LABORATORY CORP OF AMERICA HOLDINGS
Form DEF 14A
March 25, 2008

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨	Preliminary Proxy Statement	¨	CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))
x	Definitive Proxy Statement		
¨	Definitive Additional Materials		
¨	Soliciting Material		

Laboratory Corporation of America Holdings

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

---

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Laboratory Corporation of America® Holdings

358 South Main Street

Burlington, NC 27215

Telephone: 336-229-1127

March 25, 2008

Dear Stockholder:

You are cordially invited to attend the 2008 Annual Meeting of Stockholders of Laboratory Corporation of America Holdings. The meeting will be held at The Paramount Theater, 128 East Front Street, Burlington, NC 27215, on Wednesday, May 7, 2008 at 9:00 a.m., Eastern Daylight Time.

The attached Notice of the Annual Meeting and Proxy Statement provide information concerning the matters to be considered at the meeting.

The Board of Directors recommends that the Company s stockholders approve each of the proposals set forth in the Notice. The enclosed Proxy Statement sets forth more detailed information regarding these proposals. Please carefully review the information in the Proxy Statement.

Whether or not you plan to attend the meeting in person, your shares should be represented and voted at the meeting. This year, we are using the new U.S. Securities and Exchange Commission rule that allows companies to furnish their proxy materials over the Internet. As a result, we are mailing our shareholders a notice of Internet availability of our proxy materials instead of a paper copy of this proxy statement and our 2007 Annual Report. The notice contains instructions on how to access those documents over the Internet. The notice also contains instructions on how shareholders can receive a paper copy of our proxy materials, including this proxy statement, our 2007 Annual Report and a form of proxy card or voting instruction card. We believe that this new process will conserve natural resources and reduce the costs of printing and distributing our proxy materials.

After reading the Proxy Statement, you may vote by proxy over the Internet or by telephone, or, if you receive paper copies of the proxy materials by mail, you can also vote by mail by following the instructions on the proxy card or voting instruction card. You may revoke your proxy at any time before it is exercised by sending a written notice that you would like to revoke your proxy to the Company at 358 South Main Street, Burlington NC 27215, Attention: Bradford T. Smith, by submitting a new proxy, or by attending the meeting and voting in person.

Sincerely,

David P. King

President and Chief Executive Officer

LABORATORY CORPORATION OF AMERICA HOLDINGS

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Laboratory Corporation of America Holdings:

Notice is hereby given that the 2008 Annual Meeting (the Annual Meeting) of the Stockholders of Laboratory Corporation of America Holdings (the Company) will be held at The Paramount Theater, 128 East Front Street, Burlington, NC 27215, on Wednesday, May 7, 2008 at 9:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect the members of the Company s Board of Directors to serve until the Company s next annual meeting and until such directors successors are elected and shall have qualified;

2. To approve the Company s Management Incentive Bonus Plan;

3. To approve the Company s 2008 Stock Incentive Plan (the 2008 Stock Incentive Plan);

4. To approve an amendment to the 1997 Employee Stock Purchase Plan to extend the termination date of the plan from December 31, 2008 to December 31, 2012 (the ESPP Amendment);

5. To ratify the Audit Committee s appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the year ending December 31, 2008; and

6. To take such other action as may properly come before the Annual Meeting or any adjournments thereof.

The accompanying proxy statement describes the matters to be considered at the Annual Meeting. Only stockholders of record at the close of business on March 14, 2008 are entitled to notice of, and to vote at, the Annual Meeting and at any adjournments thereof.

By Order of the Board of Directors

/s/ Bradford T. Smith

Bradford T. Smith

Secretary

March 25, 2008

PLEASE CAST YOUR VOTE USING THE INTERNET OR TELEPHONE VOTING OPTIONS AS SOON AS POSSIBLE, OR, IF REQUESTED, COMPLETE, SIGN, AND DATE THE PROXY CARD, AND RETURN IT PROMPTLY. THIS WILL ENSURE THAT YOUR SHARES ARE VOTED IN ACCORDANCE WITH YOUR WISHES.

LABORATORY CORPORATION OF AMERICA HOLDINGS

358 SOUTH MAIN STREET

BURLINGTON, NORTH CAROLINA 27215

PROXY STATEMENT

This Proxy Statement is being furnished in connection with the solicitation by the Board of Directors of Laboratory Corporation of America Holdings, a Delaware corporation (the Company), of proxies to be voted at the 2008 Annual Meeting of Stockholders to be held at The Paramount Theater, 128 East Front Street, Burlington, NC 27215, on Wednesday, May 7, 2008 at 9:00 a.m., Eastern Daylight Time, and at any adjournments thereof (the Annual Meeting). The Company s Board of Directors has made this Proxy Statement and the accompanying Notice of Annual Meeting available on the Internet. The Company mailed a Notice of Internet Availability of Proxy Materials (the Notice) to each of the Company s stockholders entitled to vote at the Annual Meeting on or about March 25, 2008.

At the Annual Meeting, the Company s stockholders will be asked (i) to elect the following persons as directors of the Company to serve until the Company s next annual meeting and until such directors successors are elected and shall have qualified: Thomas P. Mac Mahon, Kerrii B. Anderson, Jean-Luc Bélingard, David P. King, Wendy E. Lane, Robert E. Mittelstaedt, Jr., Arthur H. Rubenstein, MBBCh, Bradford T. Smith, M. Keith Weikel, Ph.D. and R. Sanders Williams, M.D.; (ii) to approve the Company s Management Incentive Bonus Plan; (iii) to approve the Company s 2008 Stock Incentive Plan; (iv) to approve the amendment to the Company s 1997 Employee Stock Purchase Plan; (v) to ratify the Audit Committee s appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the year ending December 31, 2008; and (vi) to take such other action as may properly come before the Annual Meeting or any adjournments thereof.

