted hereunder;

(iii) to determine the type of Award to be granted to the selected Service Provider;

(iv) to approve the forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise and/or purchase price, the time or times when an Award may be exercised (which may or may not be based on performance criteria), the vesting schedule, any vesting and/or exercisability, acceleration or waiver of forfeiture restrictions, the acceptable forms of consideration, the term, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine and may be established at the time an Award is granted or thereafter;

(vi) to correct administrative errors;

(vii) to construe and interpret the terms of the Plan (including sub-plans and Plan addenda) and Awards granted pursuant to the Plan;

(viii) to adopt rules and procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing, the Administrator is specifically authorized (A) to adopt the rules and procedures regarding the conversion of local currency, withholding procedures and handling of stock certificates which vary with local requirements and (B) to adopt sub-plans and Plan addenda as the Administrator deems desirable, to accommodate foreign laws, regulations and practice;

(ix) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans and Plan addenda;

(x) to modify or amend each Award, including, but not limited to, the acceleration of vesting and/or exercisability, provided, however, that any such amendment is subject to Section 16 of the Plan and may not materially impair any outstanding Award unless agreed to in writing by the Participant;

(xi) to allow Participants to satisfy withholding tax amounts by electing to have the Company withhold from the Shares to be issued pursuant to an Award that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of

the Shares to be withheld shall be determined in such manner and on such date that the Administrator shall determine or, in the absence of provision otherwise, on the date that the amount of tax to be withheld is to be determined. All elections by a Participant to have Shares withheld for this purpose shall be made in such form and under such conditions as the Administrator may provide;

(xii) to authorize conversion or substitution under the Plan of any or all stock options, stock appreciation rights or other stock awards held by service providers of an entity acquired by the Company (the Conversion Awards ). Any conversion or substitution shall be effective as of the close of the merger or acquisition. The Conversion Awards may be Nonstatutory Stock Options or Incentive Stock Options, as determined by the Administrator, with respect to options granted by the acquired entity. Unless otherwise determined by the Administrator at the time of conversion or substitution, all Conversion Awards shall have the same terms and conditions as Awards generally granted by the Company under the Plan;

(xiii) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xiv) to implement an Award Transfer Program;

(xv) to determine whether Awards will be adjusted for Dividend Equivalents;

(xvi) to establish a program whereby Service Providers designated by the Administrator can reduce compensation otherwise payable in cash in exchange for Awards under the Plan;

(xvii) to impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant or other subsequent transfers by the Participant of any Shares issued as a result of or under an Award, including, without limitation, (A) restrictions under an insider trading policy and (B) restrictions as to the use of a specified brokerage firm for such resales or other transfers;

(xviii) to provide, either at the time an Award is granted or by subsequent action, that an Award shall contain as a term thereof, a right, either in tandem with the other rights under the Award or as an alternative thereto, of the Participant to receive, without payment to the Company, a number of Shares, cash or a combination thereof, the amount of which is determined by reference to the value of the Award;

(xix) to institute an Exchange Program; and

(xx) to make all other determinations deemed necessary or advisable for administering the Plan and any Award granted hereunder.

(c) *Effect of Administrator's Decision.* All decisions, determinations and interpretations by the Administrator regarding the Plan, any rules and regulations under the Plan and the terms and conditions of any Award granted hereunder, shall be final and binding on all Participants. The Administrator shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations, including, without limitation, the recommendations or advice of any officer or other employee of the Company and such attorneys, consultants and accountants as it may select.

**5. Eligibility. Awards may be granted to Service Providers of the Company or any of its Affiliates.**

**6. Term of Plan.** The Plan shall become effective on the effective date of its approval by the shareholders of the Company. It shall continue in effect for a term of ten years from the date the Plan is approved by shareholders of the Company unless terminated earlier under Section 16 of the Plan.

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7. *Term of Award.* The term of each Award shall be determined by the Administrator and stated in the Award Agreement. In the case of an Option, the term shall be ten years from the Grant Date or such shorter term as may be provided in the Award Agreement.

8. *Options.* The Administrator may grant an Option or provide for the grant of an Option, either from time to time in the discretion of the Administrator or automatically upon the occurrence of specified events, including, without limitation, the achievement of performance goals, or for the satisfaction of an event or condition within the control of the Awardee or within the control of others.

(a) *Option Agreement.* Each Option Agreement shall contain provisions regarding (i) the number of Shares that may be issued upon exercise of the Option, (ii) the type of Option, (iii) the exercise price of the Shares and the means of payment for the Shares, (iv) the term of the Option, (v) such terms and conditions on the vesting and/or exercisability of an Option as may be determined from time to time by the Administrator, (vi) restrictions on the transfer of the Option and forfeiture provisions, and (vii) such further terms and conditions, in each case not inconsistent with this Plan, as may be determined from time to time by the Administrator.

(b) *Exercise Price.* The per share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(i) In the case of an Incentive Stock Option, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the Grant Date. Notwithstanding the foregoing, if any Employee to whom an Incentive Stock Option is granted is a 10% Shareholder, then the exercise price shall not be less than 110% of the Fair Market Value of a share of Common Stock on the Grant Date.

(ii) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the Grant Date. The per Share exercise price may also vary according to a predetermined formula; provided, that the exercise price never falls below 100% of the Fair Market Value per Share on the Grant Date. In the case of a Nonstatutory Stock Option intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the Grant Date.

(iii) Notwithstanding the foregoing, at the Administrator's discretion, Conversion Awards may be granted in substitution and/or conversion of options of an acquired entity, with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of such substitution and/or conversion.

(c) *Vesting Period and Exercise Dates.* Options granted under this Plan shall vest and/or be exercisable at such time and in such installments during the period prior to the expiration of the Option's term as determined by the Administrator. The Administrator shall have the right to make the timing of the ability to exercise any Option granted under this Plan subject to continued service, the passage of time and/or such performance requirements as deemed appropriate by the Administrator. At any time after the grant of an Option, the Administrator may reduce or eliminate any restrictions surrounding any Participant's right to exercise all or part of the Option.

(d) *Form of Consideration.* The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment, either through the terms of the Option Agreement or at the time of exercise of an Option. Acceptable forms of consideration may include:

(i) cash;

(ii) check or wire transfer;

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- (iii) consideration received by the Company under a broker-assisted sale and remittance program acceptable to the Administrator to the extent that this procedure would not violate Section 402 of the Sarbanes-Oxley Act of 2002, as amended;
- (iv) such other consideration and method of payment for the issuance of Shares to the extent permitted by Applicable Laws; or
- (v) any combination of the foregoing methods of payment.

**9. Incentive Stock Option Limitations.**

(a) *Eligibility.* Only employees (as determined in accordance with Section 3401(c) of the Code and the regulations promulgated thereunder) of the Company or any of its Related Corporations may be granted Incentive Stock Options.

(b) *\$100,000 Limitation.* Notwithstanding the designation Incentive Stock Option in an Option Agreement, if the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by the Awardee during any calendar year (under all plans of the Company and any of its Related Corporations) exceeds \$100,000, then the portion of such Options that exceeds \$100,000 shall be treated as Nonstatutory Stock Options. An Incentive Stock Option is considered to be first exercisable during a calendar year if the Incentive Stock Option will become exercisable at any time during the year, assuming that any condition on the Awardee's ability to exercise the Incentive Stock Option related to the performance of services is satisfied. If the Awardee's ability to exercise the Incentive Stock Option in the year is subject to an acceleration provision, then the Incentive Stock Option is considered first exercisable in the calendar year in which the acceleration provision is triggered. For purposes of this Section 9(b), Incentive Stock Options shall be taken into account in the order in which they were granted. However, because an acceleration provision is not taken into account prior to its triggering, an Incentive Stock Option that becomes exercisable for the first time during a calendar year by operation of such provision does not affect the application of the \$100,000 limitation with respect to any Incentive Stock Option (or portion thereof) exercised prior to such acceleration. The Fair Market Value of the Shares shall be determined as of the Grant Date.