GENERAL INFORMATION

Electronic Delivery of Proxy Materials

Pursuant to the new rules adopted by the Securities and Exchange Commission (the SEC), the Company has elected to provide access to our proxy materials over the Internet. Accordingly, the Notice was sent on or about March 25, 2008 to each of the Company s stockholders of record at the close of business on March 14, 2008. All stockholders may access the proxy materials on the website referred to in the Notice. Stockholders may also request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy can be found on the Notice. In addition, by following the instructions in the Notice, stockholders may request to receive proxy materials in printed form by mail or electronically by e-mail on an ongoing basis.

Choosing to receive your future proxy materials by e-mail will save the Company the cost of printing and mailing documents to you and will reduce the impact of the Company s annual meetings on the environment. If you choose to receive future proxy materials by e-mail, you will receive an e-mail next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

Solicitation and Voting of Proxies; Revocation; Record Date

All proxies duly executed and received by the Company will be voted on all matters presented at the Annual Meeting in accordance with the instructions given therein by the person executing such proxy or, in the absence of such instructions, will be voted in favor of the election to the Company s Board of Directors of the ten

1

nominees for director identified in this Proxy Statement, for approval of the Company s Management Incentive Bonus Plan, for approval of the Company s 2008 Stock Incentive Plan, for approval of the amendment to the Company s 1997 Employee Stock Purchase Plan and for the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2008. Any stockholder may revoke his/her proxy at any time prior to the Annual Meeting before it is voted by written notice to such effect delivered to the Company at 358 South Main Street, Burlington, North Carolina 27215, Attention: Bradford T. Smith, Secretary, by delivery prior to the Annual Meeting of a properly executed and subsequently dated proxy or by attending the Annual Meeting and voting in person.

Solicitation of proxies may be made by mail and may also be made by personal interview, telephone, e-mail and facsimile transmission, and by directors, officers, and regular employees of the Company without special compensation therefor. The Company will bear the expenses to prepare proxy materials and to solicit proxies for the Annual Meeting. The Company expects to reimburse banks, brokers, and other persons for their reasonable, out-of-pocket expenses in handling proxy materials for beneficial owners.

Only holders of record of common stock of the Company (the Common Stock) at the close of business on March 14, 2008 (the Record Date) will be entitled to notice of, and to vote at, the Annual Meeting. At the close of business on the Record Date, there were issued and outstanding 110,872,925 shares of Common Stock. Holders of Common Stock as of the Record Date will be entitled to one vote per share at the Annual Meeting.

A quorum for the Annual Meeting consists of a majority of the total number of shares of Common Stock outstanding on the Record Date and entitled to vote, present in person or represented by proxy. In accordance with the Company s current Corporate Governance, Directors are elected by the affirmative vote of a majority of the votes cast for the election of directors. The Board has adopted a policy that a director who does not receive the required vote for election as provided in the bylaws is expected to submit his or her resignation for consideration by the Board**.** The affirmative vote of a majority of shares of Common Stock represented at the Annual Meeting and entitled to vote is required for the approval of the Company s Management Incentive Bonus Plan, approval of the Company s 2008 Stock Incentive Plan, approval of the amendment to the Company s 1997 Employee Stock Purchase Plan and for the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the year ending December 31, 2008. An abstention will have no effect on the election of the directors, but will have the same effect as a vote against the other proposals scheduled for the Annual Meeting. A broker non-vote will have no effect on the proposals scheduled for the Annual Meeting. Broker non-votes occur when brokers do not receive voting instructions from their customers and the broker does not have discretionary voting authority with respect to a proposal. If a shareholder holds shares through a broker, bank or other nominee and does not give instructions as to how to vote, the broker may have authority to vote on certain routine items, but not on other items.

As of March 14, 2008, the directors and executive officers of the Company beneficially owned an aggregate of 2,007,184 shares of Common Stock, representing approximately 1.6% of the total number of shares of Common Stock outstanding and entitled to vote.

The Board of Directors of the Company recommends that stockholders vote FOR the election of each of the nominees for director of the Company (as specified below), approval of the Company s Management Incentive Bonus Plan, approval of the Company s 2008 Stock Incentive Plan, approval of the amendment to the Company s 1997 Employee Stock Purchase Plan, and the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2008.

PROPOSAL ONE: ELECTION OF DIRECTORS

The Company s directors will be elected at the Annual Meeting to serve until the next succeeding annual meeting of the Company and until their successors are elected and have been qualified. All of the nominees listed below are currently serving as members of the Board of Directors. Except as herein stated, the proxies solicited hereby will be voted FOR the election of such nominees unless the completed proxy card directs otherwise.

Pursuant to Section 303A.02 of the New York Stock Exchange (NYSE) Listing Standards (the Listing Standards), in order for a director to qualify as independent, the Board of Directors must affirmatively determine that the director has no material relationship with the Company that would impair the director s independence. The Listing Standards permit the Board of Directors to adopt categorical standards to be used in connection with this purpose, and the Board of Directors has adopted the standards set forth on Annex I for determining whether there is a material relationship that would impair independence.

The Board of Directors has determined that Ms. Anderson, Mr. Bélingard, Ms. Lane, Mr. Mittelstaedt, Dr. Rubenstein, Dr. Weikel and Dr. Williams each qualify as independent as defined in the Listing Standards. Mr. Mac Mahon is not independent because he was the Company s Chief Executive Officer until his retirement on December 31, 2006. Further, Messrs. King (the Company s Chief Executive Officer) and Smith (the Company s Executive Vice President and Chief Legal Officer) are not independent as they are employees of the Company.

The Board of Directors has been informed that all of the nominees listed below are willing to serve as directors, but if any of them should decline or be unable to act as a director, the individuals named in the proxies may vote for a substitute designated by the Board of Directors. The Company has no reason to believe that any nominee will be unable or unwilling to serve.

Nominees For Election As Directors

The name, age as of March 14, 2008, principal occupation for the last five years, selected biographical information, and period of service as a director of the Company of each nominee are set forth below:

Thomas P. Mac Mahon (61) has served as Chairman of the Board and a director since April 28, 1996. Prior to such date and since April 28, 1995, he served as the Vice Chairman and a director. Mr. Mac Mahon was President and Chief Executive Officer and a member of the Executive and Management Committees of the Company from January 1997 until his retirement on December 31, 2006. Mr. Mac Mahon was Senior Vice President of Hoffmann-La Roche, Inc. (Roche) from 1993 to December 1996 and President of Roche Diagnostics Group and a director and member of the Executive Committee of Roche from 1988 to December 1996. Mr. Mac Mahon is a director and Compensation Committee member of Express Scripts, Inc. Mr. Mac Mahon currently serves as Chairman and a director of PharMerica Corporation, and in November 2007 became a director of Golden Pond Healthcare.

Kerrii B. Anderson (50) has served as a director of the Company since May 17, 2006. Ms. Anderson is Chief Executive Officer of Wendy s International, Inc., a restaurant operating and franchising company. Ms. Anderson served as Executive Vice President and Chief Financial Officer of Wendy s International from 2000 to 2006. Prior to this position, she was Chief Financial Officer, Senior Vice President of M/I Schottenstein Homes, Inc. from 1987 to 2000. Ms. Anderson currently serves as a director of Wendy s International and is on the financial committee of Columbus Foundation and Ohio Health. Her service as a director for Tim Hortons Inc. ended effective February 1, 2007.

Jean-Luc Bélingard (59) has served as a director of the Company since April 28, 1995. Mr. Bélingard is Chief Executive Officer of Ipsen SA, a diversified French health care holding company, and has served in that position since 2001. Prior to this position, Mr. Bélingard was Chief Executive Officer from 1999 to 2001 of

bioMérieux-Pierre Fabre, a diversified French health care holding company, where his responsibilities included the management of that company s worldwide pharmaceutical and cosmetic business. Mr. Bélingard is also a director of Applera Corporation, Norwalk, Connecticut, a director and member of the Compensation Committee of bioMérieux SA, and a director and member of the Compensation Committee of Nicox (France).

David P. King (51) has served as President and Chief Executive Officer and a director of the Company since January 1, 2007. Prior to that date, Mr. King served as Executive Vice President and Chief Operating Officer from December 2005 to January 2007, as Executive Vice President of Strategic Planning and Corporate Development from January 2004 to December 2005 and was hired in September 2001 as Senior Vice President, General Counsel and Chief Compliance Officer. Mr. King is a member of the Executive Committee of the Company. Prior to joining the Company, he was a partner with Hogan & Hartson L.L.P. in Baltimore, Maryland from 1992 to 2001.

Wendy E. Lane (56) has been a director of the Company since November 1996. Ms. Lane has been Chairman of Lane Holdings, Inc., an investment firm, since 1992. Prior to forming Lane Holdings, Inc., Ms. Lane was a Principal and a Managing Director of Donaldson, Lufkin & Jenrette, an investment banking firm, serving in these and other positions from 1980 to 1992. Ms. Lane is also a director and Audit Committee member of Willis Group Holdings, Ltd., and UPM-Kymmene Corporation and a Trustee of the U.S. Ski and Snowboard Team Foundation.

Robert E. Mittelstaedt, Jr. (64) has been a director of the Company since November 1996. Mr. Mittelstaedt is Dean and Professor, of the W.P. Carey School of Business at Arizona State University. Prior to June 30, 2004, he was Vice Dean, Executive Education of The Wharton School of the University of Pennsylvania and director of the Aresty Institute of Executive Education, an executive education program affiliated with The Wharton School of the University of Pennsylvania. Mr. Mittelstaedt had served with The Wharton School since 1973, with the exception of the period from 1985 to 1989 when he founded, served as President and Chief Executive Officer, and sold Intellego, Inc., a company engaged in practice management, systems development, and service bureau billing operations in the medical industry. Mr. Mittelstaedt serves as a director of W.P. Carey & Co., LLC and also serves as a director and Compensation Committee member of Innovative Solutions & Support, Inc.

Arthur H. Rubenstein, MBBCh (70) has served as a director of the Company since August 1, 2004. Dr. Rubenstein is the Dean of the University of Pennsylvania School of Medicine and Executive Vice President for the University of Pennsylvania Health System. Previously, Dr. Rubenstein was Dean and Gustave L. Levy Distinguished Professor at the Mount Sinai School of Medicine in New York from 1997 to 2001. He has also been a faculty member and chairman of the Department of Medicine at the University of Chicago. He is a distinguished member of the American Academy of Arts and Sciences and the American Association for the Advancement of Science. Dr. Rubenstein serves as a director of Glycadia and the Association of Academic Health Centers.