(c) *Leave of Absence.* For purposes of Incentive Stock Options, no leave of absence may exceed three months, unless reemployment upon expiration of such leave is provided by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company or a Related Corporation is not so provided by statute or contract, an Awardee's employment with the Company shall be deemed terminated on the first day immediately following such three month period of leave for Incentive Stock Option purposes and any Incentive Stock Option granted to the Awardee shall cease to be treated as an Incentive Stock Option and shall terminate upon the expiration of the three month period following the date the employment relationship is deemed terminated.

(d) *Transferability.* The Option Agreement must provide that an Incentive Stock Option cannot be transferable by the Awardee otherwise than by will or the laws of descent and distribution, and, during the lifetime of such Awardee, must not be exercisable by any other person. Notwithstanding the foregoing, the Administrator, in its sole discretion, may allow the Awardee to transfer his or her Incentive Stock Option to a trust where under Section 671 of the Code and other Applicable Law, the Awardee is considered the sole beneficial owner of the Option while it is held in the trust. If the terms of an Incentive Stock Option are amended to permit transferability, the Option will be treated for tax purposes as a Nonstatutory Stock Option.

(e) *Exercise Price.* The per Share exercise price of an Incentive Stock Option shall be determined by the Administrator in accordance with Section 8(b)(i) of the Plan.

(f) *10% Shareholder.* If any Employee to whom an Incentive Stock Option is granted is a 10% Shareholder, then the Option term shall not exceed five years measured from the date of grant of such Option.

(g) *Other Terms.* Option Agreements evidencing Incentive Stock Options shall contain such other terms and conditions as may be necessary to qualify, to the extent determined desirable by the Administrator, under the applicable provisions of Section 422 of the Code.

**10. Exercise of Option.**

(a) *Procedure for Exercise; Rights as a Shareholder.*

(i) Any Option granted hereunder shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the respective Award Agreement.

(ii) An Option shall be deemed exercised when the Company receives (A) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option; (B) full payment for the Shares with respect to which the related Option is exercised; and (C) with respect to Nonstatutory Stock Options, payment of all applicable withholding taxes.

(iii) Shares issued upon exercise of an Option shall be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his or her spouse. Unless provided otherwise by the Administrator or pursuant to this Plan, until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares subject to an Option, notwithstanding the exercise of the Option.

(iv) The Company shall issue (or cause to be issued) such Shares as soon as administratively practicable after the Option is exercised. An Option may not be exercised for a fraction of a Share.

(b) *Effect of Termination of Service on Options.*

(i) *Generally.* Unless otherwise provided for by the Administrator, if a Participant ceases to be a Service Provider, other than upon the Participant's death or Total and Permanent Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the vested portion of the Option will remain exercisable for three months following the Participant's termination. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If after termination the Participant does not exercise his or her Option within the time specified by the Administrator, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(ii) *Disability of Awardee.* Unless otherwise provided for by the Administrator, if a Participant ceases to be a Service Provider as a result of the Participant's Total and Permanent Disability, the Participant may exercise his or her Option within such period of time as is specified in the Award Agreement to the extent the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for

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twelve months following the Participant's termination. Unless otherwise provided by the Administrator, if at the time of disability the Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

(iii) *Death of Awardee.* Unless otherwise provided for by the Administrator, if a Participant dies while a Service Provider, the Option may be exercised following the Participant's death within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of death (but in no event may the Option be exercised later than the expiration of the term of such Option as set forth in the Award Agreement), by the Participant's designated beneficiary, provided such beneficiary has been designated prior to Participant's death in a form acceptable to the Administrator. If no such beneficiary has been designated by the Participant, then such Option may be exercised by the personal representative of the Participant's estate or by the person(s) to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. In the absence of a specified time in the Award Agreement, the Option will remain exercisable for twelve months following Participant's death. Unless otherwise provided by the Administrator, if at the time of death Participant is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Option will revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Shares covered by such Option will revert to the Plan.

#### **11. Stock Awards.**

(a) *Stock Award Agreement.* Each Stock Award Agreement shall contain provisions regarding (i) the number of Shares subject to such Stock Award or a formula for determining such number, (ii) the purchase price of the Shares, if any, and the means of payment for the Shares, (iii) the performance criteria, if any, and level of achievement versus these criteria that shall determine the number of Shares granted, issued, retained and/or vested, (iv) such terms and conditions on the grant, issuance, vesting and/or forfeiture of the Shares as may be determined from time to time by the Administrator, (v) restrictions on the transferability of the Stock Award and (vi) such further terms and conditions in each case not inconsistent with this Plan as may be determined from time to time by the Administrator.

(b) *Restrictions and Performance Criteria.* The grant, issuance, retention and/or vesting of each Stock Award may be subject to such performance criteria and level of achievement versus these criteria as the Administrator shall determine, which criteria may be based on financial performance, personal performance evaluations and/or completion of service by the Awardee.

Notwithstanding anything to the contrary herein, the performance criteria for any Stock Award that is intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Code shall be established by the Administrator based on one or more Qualifying Performance Criteria selected by the Administrator and specified in writing.

(c) *Forfeiture.* Unless otherwise provided for by the Administrator, upon the Awardee's Termination of Service, the unvested Stock Award and the Shares subject thereto shall be forfeited, provided that to the extent that the Participant purchased any Shares pursuant to such Stock Award, the Company shall have a right to repurchase the unvested portion of such Shares at the original price paid by the Participant.

(d) *Rights as a Shareholder.* Unless otherwise provided by the Administrator, the Participant shall have the rights equivalent to those of a shareholder and shall be a shareholder only after Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) to the Participant. Unless otherwise provided by the Administrator, a

Participant holding Stock Units shall be entitled to receive dividend payments as if he or she was an actual shareholder.

**12. Stock Appreciation Rights.** Subject to the terms and conditions of the Plan, a SAR may be granted to a Service Provider at any time and from time to time as determined by the Administrator in its sole discretion.

- (a) *Number of SARs.* The Administrator shall have complete discretion to determine the number of SARs granted to any Service Provider.
- (b) *Exercise Price and Other Terms.* The per SAR exercise price shall be no less than 100% of the Fair Market Value per Share on the Grant Date. The Administrator, subject to the provisions of the Plan, shall have complete discretion to determine the other terms and conditions of SARs granted under the Plan.
- (c) *Exercise of SARs.* SARs shall be exercisable on such terms and conditions as the Administrator, in its sole discretion, shall determine.
- (d) *SAR Agreement.* Each SAR grant shall be evidenced by a SAR Agreement that will specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, shall determine.
- (e) *Expiration of SARs.* A SAR granted under the Plan shall expire upon the date determined by the Administrator, in its sole discretion, and set forth in the SAR Agreement. Notwithstanding the foregoing, the rules of Section 10(b) will also apply to SARs.
- (f) *Payment of SAR Amount.* Upon exercise of a SAR, the Participant shall be entitled to receive a payment from the Company in an amount equal to the difference between the Fair Market Value of a Share on the date of exercise over the exercise price of the SAR. This amount shall be paid in Shares of equivalent value.

**13. Cash Awards.** Each Cash Award will confer upon the Participant the opportunity to earn a future payment tied to the level of achievement with respect to one or more performance criteria established for a performance period.

- (a) *Cash Award.* Each Cash Award shall contain provisions regarding (i) the performance goal(s) and maximum amount payable to the Participant as a Cash Award, (ii) the performance criteria and level of achievement versus these criteria which shall determine the amount of such payment, (iii) the period as to which performance shall be measured for establishing the amount of any payment, (iv) the timing of any payment earned by virtue of performance, (v) restrictions on the alienation or transfer of the Cash Award prior to actual payment, (vi) forfeiture provisions, and (vii) such further terms and conditions, in each case not inconsistent with the Plan, as may be determined from time to time by the Administrator. The maximum amount payable as a Cash Award that is settled for cash may be a multiple of the target amount payable, but the maximum amount payable pursuant to that portion of a Cash Award granted under this Plan for any fiscal year to any Awardee that is intended to satisfy the requirements for performance based compensation under Section 162(m) of the Code shall not exceed \$2,000,000.
- (b) *Performance Criteria.* The Administrator shall establish the performance criteria and level of achievement versus these criteria which shall determine the target and the minimum and maximum amount payable under a Cash Award, which criteria may be based on financial performance and/or personal performance evaluations. The Administrator may specify the percentage of the target Cash Award that is intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Code. Notwithstanding anything to the contrary herein, the performance criteria for any portion of a Cash Award that is intended to satisfy the requirements for performance-based compensation under Section 162(m) of the Code shall be a measure established by the Administrator

based on one or more Qualifying Performance Criteria selected by the Administrator and specified in writing.

(c) *Timing and Form of Payment.* The Administrator shall determine the timing of payment of any Cash Award. The Administrator may specify the form of payment of Cash Awards, which may be cash or other property, or may provide for an Awardee to have the option for his or her Cash Award, or such portion thereof as the Administrator may specify, to be paid in whole or in part in cash or other property.

(d) *Termination of Service.* The Administrator shall have the discretion to determine the effect of a Termination of Service on any Cash Award due to (i) disability, (ii) retirement, (iii) death, (iv) participation in a voluntary severance program, or (v) participation in a work force restructuring.

**14. *Other Provisions Applicable to Awards.***

(a) *Non-Transferability of Awards.* Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by beneficiary designation, will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. The Administrator may make an Award transferable to an Awardee's family member or any other person or entity. If the Administrator makes an Award transferable, either at the time of grant or thereafter, such Award shall contain such additional terms and conditions as the Administrator deems appropriate, and any transferee shall be deemed to be bound by such terms upon acceptance of such transfer.

(b) *Qualifying Performance Criteria.* For purposes of this Plan, the term *Qualifying Performance Criteria* shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit, Affiliate or business segment, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee in the Award: (i) cash flow; (ii) earnings (including gross margin, earnings before interest and taxes, earnings before taxes, and net earnings); (iii) earnings per share; (iv) growth in earnings or earnings per share; (v) stock price; (vi) return on equity or average shareholders' equity; (vii) total shareholder return; (viii) return on capital; (ix) return on assets or net assets; (x) return on investment; (xi) revenue; (xii) income or net income; (xiii) operating income or net operating income; (xiv) operating profit or net operating profit; (xv) operating margin; (xvi) return on operating revenue; (xvii) market share; (xviii) contract awards or backlog; (xix) overhead or other expense reduction; (xx) growth in shareholder value relative to the moving average of the S&P 500 Index or a peer group index; (xxi) credit rating; (xxii) strategic plan development and implementation; (xxiii) improvement in workforce diversity, (xxiv) EBITDA, and (xxv) any other similar criteria. The Committee may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (A) asset write-downs; (B) litigation or claim judgments or settlements; (C) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results; (D) accruals for reorganization and restructuring programs; and (E) any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to shareholders for the applicable year.

(c) *Certification.* Prior to the payment of any compensation under an Award intended to qualify as performance-based compensation under Section 162(m) of the Code, the Committee shall certify the extent to which any Qualifying Performance Criteria and any other material terms under such Award have been satisfied (other than in cases where such relate solely to the increase in the value of the Common Stock).

(d) *Discretionary Adjustments Pursuant to Section 162(m)*. Notwithstanding satisfaction or completion of any Qualifying Performance Criteria, to the extent specified at the time of grant of an Award to covered employees within the meaning of Section 162(m) of the Code, the number of Shares, Options or other benefits granted, issued, retained and/or vested under an Award on account of satisfaction of such Qualifying Performance Criteria may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

(e) *Section 409A*. Notwithstanding anything in the Plan to the contrary, it is the intent of the Company that all Awards granted under this Plan shall not cause an imposition of the additional taxes provided for in Section 409A(a)(1)(B) of the Code.

**15. *Adjustments upon Changes in Capitalization, Dissolution, Merger or Asset Sale.***

(a) *Changes in Capitalization*. Subject to any required action by the shareholders of the Company, (i) the number and kind of Shares covered by each outstanding Award, and the number and kind of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, (ii) the price per Share subject to each such outstanding Award, and (iii) the Share limitations set forth in Section 3 of the Plan, may be appropriately adjusted if any change is made in the Common Stock subject to the Plan, or subject to any Award, without the receipt of consideration by the Company through a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, merger, consolidation, reorganization, recapitalization, reincorporation, spin-off, dividend in property other than cash, liquidating dividend, extraordinary dividends or distributions, combination of shares, exchange of shares, change in corporate structure or other transaction effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration. Such adjustment shall be made by the Administrator in its sole discretion, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an Award.

(b) *Dissolution or Liquidation*. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practicable prior to the effective date of such proposed transaction. The Administrator in its discretion may provide for an Option to be fully vested and exercisable until ten days prior to such transaction. In addition, the Administrator may provide that any restrictions on any Award shall lapse prior to the transaction, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed transaction.

(c) *Change in Control*. In the event there is a Change in Control of the Company, as determined by the Board or a Committee, the Board or Committee, or board of directors of any surviving entity or acquiring entity may, in its discretion, (i) provide for the assumption, continuation or substitution (including an award to acquire substantially the same type of consideration paid to the shareholder in the transaction in which the Change in Control occurs) of, or adjustment to, all or any part of the Awards; (ii) accelerate the vesting of all or any part of the Options and SARs and terminate any restrictions on all or any part of the Stock Awards or Cash Awards; (iii) provide for the cancellation of all or any part of the Awards for a cash payment to the Participants; and (iv) provide for the cancellation of all or any part of the Awards as of the closing of the Change in Control; provided, that the Participants are notified that they must exercise or redeem their Awards (including, at the discretion of the Board or Committee, any unvested portion of such Award) at or prior to the closing of the Change in Control.

**16. Amendment and Termination of the Plan.**

(a) *Amendment and Termination.* The Administrator may amend, alter or discontinue the Plan or any Award Agreement, but any such amendment shall be subject to approval of the shareholders of the Company in the manner and to the extent required by Applicable Law.

(b) *Effect of Amendment or Termination.* No amendment, suspension or termination of the Plan shall impair the rights of any Award, unless mutually agreed otherwise between the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it hereunder with respect to Awards granted under the Plan prior to the date of such termination.

(c) *Effect of the Plan on Other Arrangements.* Neither the adoption of the Plan by the Board or a Committee nor the submission of the Plan to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board or any Committee to adopt such other incentive arrangements as it or they may deem desirable, including, without limitation, the granting of restricted stock or stock options otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

**17. Designation of Beneficiary.**

(a) An Awardee may file a written designation of a beneficiary who is to receive the Awardee's rights pursuant to Awardee's Award or the Awardee may include his or her Awards in an omnibus beneficiary designation for all benefits under the Plan. To the extent that Awardee has completed a designation of beneficiary such beneficiary designation shall remain in effect with respect to any Award hereunder until changed by the Awardee to the extent enforceable under Applicable Law.