Bradford T. Smith (54) has served as Vice Chairman and a director since January 1, 2007. Mr. Smith has served as Executive Vice President, Chief Legal Officer, and Secretary since September 2001 and previously was Executive Vice President, General Counsel, and Secretary since April 1995. He served as the Company s Chief Compliance Officer from August 1996 to September 2001 and from January 2004 to present. Mr. Smith also oversees the Company s Public Affairs, Human Resources, Law, Compliance, Public Policy, Audit, Risk Management, DNA Identification, Clinical Trials and Licensing operations. Mr. Smith is a member of the Executive Committee of the Company. Previously, Mr. Smith held various senior management positions with Roche including Assistant General Counsel from 1988-1995.

M. Keith Weikel, Ph.D. (70) has served as a director of the Company since July 16, 2003. On December 31, 2006, Dr. Weikel retired as a Senior Executive Vice President and Chief Operating Officer of Manor Care, Inc., a health-care provider company, where he began his career in 1984 with Manor HealthCare

Corporation, an operating subsidiary of Manor Care, Inc. Dr. Weikel is currently a member of the Federation of American Hospitals and the Alliance for Quality Long Term Care and serves as Director Emeritus for Manor Care, Inc. and as a director for Direct Supply, Inc.

R. Sanders Williams, M.D. (59) has served as a director since May 16, 2007. Dr. Williams has been Dean of the School of Medicine and Vice Chancellor for Academic Affairs at Duke University since April 2001, becoming Senior Vice Chancellor for Academic Affairs in October 2007. Prior to this position, Dr. Williams served on the faculty of Duke University and of the University of Texas Southwestern Medical Center. He is a Fellow of the American Association for the Advancement of Science, and a member of the Institute of Medicine of the National Academy of Sciences, the American Society for Clinical Investigation and the Association of American Physicians. Dr. Williams has served as president of the Association of University Cardiologists and Chairman of the Research Committee of the American Heart Association. He participated on the Director s Advisory Committee of the National Institutes of Health and the Board of External Advisors to the National Heart, Lung and Blood Institute. Dr. Williams serves as a director for Bristol-Myers Squibb Company.

The Board of Directors of the Company recommends that stockholders vote FOR the election of each of the nominees for director listed above.

Board of Directors and its Committees

During 2007, the Board of Directors held fourteen meetings and acted five times by unanimous written consent. The Compensation Committee held seven meetings; the Audit Committee held eight meetings; the Nominating and Corporate Governance Committee held two meetings; and the Quality and Compliance Committee held four meetings. All of the committees are comprised entirely of independent directors as defined in the listing standards of the New York Stock Exchange. During 2007, excluding Dr. Williams who was elected to the board in May 2007, none of the directors attended fewer than 89% of the total meetings of the Board of Directors and the committees of which he or she was a member.

On October 16, 2002, the Board of Directors began holding executive sessions without Company management and non-independent director participation. These sessions are generally held at each regularly scheduled meeting of the Board of Directors and at each special meeting upon the request of a majority of the independent directors attending the special meeting. On December 7, 2005, Section 14 of the Corporate Governance Guidelines was amended by the Board of Directors with respect to the executive sessions to provide as follows: The independent Directors shall meet on a periodic basis, but no less than four times a year on the same day as the regularly scheduled Board meetings. These meetings shall be chaired by one of the independent directors who shall be elected by a majority vote of the other independent directors immediately following each annual shareholders meeting. A new Chairperson shall generally be elected each year with the goal of rotating the responsibility to each of the independent directors until they all have served as the chairperson for a one-year term at which point the process would be repeated. In 2007, the Board met in executive session, chaired by Mr. Mittelstaedt, from time to time to discuss compensation and succession planning and also held six executive sessions formally.

Members of the Board of Directors are encouraged to and usually attend the annual meeting of stockholders. Six of the independent directors, and Messrs. Mac Mahon, King and Smith attended the 2007 annual meeting.

The Board of Directors has an Audit Committee, a Compensation Committee, a Quality and Compliance Committee, and a Nominating and Corporate Governance Committee, the Charters for which are available in print to any shareholder upon request and are also available on the Company s website at www.labcorp.com. The Committees of the Board of Directors review their respective Charters on an annual basis.

Audit Committee

The Audit Committee, consisting of Ms. Lane (Committee Chair), Ms. Anderson, Mr. Mittelstaedt and Dr. Rubenstein, is responsible for the selection, appointment, compensation and oversight of the work of any registered public accounting firm employed by the Company and assists in Board oversight of the integrity of the financial statements of the Company; the compliance by the Company with legal and regulatory requirements as they impact the Company s financial statements or reporting systems; the production of an audit committee report as required by the Securities and Exchange Commission (the SEC) to be included in the Company s annual proxy statement; the qualifications and independence of the Company s independent registered public accounting firm and the oversight of the Company s internal audit functions, internal controls, and independent registered public accounting firm.

Compensation Committee

The Compensation Committee, consists of Ms. Anderson, Mr. Bélingard (Committee Chair), and Dr. Weikel. The Compensation Committee was composed of Mr. Bélingard, Dr. Wallace and Dr. Weikel through May 16, 2007, at which time Dr. Wallace retired from the Board of Directors. Ms. Anderson joined the Committee after Dr. Wallace retired.

As set forth in its charter, the Committee:

- reviews the Company s compensation and benefit policies and objectives, including any perquisites paid to the Company s CEO, other executive officers and directors;
- annually reviews and recommends to the full Board for approval the corporate goals and objectives relevant to CEO and other executive officer compensation, evaluates their performance in light of those goals and objectives and recommends to the full Board the compensation paid to the CEO and other executive officers;
- reviews and recommends to the full Board for approval any employment agreements entered into between the Company and any executive officer;
- annually reviews and recommends to the full Board for approval compensation paid to the Company s directors;
- reviews and oversees the Company s incentive compensation and equity plans; and
- produces a compensation committee report as required by the SEC to be included in the Company s annual proxy statement.