(b) Such designation of beneficiary may be changed by the Awardee at any time by written notice. In the event of the death of an Awardee and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Awardee's death, the Company shall allow the executor or administrator of the estate of the Awardee to exercise the Award, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may allow the spouse or one or more dependents or relatives of the Awardee to exercise the Award to the extent permissible under Applicable Law.

**18. No Right to Awards or to Service.** No person shall have any claim or right to be granted an Award and the grant of any Award shall not be construed as giving an Awardee the right to continue in the service of the Company or its Affiliates. Further, the Company and its Affiliates expressly reserve the right, at any time, to dismiss any Service Provider or Awardee at any time without liability or any claim under the Plan, except as provided herein or in any Award Agreement entered into hereunder.

**19. Legal Compliance.** Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance. Notwithstanding anything in the Plan to the contrary, it is the intent of the Company that the Plan shall be administered so that the additional taxes provided for in Section 409A(a)(1)(B) of the Code are not imposed.

**20. Inability to Obtain Authority.** To the extent the Company is unable to or the Administrator deems that it is not feasible to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, the Company shall be relieved of any liability with respect to the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.



**21. *Reservation of Shares.*** The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

**22. *Notice.*** Any written notice to the Company required by any provisions of this Plan shall be addressed to the Secretary of the Company and shall be effective when received.

**23. *Governing Law; Interpretation of Plan and Awards.***

(a) This Plan and all determinations made and actions taken pursuant hereto shall be governed by the substantive laws, but not the choice of law rules, of the state of California.

(b) In the event that any provision of the Plan or any Award granted under the Plan is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of the terms of the Plan and/or Award shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision.

(c) The headings preceding the text of the sections hereof are inserted solely for convenience of reference, and shall not constitute a part of the Plan, nor shall they affect its meaning, construction or effect.

(d) The terms of the Plan and any Award shall inure to the benefit of and be binding upon the parties hereto and their respective permitted heirs, beneficiaries, successors and assigns.

(e) All questions arising under the Plan or under any Award shall be decided by the Administrator in its total and absolute discretion. In the event the Participant believes that a decision by the Administrator with respect to such person was arbitrary or capricious, the Participant may request arbitration with respect to such decision. The review by the arbitrator shall be limited to determining whether the Administrator's decision was arbitrary or capricious. This arbitration shall be the sole and exclusive review permitted of the Administrator's decision, and the Awardee shall as a condition to the receipt of an Award be deemed to explicitly waive any right to judicial review.

**24. *Limitation on Liability.*** The Company and any Affiliate which is in existence or hereafter comes into existence shall not be liable to a Participant, an Employee, an Awardee or any other persons as to:

(a) *The Non-Issuance of Shares.* The non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder; and

(b) *Tax Consequences.* Any tax consequence expected, but not realized, by any Participant, Employee, Awardee or other person due to the receipt, exercise or settlement of any Option or other Award granted hereunder.

**25. *Unfunded Plan.*** Insofar as it provides for Awards, the Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Awardees who are granted Stock Awards under this Plan, any such accounts will be used merely as a bookkeeping convenience. The Company shall not be required to segregate any assets which may at any time be represented by Awards, nor shall this Plan be construed as providing for such segregation, nor shall the Company nor the Administrator be deemed to be a trustee of stock or cash to be awarded under the Plan. Any liability of the Company to any Participant with respect to an Award shall be based solely upon any contractual obligations which may be created by the Plan; no such obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company nor the Administrator shall be required to give any security or bond for the performance of any obligation which may be created by this Plan.

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IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed this Plan, effective as of \_\_\_\_\_, 2005.

Date: \_\_\_\_\_, 2005  
By: \_\_\_\_\_  
Its: CREATIVE COMPUTER APPLICATIONS, INC.

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Annex H

**SIMON FINANCIAL, INC.**

11636 Montana Avenue, Suite 210 Los Angeles, CA 90049 (310) 207-1395 www.simon-financial.com

June 3, 2005

Steven M. Besbeck  
Director  
Board of Directors of Creative Computer Applications, Inc.  
26115-A Mureau Road  
Calabasas, CA 91302

Dear Board of Directors:

We understand that StorCOMM, Inc. and Creative Computer Applications, Inc. ( CCA or the Company ) propose to enter into an Agreement and Plan of Reorganization, substantially in the form of the draft dated May \_\_, 2005, which provides, among other things, for the merger of StorComm with a wholly owned subsidiary of CCA in a stock-for stock transaction (the Transaction ). In accordance with the Agreement and Plan of Reorganization, StorCOMM s existing shareholders and optionholders will exchange their equity interests in StorCOMM for shares and options of the Company so that CCA s existing shareholders and optionholders, on the one hand, and StorCOMM s existing shareholders and optionholders, on the other hand, will each own 50 percent of the total number of shares of CCA s common stock issued and outstanding on a fully diluted basis upon consummation of the Transaction, excluding the shares issued in the Closing Financing as defined below (the Exchange Ratio ). In addition, as a condition to the closing of the Transaction, the Company will issue an aggregate of 1,500,000 shares of common stock at \$2 per share and 300,000 warrants at an exercise price of \$3 to a group of accredited investors (the Closing Financing ).

You have requested our opinion (the Opinion ) as to the fairness, from a financial point of view, to the Company of the Exchange Ratio. The Opinion does not address whether the Closing Financing is fair to the Company, from a financial point of view, although the Opinion considers the effect of the Closing Financing in determining the Exchange Ratio. Furthermore, the Opinion does not address the Company s underlying business decision to effect the Transaction. We have not been requested to, and have not, negotiated the Transaction or advised you with respect to alternatives to it.

In connection with this Opinion, we have made such reviews, analyses and inquiries as we have deemed necessary and appropriate under the circumstances. Among other things, we have:

- Held discussions with certain members of the management team of the Company to discuss both the Transaction and the financial condition, future prospects and projected operations and performance of the Company on both a stand alone and pro-forma basis;
- Held discussions with certain members of the management team of StorCOMM;
- Visited the Company s headquarters in Calabasas, California;
- Received a demonstration of the Company s CyberRAD and CyberLAB software products;
- Reviewed certain publicly available financial statements and other information of the Company as filed with the Securities and Exchange Commission;
- Reviewed the Company s pro-forma projected balance sheet and statement of operations for 2005 through 2007;

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- Reviewed the Company's financial projections for 2005 through 2007;
- Reviewed StorCOMM's Historical Financial summary for the years 1998 through 2003;
- Reviewed the StorCOMM's audited financial statements for the years ended December 31, 2001 and December 31, 2002, which is the latest available per management;
- Reviewed the StorCOMM unaudited financial statements for the 3 months ended March 31, 2005;
- Reviewed the StorCOMM 2004 Operational Plan;
- Reviewed the StorCOMM Private Placement Memorandum, dated April 2004, regarding a capital raise of \$7 million to \$10 million;
- Reviewed a schedule of StorCOMM Capitalization structure as of January 15, 2004 and December 31, 2004, prepared by StorCOMM management;
- Reviewed a copy of the CCA StorCOMM Merger Benefits Analysis, dated November 4, 2004 and prepared by Dominick & Dominick LLC
- Reviewed drafts of the Agreement and Plan of Reorganization and certain documents to be delivered at the closing of the Transaction;
- Reviewed a copy of the Term Sheet for Potential Investment in Creative Computer Applications, dated April 8, 2005;
- Reviewed the reported prices and trading activity of the Company's Common Stock;
- Reviewed certain other publicly available financial data for certain companies that we deem comparable to the Company; and
- Conducted such other studies, analyses and inquiries as deemed appropriate.

We have relied upon and assumed, with your consent and without independent verification, that the financial forecasts and projections provided to us have been reasonably prepared and reflect the best currently available estimates of the future financial results and condition of the Company, on both a stand alone and pro-forma basis, and that there has been no material change in the assets, financial condition, business or prospects of the Company since the date of the most recent financial statements made available to us. We have assumed that the Transaction will be consummated in accordance with the terms of the Agreement and Plan of Reorganization and that all governmental or other approvals or consents necessary for the consummation of the Transaction will be obtained without any adverse effect on the Company or StorCOMM or on the expected benefits of the Transaction in any way material to our analysis.

We have not independently verified the accuracy and completeness of the information supplied to us with respect to the Company and do not assume any responsibility with respect to it. We have not made any physical inspection or independent appraisal of any of the properties or assets of the Company. Our opinion is necessarily based on business, economic, market and other conditions as they exist and can be evaluated by us at the date of this letter.

Based upon and subject to the foregoing, and in reliance thereon, it is our opinion that Exchange Ratio is fair to the Company, from a financial point of view.

Respectfully Submitted,

*/s/ Simon Financial, Inc.*

**SIMON FINANCIAL, INC.**

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## Annex I

### Appraisal Rights Relating to StorCOMM Common Stock

In connection with the merger, holders of StorCOMM common stock are entitled to appraisal rights upon compliance with the procedures established by Section 262 of the Delaware General Corporation Law and as discussed immediately below.

The following discussion describes the procedures that holders of StorCOMM common stock would have to follow in order to exercise appraisal rights in respect of their share of StorCOMM common stock under Section 262 of the Delaware General Corporation law. This discussion is not a complete statement of the law of appraisal rights and is qualified in its entirety by the full text of Section 262, which is reprinted below. All references in Section 262 and in this summary to a stockholder or holder are to the record holder of the shares of StorCOMM common stock as to which appraisal rights are asserted.

Under section 262, if the holder of StorCOMM common stock does not cast any of the votes attributable to the shares entitled to be cast by such holder in favor of adoption of the merger agreement and otherwise follows the procedures set forth in section 262, then it will be entitled to have its shares of StorCOMM common stock appraised by the Delaware Court of Chancery and to receive payment in cash of the fair value of such shares together with a fair rate of interest, if any, as determined by the Court.

Under section 262, if a merger agreement is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, must notify each of its stockholders who was a holder on the record date for the meeting of shares for which appraisal rights are available, of the availability of appraisal rights, and must include in this notice a copy of Section 262. The joint proxy statement/ prospectus is the notice to the holders of shares of StorCOMM common stock required by Section 262 and the text of Section 262 is set out below. If a holder of shares of StorCOMM common stock wishes to exercise appraisal rights or wishes to preserve its right to do so, it should review the following description and Section 262 carefully. The failure to timely, properly and strictly comply with the required procedures will result in the loss of appraisal rights.

If a holder of StorCOMM common stock wishes to exercise appraisal rights it must not cast any of the votes attached to its shares of StorCOMM common stock in favor of the adoption of the merger agreement and must deliver to StorCOMM prior to the vote on the merger agreement at the special meeting, a written demand for appraisal of the shares of StorCOMM common stock. This written demand for appraisal is in addition to and separate from any proxy or vote abstaining from or voting against the merger. This demand must reasonably inform StorCOMM of the identity of the holder of the shares of StorCOMM common stock and of the holder's intent thereby to demand appraisal of the shares of StorCOMM common stock. The holder of shares of the StorCOMM common stock wishing to exercise appraisal rights must be the record holder of the shares of StorCOMM common stock on the date the written demand for appraisal is made and must continue to hold of record the shares of StorCOMM common stock until the closing of the merger.

Only a record holder of shares of StorCOMM common stock is entitled to an appraisal of shares of StorCOMM common stock registered in that holder's name. A demand for appraisal should be executed by or on behalf of the record holder of the shares of StorCOMM common stock as the holder's name appears on the stock certificate for the shares of StorCOMM common stock. If the shares of StorCOMM common stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand should be executed in that capacity, and if the shares of StorCOMM common stock are owned of record by more than one owner, as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent may execute a demand for appraisal on behalf of the record holder of the shares of StorCOMM common stock. However, in the demand the agent

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must identify the record owner or owners and expressly disclose that, in executing the demand, the agent is agent for such owner or owners.

All written demands for appraisal should be delivered to StorCOMM, 7 Corporate Plaza, 8649 Baypine Rd., Jacksonville, Florida 32256, Attention: Corporate Secretary.

Within 10 days after the effective time of the merger, StorCOMM, as the surviving corporation in the merger, will notify the holder of shares of StorCOMM common stock of the effective time of the merger if the holder has properly demanded appraisal rights under Section 262 and has not voted in favor of the adoption of the merger agreement.

Within 120 days after the effective time of the merger, but not thereafter, StorCOMM, as the surviving corporation in the merger, or the holder of shares of StorCOMM common stock if the holder has complied with the requirements of Section 262 and is otherwise entitled to appraisal rights, may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares of StorCOMM common stock. StorCOMM is under no obligation to and has no present intention to file an appraisal petition. Accordingly, it is the obligation of the holder of the shares of StorCOMM common stock, if the holder wishes to exercise appraisal rights, to file the petition within the time prescribed in Section 262.

The Delaware Court of Chancery may require the holder of the shares of StorCOMM common stock who has demanded an appraisal of the share to submit its stock certificate to the Register in Chancery for notation of the appraisal proceeding. If the holder of the shares of StorCOMM common stock fails to comply with such direction, the Delaware Court of Chancery may dismiss the proceedings.

If a petition for an appraisal is filed timely, after a hearing on the petition, the Delaware Court of Chancery will determine whether the holder of the shares of the StorCOMM common stock is entitled to appraisal rights and will appraise the fair value of the shares. Under Section 262, fair value does not include any element of value arising from the accomplishment or expectation of the merger. The Court will also determine a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. If a holder of shares of StorCOMM common stock is considering seeking appraisal, it should be aware that the fair value of the shares of the StorCOMM common stock as determined under Section 262 could be more than, the same as or less than the value of the consideration it would receive under the merger agreement if it did not seek appraisal of the shares and that an investment banking opinion as to fairness from a financial point of view is not necessarily an opinion as to fair value under section 262. The Delaware Supreme Court has stated that proof of value by any techniques or methods that are generally considered acceptable in the financial community and otherwise admissible in court should be considered in the appraisal proceedings.

The costs of the action may be determined by the Delaware Court of Chancery and taxed upon the parties as the Court deems equitable in the circumstances.

The holder of shares of StorCOMM common stock who has duly demanded an appraisal in compliance with section 262 will not, after the effective time of the merger, be entitled to vote the share subject to such demand for any purpose.

If the holder properly demands appraisal of shares of StorCOMM common stock under section 262 but fails to perfect, or effectively withdraws or loses, his, her or its right to appraisal, as provided in section 262, the shares will be converted into the right to receive the consideration receivable for the shares under the merger agreement, without interest. The holder of shares of the StorCOMM common stock will fail to perfect, or effectively lose or withdraw, its right to appraisal if, among other things, no petition for appraisal is filed within 120 days after the effective time of the merger, or if the holder of the shares delivers to StorCOMM a written withdrawal of its demand for appraisal. An attempt to withdraw an appraisal demand made more than 60 days after the effective time of the merger will require the written

approval of StorCOMM and, once a petition for appraisal is filed, the appraisal proceeding may not be dismissed as to the holder of the share without court approval.