Pursuant to its charter, the Committee has the sole authority to retain and terminate any compensation consultant to be used to assist in evaluating the CEO and other executive officer compensation. During 2007, the Committee retained Frederic W. Cook & Co., Inc., as an outside compensation consultant, to assist in evaluating the Company s executive compensation programs. Frederic W. Cook & Co., Inc. does no other work for the Company or its management. The outside compensation consultant reported directly to the Committee during 2007. At the request of the Committee, during 2007, Frederick W. Cook & Co., Inc. provided the Committee with an annual update on emerging market trends and best practices in executive compensation. In connection with the Committee s review, the compensation consultant also assisted the Committee in formulating a peer group for 2007 and in revising the long-term equity incentive program. The consultant s role in recommending the amount or form of executive compensation paid to the Company s named executive officers during 2007 is described in the Compensation Discussion

and Analysis Elements of Compensation section below.

Pursuant to its charter, the Committee may form and delegate authority to subcommittees as it determines necessary or advisable. The Compensation Committee has delegated to the Chief Executive Officer (CEO), Mr. King, the design of the annual incentive plans for the other executive officers, including the named executive officers, using targets established by the Compensation Committee. For a discussion of Mr. King s role in determining or recommending the executive compensation paid to the Company s named executive officers during 2007, see the Compensation Discussion and Analysis Elements of Compensation section below.

Quality and Compliance Committee

The Quality and Compliance Committee, previously known as the Ethics and Quality Assurance Committee, consisting of Dr. Weikel (Committee Chair), Mr. Bélingard, Dr. Rubenstein, and Dr. Williams, is responsible for ensuring that the Company adopts and implements procedures that require the Company s employees to act in accordance with high ethical standards, to deliver high quality services and to ensure compliance with health care and other legal requirements of the Company.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee, consisting of Mr. Mittelstaedt (Committee Chair), Ms. Lane, and Dr. Williams, is responsible for assisting the Board by identifying individuals qualified to become Board members, consistent with criteria approved by the Board and by recommending to the Board the director nominees for the next annual meeting of stockholders; for developing and recommending to the Board a set of corporate governance principles applicable to the Company; for leading the Board in its annual review of the Board s performance; and for recommending to the Board director nominees for each Board committee. The Nominating and Corporate Governance Committee was composed of Mr. Mittelstaedt, Ms. Lane, and Dr. Wallace through May 16, 2007 at which time Dr. Wallace retired from the Board of Directors. Dr. Williams joined the Committee after Dr. Wallace retired.

Corporate Governance Guidelines and Code of Business Conduct and Ethics

The Board of Directors annually reviews the Company s Corporate Governance Guidelines (the Guidelines) and Code of Business Conduct and Ethics (the Code). The Guidelines address a number of topics, including composition of the Board of Directors, director independence, Board of Directors and Committee self-assessment, retirement, evaluation of the Chief Executive Officer, and succession planning. The Nominating and Corporate Governance Committee reviews the Guidelines on a regular basis and any proposed additions or amendments to the Guidelines are submitted to the Board of Directors for its consideration.

The Code is a code of business conduct and ethics applicable to all directors, officers and employees of the Company. The Code sets forth Company policies and expectations on a number of topics, including but not limited to, conflicts of interest, confidentiality, compliance with laws (including insider trading laws), preservation and use of Company assets, and business ethics. The Code also sets forth procedures for communicating and handling any potential conflict of interest (or the appearance of any conflict of interest and have enhanced annual procedures for verifying compliance with the Code for directors and executive officers) and for the confidential communication and handling of issues regarding accounting, internal controls and auditing matters. Management of the Company regularly reviews the Code and may propose additions or amendments to the Code to be considered for approval by the Audit Committee, the Quality and Compliance Committee and the Board of Directors. Additionally, the Audit Committee and the Quality and Compliance Committee review the Code and may propose additions or amendments to the Code to be considered for approval by the Board of Directors.

To provide stockholders with greater knowledge regarding the Board of Directors processes, the Guidelines and the Code adopted by the Board of Directors are available in print to any shareholder upon request and are also posted on the Company s website at www.labcorp.com. In addition, any amendment to the Code or any waiver of the Code that applies to the Company s Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller, or persons performing similar functions, will be posted on the Company s website.

Related Persons Transactions

In accordance with the Company s Audit Committee charter, the Audit Committee is responsible for reviewing and approving the terms and conditions of all related party transactions. It is the Company s policy

that any related party transaction needs to be approved by the Audit Committee prior to the Company entering into such transaction. The Company s senior management annually reports to the Company s Audit Committee all related parties that are employed by the Company and related parties that are employed by other companies with whom the Company had a material relationship during that year, if any.

All directors and officers are required to provide a written certification each year with respect to their knowledge of related party transactions. The Audit Committee s review of related party transactions, including the information in the report to the Audit Committee and the written certifications, encompasses transactions with related persons within the meaning of Item 404A of Regulation S-K as promulgated by the Securities and Exchange Commission. The Audit Committee reviews each potential related party transaction on its underlying merit.

On July 20, 2006, Mr. Mac Mahon entered into a consulting agreement with the Company effective January 1, 2007, following the announcement of his retirement as President and CEO on December 31, 2006. The consulting agreement provided for additional services to be provided by Mr. Mac Mahon following the termination of his employment as CEO to assist the Company during a transition period. Mr. Mac Mahon also remained as Chairman of the Board. The consulting agreement also provided for an additional five years of age for purposes of calculating pension benefits. The consulting agreement had an initial term of six months up to sixteen months and could be extended by the Company for an additional sixteen months. On February 28, 2008, the Company s Board of Directors renewed and extended this agreement effective May 1, 2008 through the 2009 Annual shareholders meeting. See Director Compensation below for a further discussion of the benefits to Mr. Mac Mahon under the consulting agreement.