Failure to follow the steps required by section 262 for perfecting and pursuing appraisal rights may result in the loss of such rights. If such rights are lost the holder of shares of StorCOMM common stock will be entitled to receive the consideration receivable with respect to the StorCOMM common stock in accordance with the merger agreement.

## **DELAWARE GENERAL CORPORATION LAW SECTION 262**

### **262 APPRAISAL RIGHTS.**

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to Section 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a stock corporation and also a member of record of a non stock corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words and also membership or membership interest of a member of a nonstock corporation; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in one or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to Section 251 (other than a merger effected pursuant to Section 251(g) of this title), Section 252, Section 254, Section 257, Section 258, section 263 or section 264 of this title:

(1) Provided, however, that no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of and to vote at the meeting of stockholders to act upon the agreement of merger or consolidation, were either (i) listed on a national securities exchange or designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in subsection (f) of section 251 of this title.

(2) Notwithstanding paragraph (1) of this subsection, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to Section, 252, 254, 257, 258, 263 and 264 of this title to accept for such stock anything except:

a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;

b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or designated as a national market system security on an interdealer



quotation system by the National Association of Securities Dealers, Inc. or held of record by more than 2,000 holders;

c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a. and b. of this paragraph;

d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing subparagraphs a., b. and c. of this paragraph.

(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under Section 253 of this title is not owned by the parent corporation immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for such meeting with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) hereof that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to section 228 or section 253 of this title, then, either a constituent corporation before the effective date of the merger or consolidation, or the surviving or resulting corporation within ten days thereafter, shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section. Such notice may and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice, demand in writing from the surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the

effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) hereof and who is otherwise entitled to appraisal rights, may file a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation and with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder's written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) hereof, whichever is later.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the city of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by

certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the court may dismiss the proceedings as to such stockholder.

(h) After determining the stockholders entitled to an appraisal, the Court shall appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. In determining the fair rate of interest, the Court may consider all relevant factors, including the rate of interest which the surviving or resulting corporation would have had to pay to borrow money during the pendency of the proceeding. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, permit discovery or other pretrial proceedings and may proceed to trial upon the appraisal prior to the final determination of the stockholder entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder's certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Interest may be simple or compound, as the Court may direct. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the court, and such approval may be conditioned upon such terms as the Court deems just.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

**Dissenters' Rights Relating to CCA Common Stock**

In connection with the merger, dissenters' rights will be available to holders of CCA common stock if demands are made for payment with respect to 5% percent or more of the shares of CCA common stock. If dissenters' rights are made available and a shareholder follows all of the procedures required by law, the shareholder will have the right to be paid the fair value for the shares of CCA common stock held by the shareholder. As discussed below, this 5% limit does not apply to shares which are subject to a restriction on transfer imposed by CCA or by any law or regulation.

The procedures for you to obtain dissenters' rights are set forth in Chapter 13 of the California General Corporation Law. The information set forth below is a general summary of Chapter 13 dissenters' rights as they are being made available to you. For purposes of convenience, please simply assume that the transaction is one which would give rise to the exercise of dissenters' rights by CCA shareholders, and all remaining procedures and requirements of the law are applicable. This summary is not a complete discussion of Chapter 13 and is qualified in its entirety by reference to Chapter 13, which is reprinted in its entirety below. If you wish to exercise dissenters' rights or wish to preserve the right to do so you must follow exactly the required procedures set forth in Chapter 13 of the California General Corporation Law or any dissenters' rights may be lost.

If the merger is consummated, if you elect to exercise your dissenters' rights and you perfect your rights in a timely and proper fashion in accordance with the procedures set forth in Chapter 13, you will be entitled to receive an amount equal to the fair market value of your shares. Chapter 13 provides that fair market value shall be determined as of January 7, 2005, the last business day before the public announcement of the merger. CCA believes the fair market value of its stock is \$3.68 as of January 7, 2005, which is the average of the high and low prices of its stock on the American Stock Exchange as of that date.

You must satisfy each of the following requirements for your shares to be considered dissenting shares under Chapter 13. Shares of CCA must be purchased by CCA, from a dissenting shareholder if all applicable requirements are complied with, but only if demands are made for payment with respect to 5% or more of the outstanding shares of CCA common stock.

This 5% limitation does not apply to shares which are subject to a restriction on transfer imposed by CCA or by any law or regulation. Those shareholders who believe there is some restriction affecting their shares should consult with their own counsel as to the nature and extent of any dissenters' rights they may have. In addition, CCA is required to purchase dissenting shares only if:

- You must have shares of CCA common stock, as the case may be, outstanding as of the record date of the shareholder's meeting at which you may vote the shares;
- You must vote the shares against the merger. It is not sufficient to abstain from voting. However, you may abstain as to part of your shares or vote part of those shares for the merger without losing the right to exercise dissenters' rights with respect to those shares which were voted against the merger; and
- If you voted against the merger and you wish to have purchased shares that were voted against the merger, you must make a written demand to have CCA purchase those shares of common stock for cash at their fair market value. The demand must include the information specified below and must be received by CCA or its transfer agent no later than the date of the shareholders' meeting at which the shareholder may vote such shares.

If you return a proxy without voting instructions or with instructions to vote FOR the proposal to approve the merger agreement, your shares will automatically be voted in favor of the merger and you will lose your dissenters' rights.

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If the merger is approved by the CCA shareholders, CCA will have 10 days after the approval to mail written notice of the approval along with a copy of Sections 1300 through 1304 of Chapter 13 to those shareholders who voted against the merger and who made a timely demand for purchase, but only if more than 5% of the CCA shareholders made such demand. In the notice of approval, CCA must state the price it determines represents the fair market value of the dissenting shares. This notice constitutes an offer by CCA to purchase the dissenting shares at the price stated. Additionally, CCA must set forth in the approval notice a brief description of the procedures a shareholder must follow if he or she desires to exercise dissenters' rights.

A written demand is essential for dissenters' rights. Chapter 13 requires you to specify in the written demand the number of shares you hold of record which you are demanding that CCA purchase. In the written demand, you must also include a statement of the figure you claim to be the fair market value of those shares as of the business day before the terms of the merger were first announced, excluding any appreciation or depreciation because of the proposed merger. It is CCA's position that this day is January 7, 2005. You may take the position in the written demand that a different date is applicable. This demand constitutes an offer by you to sell the dissenting shares at the price stated.

In addition to the requirements of the provisions of Chapter 13 of the California Corporations Code described herein, it is recommended that you comply with the following conditions to ensure that the demand is properly executed and delivered.

The demand should be sent by registered or certified mail, return receipt requested.

The demand should be signed by the shareholder of record, or his or her duly authorized representative, exactly as his or her name appears on the stock certificates evidencing the shares.

A demand for the purchase of the shares jointly owned by more than one person should identify and be signed by all such holders.

Any person signing a demand for purchase in any representative capacity, such as attorney-in-fact, executor, administrator, trustee or guardian, should indicate his or her title, and, if CCA so requests, furnish written proof of his or her capacity and authority to sign the demand.

A shareholder may not withdraw a demand for payment without the consent of CCA.

Under California law, a demand by a shareholder is not effective for any purpose unless it is received by CCA or its transfer agent, no later than the date of the shareholders' meeting at which such shares are entitled to be voted.