Board Evaluation

Each year, the Board of Directors conducts a self-assessment of its performance and effectiveness. This process commences with each director completing a Board Evaluation Questionnaire. This questionnaire was developed by the Nominating and Corporate Governance Committee and provides for a range of grades and trend indicators to be completed by each director, as well as written commentary.

The collective ratings and comments of the directors are compiled and presented by the Chair of the Nominating and Corporate Governance Committee to the full Board of Directors for discussion, for the assessment of progress in the areas targeted for improvement a year earlier, and for the development of recommendations to enhance the Board of Directors effectiveness over the next year.

In addition, each Board Committee conducted a self-evaluation of its performance for fiscal 2007, with performance criteria for each Committee developed on the basis of its purposes and mission, as set forth in its charter and developed recommendations and a follow-up plan similar to that of the Board of Directors as a whole.

Identification and Evaluation of Individual Director Candidates

The Nominating and Corporate Governance Committee proposes a slate of directors for election by the Company s stockholders at each Annual Meeting and appoints candidates to fill vacancies on the Board of Directors.

When evaluating prospective candidates for director, including those nominated by stockholders, the Nominating and Corporate Governance Committee conducts individual evaluations against the criteria enumerated in the Company s Corporate Governance Guidelines. These criteria include, but are not limited to, personal and professional integrity; interest, capacity and willingness to serve the long-term interests of the

Company s stockholders; ability and willingness to devote the required amount of time to the Company s affairs, including attendance at Board and Committee meetings; exceptional ability and judgment; and freedom from

personal and professional relationships that would adversely affect the ability to serve the best interests of the Company and its stockholders. The goal is to ensure that the Board composition reflects a balance of skills, experiences, diversity and expertise in the context of the Company s business needs. Director candidates, other than sitting directors, may be interviewed by the Chairman of the Nominating and Corporate Governance Committee, other directors, the Chief Executive Officer and the Corporate Secretary. The results of those interviews, as well as any other materials received by the Nominating and Corporate Governance Committee that the Committee deems appropriate, are considered by the Committee in making its recommendation to the Board of Directors.

If needed, the Company may pay a professional search firm to identify and assist the Nominating and Corporate Governance Committee in identifying, evaluating and conducting due diligence on potential nominees for Board vacancies. The Nominating and Corporate Governance Committee is authorized to engage one or more firms, at the Company s expense, to provide similar services in the future, however, no such engagement occurred in 2007.

In addition to finding prospective candidates for director through a professional search firm or upon recommendations received from non-management directors, the Nominating and Corporate Governance Committee will consider properly submitted nominations for Board of Directors candidates made by stockholders. A stockholder may recommend a person for nomination to the Board of Directors at the 2009 annual meeting of stockholders by giving notice thereof and providing certain information set forth in the Company s By-Laws, in writing, to the Corporate Secretary of the Company at 358 South Main Street, Burlington, NC 27215. Such nominations must be received no earlier than January 7, 2009 and no later than March 8, 2009. The By-Laws may be obtained free of charge by writing to the Company s Corporate Secretary.

Communications with the Board

Stockholders and interested parties may communicate with the Board of Directors, individually or as a group by submitting written communications to the appropriately addressed Board member(s), c/o Corporate Secretary, Laboratory Corporation of America Holdings, 358 South Main Street, Burlington, North Carolina 27215.

Pursuant to the direction of the Board of Directors all communications received in accordance with the above procedure will be reviewed initially by the Corporate Secretary, who will relay all such communications to the appropriate director or directors unless the communication:

- is an advertisement or other commercial solicitation or communication;
- is obviously frivolous or obscene;
- is unduly hostile, threatening, illegal; or
- relates to trivial matters (in which case it will be delivered to the intended recipient for review at the next regularly scheduled Board meeting).

The director or directors who receive any such communication has the discretion to determine whether the subject matter of the communication should be brought to the attention of the full Board of Directors, to one or more of its committees or to the Company s management and whether or not a response to the person sending the communication is appropriate. Any response will be made through the Company s Corporate Secretary in accordance with the Company s policies and procedures and applicable law and regulations relating to the disclosure of information.

The Nominating and Corporate Governance Committee, comprised entirely of independent, non-management directors, has reviewed and approved the foregoing process and has been delegated the responsibility by the full Board of Directors for reviewing the effectiveness of these procedures from time to time and, as necessary, recommending changes.

EXECUTIVE OFFICERS

The following table sets forth as of the date hereof the Executive Officers of the Company.

Name	Age	Office
David P. King	51	President and Chief Executive Officer
William B. Haas	43	Executive Vice President, Esoteric Business
Don M. Hardison	57	Executive Vice President, Chief Operating Officer
William B. Hayes	42	Executive Vice President, Chief Financial Officer, and Treasurer
Myla P. Lai-Goldman, M.D.	50	Executive Vice President, Chief Scientific Officer, and Medical Director
Bradford T. Smith	54	Executive Vice President of Corporate Affairs, Chief Legal Officer, and Secretary
Andrew S. Walton	41	Executive Vice President, Strategic Planning and Chief Information Officer

In addition to Messrs. King and Smith, who are identified above under the heading Election of Directors, following is information on the business experience for each of these executive officers for at least the last five years.

William B. Haas has served as Executive Vice President, Esoteric Business since April 2006. He is responsible for the business and lab operations of several of the Company s wholly owned subsidiaries (US Labs, Esoterix, Viro-Med Laboratories, Dianon Systems, Inc., Litholink, and National Genetics Institute) and large esoteric operating units (Center for Esoteric Testing and Center for Molecular Biology and Pathology). Prior to this date, Mr. Haas was Executive Vice President, Sales, Marketing, and Managed Care since January 2004. He is a member of the Executive and Operating Committees of the Company. Mr. Haas previously held positions as Senior Vice President, Northeast Division; Vice President, National Sales; and Regional Director, Atlanta and has been with LabCorp since 1990. Mr. Haas served as a commissioner of the Western Triangle Youth Football Association since 2004.

Don M. Hardison has served as Executive Vice President, Chief Operating Officer since September 2007. Mr. Hardison is a member of the Executive Committee of the Company and is responsible for the day-to-day supervision of all operations and sales of the Company. Prior to this date, Mr. Hardison was President, Chief Executive Officer and Director of EXACT Sciences Corporation, a developer of proprietary DNA-based technologies for use in the detection of cancer, from May 2000 to September 2007. Prior to that, Mr. Hardison held various senior management and sales positions with Siebel Systems, Inc., Quest Diagnostics Inc., SmithKline Beecham Corporation, and Smithkline Corporation.

William B. Hayes has served as Executive Vice President, Chief Financial Officer and Treasurer since June 2005. Prior to this date, Mr. Hayes was Senior Vice President, Finance since 2000. Mr. Hayes is a member of the Executive Committee of the Company and is responsible for the day-to-day supervision of the finance and billing functions of the Company. Prior to joining the Company in 1996, Mr. Hayes was in the audit department at KPMG LLP for 9 years.

Myla P. Lai-Goldman, M.D. has served as Executive Vice President, Chief Scientific Officer, and Medical Director since April 1998. Dr. Lai-Goldman oversees the Company s Quality Assurance, National Medical Oversight (Pathology), Technical Assessment/New Technology/Research and Development, and coordination of all Technology Assessment programs. Dr. Lai-Goldman is Board Certified in anatomic and clinical pathology and serves as a member of the Executive Committee of the Company. Dr. Lai-Goldman, who holds a medical degree from Columbia University, was named Senior Vice President of the Company in 1997 and held the position of Medical Director for the Center for Molecular Biology and Pathology from 1991 to 2006 (with Roche Biomedical Laboratories (RBL) and subsequently the Company). Dr. Lai-Goldman joined RBL in 1990.

Andrew S. Walton has served as Executive Vice President, Strategic Planning and Chief Information Officer since January 1, 2007. Mr. Walton is responsible for the Company s information technology and client

connectivity operations and also oversees the Company s Strategic Planning department. He is a member of the Executive Committee of the Company. Mr. Walton previously held the positions of Senior Vice President and Chief Information Officer from May 2006 to December 2006 and Vice President, Strategic Planning and Corporate Development from April 2005 to May 2006. Prior to joining the Company in 2005, Mr. Walton was a partner at Subsidium Health Advisors, a healthcare consultancy, from 2002 to 2005.

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy and Objectives. Our executive compensation philosophy is to reward the achievement and surpassing of specific short- and long-term operational and strategic goals. By paying for performance, we believe we align our executive officers interests with those of our stockholders. We believe that through an effective executive compensation program, we can be successful in attracting and retaining talented employees who will continue to increase our financial performance over that of our industry competitors and drive the continued creation of shareholder value.

To execute our compensation philosophy, we adhere to the following principles:

- variable compensation should comprise a significant part of an executive s total compensation, with the percentage at-risk highest for the executive officers;
- both the size of compensation awards provided to executive officers and the realizable values of those awards should vary significantly with performance achievements;
- an emphasis on stock-based compensation aligns the long-term interests of executive officers and stockholders;
- compensation opportunities for executive officers must be evaluated against those offered by companies in similar industries and similar in size and scope of operations; and
- differences in executive compensation within the Company should reflect varying levels of responsibility and/or performance.

Comprehensive Review of Compensation Program. In 2007, a competitive review of the Company s executive compensation programs, with a particular focus on the long-term incentive program, was conducted by the Company s compensation consultant at the request of the Compensation Committee to ensure market competitiveness, consistency with emerging best practices, support of the business strategy and continued alignment with the interests of the Company s shareholders. As part of this review, the Company asked the compensation consultant to evaluate base salaries, annual incentive opportunities, and long-term incentive (LTI) opportunities for executives at comparable peer companies. Based on the results of the competitive review, the Company adjusted base salaries and target annual and long-term incentive opportunities and modified the Company s LTI program design in terms of the mix of grant types. These adjustments are discussed in more detail below.

Benchmarking. A key reference in determining the overall levels of executive officer compensation and each element of compensation that the Company pays (base salary, annual cash incentive pay and long-term equity incentive compensation) is an assessment of pay practices and levels among certain groups of public companies that have been identified as compensation peers. The peer group used in 2007 was developed by the Compensation Committee in 2006, with input from its independent compensation consultant, to include public companies in the health care services industry that are of similar size and scope to the Company and that engage in diagnostics, genomic research, and/or distribution and logistics. The companies included in the comparative peer group are:

Agilent Technologies	Boston Scientific Corp.	Millipore Corp.
Amgen	Covance	Omnicare
Applera	Express Scripts	Owens & Minor
Apria Healthcare Group	Genentech	Quest Diagnostics
Beckman Coulter	Genzyme	St. Jude Medical
Becton, Dickinson & Co.	Medtronic	Stryker Corporation
Biogen		