Within 30 days after the date on which CCA mails the notice of the approval of the merger, dissenting shareholders must also submit the certificates representing the dissenting shares to CCA at the office it designates in the notice of approval. CCA will stamp or endorse the certificates with a statement that the shares are dissenting shares or CCA will exchange the certificates with certificates of appropriate denomination that are so stamped or endorsed. If a shareholder transfers any shares of CCA common stock before submitting the shares for endorsement, then such shares will lose their status as dissenting shares.

If CCA and you agree that the surrendered shares are dissenting shares and agree upon the price of the shares, you are entitled to receive the agreed price together with interest thereon at the legal rate on judgments from the date of the agreement between CCA and the dissenting shareholder. CCA will pay the fair value of the dissenting shares within 30 days after CCA and you agree upon the price of the shares or within 30 days after any statutory or contractual conditions to the merger have been satisfied, whichever is later. CCA's duty to pay is subject to your surrendering the certificates and is also subject to the restrictions imposed under California law on the ability of CCA to purchase its outstanding shares.

If CCA denies that the shares surrendered are dissenting shares, or CCA and you fail to agree upon the fair market value of such shares, then you may, within six months after the notice of approval is mailed, file a complaint in the Superior Court of the proper county requesting the court to make such determinations. In the alternative, you may intervene in any pending action brought by any other dissenting shareholder. If you fail to file such a complaint or fail to intervene in a pending action within the specified six-month period, your dissenting rights will be lost. If the fair market value of the dissenting shares is at issue, the court will determine, or will appoint one or more impartial appraisers to determine, such fair market value. The costs of the action will be assessed or apportioned as the court considers equitable, but if the fair market value is determined to exceed 125% of the price offered to the shareholder, CCA will be required to pay such costs.

This summary has already described certain situations where shareholders of CCA will cease to have dissenters' appraisal rights. In addition to the situations described above, you will cease to have dissenters' appraisal rights if:

- CCA abandons the merger, in which case CCA will pay any dissenting shareholder who has filed a complaint, as described above, all necessary expenses and reasonable attorneys' fees incurred in such proceedings;
- you surrender your shares for conversion into shares of another class;
- you transfer your dissenting shares before submitting them to CCA for endorsement; or
- you withdraw your demand for the purchase of the dissenting shares with the consent of CCA.

Any demands, notices, certificates or other documents required to be delivered to CCA may be sent to:

Creative Computer Applications, Inc.  
26115-A Mureau Road  
Calabasas, CA 91302  
Attention: Investor Relations

### **Corporations Code Sections 1300-1313**

1300. (a) If the approval of the outstanding shares (Section 152) of a corporation is required for a reorganization under subdivisions (a) and (b) or subdivision (e) or (f) of Section 1201, each shareholder of the corporation entitled to vote on the transaction and each shareholder of a subsidiary corporation in a short-form merger may, by complying with this chapter, require the corporation in which the shareholder holds shares to purchase for cash at their fair market value the shares owned by the shareholder which are dissenting shares as defined in subdivision (b). The fair market value shall be determined as of the day before the first announcement of the terms of the proposed reorganization or short-form merger, excluding any appreciation or depreciation in consequence of the proposed action, but adjusted for any stock split, reverse stock split, or share dividend which becomes effective thereafter.

(b) As used in this chapter, dissenting shares means shares which come within all of the following descriptions:

(1) Which were not immediately prior to the reorganization or short-form merger either (A) listed on any national securities exchange certified by the Commissioner of Corporations under subdivision (o) of Section 25100 or (B) listed on the National Market System of the NASDAQ Stock Market, and the notice of meeting of shareholders to act upon the reorganization summarizes this section and Sections 1301, 1302, 1303 and 1304; provided, however, that this provision does not apply to any shares with respect to which there exists any restriction on transfer imposed by the

corporation or by any law or regulation; and provided, further, that this provision does not apply to any class of shares described in subparagraph (A) or (B) if demands for payment are filed with respect to 5 percent or more of the outstanding shares of that class.

(2) Which were outstanding on the date for the determination of shareholders entitled to vote on the reorganization and (A) were not voted in favor of the reorganization or, (B) if described in subparagraph (A) or (B) of paragraph (1) (without regard to the provisos in that paragraph), were voted against the reorganization, or which were held of record on the effective date of a short-form merger; provided, however, that subparagraph (A) rather than subparagraph (B) of this paragraph applies in any case where the approval required by Section 1201 is sought by written consent rather than at a meeting.

(3) Which the dissenting shareholder has demanded that the corporation purchase at their fair market value, in accordance with Section 1301.

(4) Which the dissenting shareholder has submitted for endorsement, in accordance with Section 1302.

(c) As used in this chapter, dissenting shareholder means the recordholder of dissenting shares and includes a transferee of record.

1301. (a) If, in the case of a reorganization, any shareholders of a corporation have a right under Section 1300, subject to compliance with paragraphs (3) and (4) of subdivision (b) thereof, to require the corporation to purchase their shares for cash, such corporation shall mail to each such shareholder a notice of the approval of the reorganization by its outstanding shares (Section 152) within 10 days after the date of such approval, accompanied by a copy of Sections 1300, 1302, 1303, 1304 and this section, a statement of the price determined by the corporation to represent the fair market value of the dissenting shares, and a brief description of the procedure to be followed if the shareholder desires to exercise the shareholder's right under such sections. The statement of price constitutes an offer by the corporation to purchase at the price stated any dissenting shares as defined in subdivision (b) of Section 1300, unless they lose their status as dissenting shares under Section 1309.

(b) Any shareholder who has a right to require the corporation to purchase the shareholder's shares for cash under Section 1300, subject to compliance with paragraphs (3) and (4) of subdivision (b) thereof, and who desires the corporation to purchase such shares shall make written demand upon the corporation for the purchase of such shares and payment to the shareholder in cash of their fair market value. The demand is not effective for any purpose unless it is received by the corporation or any transfer agent thereof (1) in the case of shares described in clause (i) or (ii) of paragraph (1) of subdivision (b) of Section 1300 (without regard to the provisos in that paragraph), not later than the date of the shareholders' meeting to vote upon the reorganization, or (2) in any other case within 30 days after the date on which the notice of the approval by the outstanding shares pursuant to subdivision (a) or the notice pursuant to subdivision (i) of Section 1110 was mailed to the shareholder.

(c) The demand shall state the number and class of the shares held of record by the shareholder which the shareholder demands that the corporation purchase and shall contain a statement of what such shareholder claims to be the fair market value of those shares as of the day before the announcement of the proposed reorganization or short-form merger. The statement of fair market value constitutes an offer by the shareholder to sell the shares at such price.

1302. Within 30 days after the date on which notice of the approval by the outstanding shares or the notice pursuant to subdivision (i) of Section 1110 was mailed to the shareholder, the shareholder shall submit to the corporation at its principal office or at the office of any transfer agent thereof, (a) if the shares are certificated securities, the shareholder's certificates representing any shares which the shareholder demands that the corporation purchase, to be stamped or endorsed with a statement that the

shares are dissenting shares or to be exchanged for certificates of appropriate denomination so stamped or endorsed or (b) if the shares are uncertificated securities, written notice of the number of shares which the shareholder demands that the corporation purchase. Upon subsequent transfers of the dissenting shares on the books of the corporation, the new certificates, initial transaction statement, and other written statements issued therefor shall bear a like statement, together with the name of the original dissenting holder of the shares.

1303. (a) If the corporation and the shareholder agree that the shares are dissenting shares and agree upon the price of the shares, the dissenting shareholder is entitled to the agreed price with interest thereon at the legal rate on judgments from the date of the agreement. Any agreements fixing the fair market value of any dissenting shares as between the corporation and the holders thereof shall be filed with the secretary of the corporation.

(b) Subject to the provisions of Section 1306, payment of the fair market value of dissenting shares shall be made within 30 days after the amount thereof has been agreed or within 30 days after any statutory or contractual conditions to the reorganization are satisfied, whichever is later, and in the case of certificated securities, subject to surrender of the certificates therefor, unless provided otherwise by agreement.

1304. (a) If the corporation denies that the shares are dissenting shares, or the corporation and the shareholder fail to agree upon the fair market value of the shares, then the shareholder demanding purchase of such shares as dissenting shares or any interested corporation, within six months after the date on which notice of the approval by the outstanding shares (Section 152) or notice pursuant to subdivision (i) of Section 1110 was mailed to the shareholder, but not thereafter, may file a complaint in the superior court of the proper county praying the court to determine whether the shares are dissenting shares or the fair market value of the dissenting shares or both or may intervene in any action pending on such a complaint.

(b) Two or more dissenting shareholders may join as plaintiffs or be joined as defendants in any such action and two or more such actions may be consolidated.

(c) On the trial of the action, the court shall determine the issues. If the status of the shares as dissenting shares is in issue, the court shall first determine that issue. If the fair market value of the dissenting shares is in issue, the court shall determine, or shall appoint one or more impartial appraisers to determine, the fair market value of the shares.

1305. (a) If the court appoints an appraiser or appraisers, they shall proceed forthwith to determine the fair market value per share. Within the time fixed by the court, the appraisers, or a majority of them, shall make and file a report in the office of the clerk of the court. Thereupon, on the motion of any party, the report shall be submitted to the court and considered on such evidence as the court considers relevant. If the court finds the report reasonable, the court may confirm it.

(b) If a majority of the appraisers appointed fail to make and file a report within 10 days from the date of their appointment or within such further time as may be allowed by the court or the report is not confirmed by the court, the court shall determine the fair market value of the dissenting shares.

(c) Subject to the provisions of Section 1306, judgment shall be rendered against the corporation for payment of an amount equal to the fair market value of each dissenting share multiplied by the number of dissenting shares which any dissenting shareholder who is a party, or who has intervened, is entitled to require the corporation to purchase, with interest thereon at the legal rate from the date on which judgment was entered.



(d) Any such judgment shall be payable forthwith with respect to uncertificated securities and, with respect to certificated securities, only upon the endorsement and delivery to the corporation of the certificates for the shares described in the judgment. Any party may appeal from the judgment.

(e) The costs of the action, including reasonable compensation to the appraisers to be fixed by the court, shall be assessed or apportioned as the court considers equitable, but, if the appraisal exceeds the price offered by the corporation, the corporation shall pay the costs (including in the discretion of the court attorneys' fees, fees of expert witnesses and interest at the legal rate on judgments from the date of compliance with Sections 1300, 1301 and 1302 if the value awarded by the court for the shares is more than 125 percent of the price offered by the corporation under subdivision (a) of Section 1301).

1306. To the extent that the provisions of Chapter 5 prevent the payment to any holders of dissenting shares of their fair market value, they shall become creditors of the corporation for the amount thereof together with interest at the legal rate on judgments until the date of payment, but subordinate to all other creditors in any liquidation proceeding, such debt to be payable when permissible under the provisions of Chapter 5.

1307. Cash dividends declared and paid by the corporation upon the dissenting shares after the date of approval of the reorganization by the outstanding shares (Section 152) and prior to payment for the shares by the corporation shall be credited against the total amount to be paid by the corporation therefor.

1308. Except as expressly limited in this chapter, holders of dissenting shares continue to have all the rights and privileges incident to their shares, until the fair market value of their shares is agreed upon or determined. A dissenting shareholder may not withdraw a demand for payment unless the corporation consents thereto.

1309. Dissenting shares lose their status as dissenting shares and the holders thereof cease to be dissenting shareholders and cease to be entitled to require the corporation to purchase their shares upon the happening of any of the following:

(a) The corporation abandons the reorganization. Upon abandonment of the reorganization, the corporation shall pay on demand to any dissenting shareholder who has initiated proceedings in good faith under this chapter all necessary expenses incurred in such proceedings and reasonable attorneys' fees.

(b) The shares are transferred prior to their submission for endorsement in accordance with Section 1302 or are surrendered for conversion into shares of another class in accordance with the articles.

(c) The dissenting shareholder and the corporation do not agree upon the status of the shares as dissenting shares or upon the purchase price of the shares, and neither files a complaint or intervenes in a pending action as provided in Section 1304, within six months after the date on which notice of the approval by the outstanding shares or notice pursuant to subdivision (i) of Section 1110 was mailed to the shareholder.

(d) The dissenting shareholder, with the consent of the corporation, withdraws the shareholder's demand for purchase of the dissenting shares.

1310. If litigation is instituted to test the sufficiency or regularity of the votes of the shareholders in authorizing a reorganization, any proceedings under Sections 1304 and 1305 shall be suspended until final determination of such litigation.

1311. This chapter, except Section 1312, does not apply to classes of shares whose terms and provisions specifically set forth the amount to be paid in respect to such shares in the event of a reorganization or merger.

1312. (a) No shareholder of a corporation who has a right under this chapter to demand payment of cash for the shares held by the shareholder shall have any right at law or in equity to attack the validity of the reorganization or short-form merger, or to have the reorganization or short-form merger set aside or rescinded, except in an action to test whether the number of shares required to authorize or approve the reorganization have been legally voted in favor thereof; but any holder of shares of a class whose terms and provisions specifically set forth the amount to be paid in respect to them in the event of a reorganization or short-form merger is entitled to payment in accordance with those terms and provisions or, if the principal terms of the reorganization are approved pursuant to subdivision (b) of Section 1202, is entitled to payment in accordance with the terms and provisions of the approved reorganization.

(b) If one of the parties to a reorganization or short-form merger is directly or indirectly controlled by, or under common control with, another party to the reorganization or short-form merger, subdivision (a) shall not apply to any shareholder of such party who has not demanded payment of cash for such shareholder's shares pursuant to this chapter; but if the shareholder institutes any action to attack the validity of the reorganization or short-form merger or to have the reorganization or short-form merger set aside or rescinded, the shareholder shall not thereafter have any right to demand payment of cash for the shareholder's shares pursuant to this chapter. The court in any action attacking the validity of the reorganization or short-form merger or to have the reorganization or short-form merger set aside or rescinded shall not restrain or enjoin the consummation of the transaction except upon 10 days' prior notice to the corporation and upon a determination by the court that clearly no other remedy will adequately protect the complaining shareholder or the class of shareholders of which such shareholder is a member.

(c) If one of the parties to a reorganization or short-form merger is directly or indirectly controlled by, or under common control with, another party to the reorganization or short-form merger, in any action to attack the validity of the reorganization or short-form merger or to have the reorganization or short-form merger set aside or rescinded, (1) a party to a reorganization or short-form merger which controls another party to the reorganization or short-form merger shall have the burden of proving that the transaction is just and reasonable as to the shareholders of the controlled party, and (2) a person who controls two or more parties to a reorganization shall have the burden of proving that the transaction is just and reasonable as to the shareholders of any party so controlled.

1313. A conversion pursuant to Chapter 11.5 (commencing with Section 1150) shall be deemed to constitute a reorganization for purposes of applying the provisions of this chapter, in accordance with and to the extent provided in Section 1159.

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