Compensation Committee Process and Input of Executive Officers. On an annual basis, the independent compensation consultant reviews the elements of executive compensation (base salary, bonus and long-term incentive pay) and recommendations are made and presented to the Compensation Committee. The Company s CEO, after consultation with the Chairman of the Board, is invited to provide input on these recommendations for the other executive officers based on his assessment of past and expected future individual performance and contribution, which are then taken into consideration by the consultant and the Compensation Committee. The CEO also sets the performance goals and allocations in the annual cash incentive plans for the named executive officers (as well as the other executive officers) using Company targets established by the Compensation Committee. In addition, other members of management may interact with the CEO, the compensation consultant or the Compensation Committee. Such members typically include our Executive Vice President, Chief Legal Officer and Secretary as well as our Chief Human Resources Officer. These members are responsible for providing additional information to the compensation consultant and may provide management s analysis and input as requested.

Elements of Compensation. The Company paid its named executive officers in 2007 through a mix of base salary, annual cash incentives and long-term equity in the form of stock options, restricted stock and performance shares.

Base Salary. As discussed above, while a significant portion of compensation paid to the Company s executive officers, including named executive officers, is variable and tied to performance, the Company also believes it must pay competitive base salaries to retain its executive talent and provide an appropriate level of immediately available compensation. Base salary is targeted at the median of the peer group practice and is reviewed and set annually by the Compensation Committee to ensure competitiveness with the peer group as well as appropriateness given the performance, role and responsibilities of each executive officer. While the Compensation Committee targets salary levels of the executive officers at the median of the peer group, it retains the flexibility to adjust individual levels of compensation to take into account variations in the individual s job experience and responsibility, as reviewed and recommended to the Committee by Mr. King. Annual changes in base salaries are based on the peer group s practices, the Company s performance, the individual s performance and increases in cost of living indexes.

For 2007, base salaries were increased 3.3% for our named executive officers, based on recommendations by the compensation consultant, to account for inflation and general market increases. Exceptions to this standard increase for our named executive officers were as follows:
(a) David P. King 67% increase as part of a multi-year transition plan, to reflect the change in his role from Executive Vice President and Chief Operating Officer to Chief Executive Officer, (b) William B. Hayes 12% increase as part of a multi-year salary transition plan resulting from his promotion to Executive Vice President and Chief Financial Officer in 2005, and (c) Bradford T. Smith 19% increase to reflect his added responsibilities.

Annual Cash Incentive Pay. The Management Incentive Bonus Plan (the Incentive Plan) is designed to reward the named executive officers for achieving short-term goals that the Company believes further its goal of creating long-term shareholder value as well as align the executive s efforts with its strategy of leading the industry in the areas of scientific leadership, managed care and customer service. Additionally, the Incentive Plan is designed to provide additional reward when superior results are achieved. The Incentive Plan includes the named executive officers, all of the other executive officers and approximately 400 other key employees. Bonus opportunities under the annual incentive program are structured so that target total cash compensation (base salary plus target annual bonus) approximates the 75th percentile of market practice. Accordingly, the Compensation Committee sets aggressive targets to align performance goals with the Company s targeted positioning.

For 2007, each officer s target award was expressed as a percentage of his or hers base salary. Target awards ranged from 75% to 150% of base salary for each officer. Achievement at Threshold generally paid at 50% of Target, Target paid at 100%, and Superior paid at 150% of Target. In 2007, achievement of earnings

12

before interest, taxes, depreciation and amortization (EBITDA) at Superior level would have made the officer eligible for 200% of the portion of the Target related to that measure. If Threshold was not achieved for a given performance measure, the payout for that measure would have been zero. Similarly, for certain goals, failure to achieve the Target level would result in no bonus for that measure. This would be true if a goal had a yes/no outcome (i.e., the goal was either achieved, a yes outcome earning a 100% target payment or was not achieved, resulting in a 0% payment).

Because annual targets are set at aggressive levels based on reviews of the Company s past performance and the expected growth and business opportunities in the clinical laboratory industry, the Compensation Committee believes that paying at 150% of a performance measure s Target for the named executives for Superior performance provides appropriate incentive to exceed expectations. Over the past five years, the superior targets were not met for revenue or EBITDA goals, but payouts above Target were common. The Compensation Committee further believes that Threshold amounts represent satisfactory performance and thus a 50% potential payout.

The Compensation Committee determines the performance measures, performance targets and allocation for Mr. King. In turn, the Committee has delegated to Mr. King the responsibility of determining the incentive plans for each of the other named executive officers, using substantially the same Company targets established by the Compensation Committee.

The primary measures used for the named executive officer bonuses in 2007 were revenue growth, EBITDA, earnings per share (EPS), and certain other specific strategic measures. The targets for the 2007 corporate goals were as follows:

Revenues 12.0% growth compared to prior year would pay at Target and revenue growth of 20.7% would pay at the Superior level.

EPS 20.8% growth compared to prior year would pay at Target and EPS growth of 23.9% would pay at the Superior level.

EBITDA 14.4% growth compared to prior year would pay at Target and EBITDA growth of 23.3% would pay at the Superior level.

Achievement of certain individual goals, as reviewed by the Compensation Committee and the CEO (other than the CEO s individual goals), for certain of the named executive officers also contributed to the overall 2007 annual bonus. The specific measures and bonus targets for each named executive officer in 2007 are discussed below.

David P. King

	Target Bonus		Allocation by Goal			Bonus opportunity by Goal by Level of Achievement		
alary	% of Base	$ Target	%	Goal	$ Bonus	Threshold	Target	Su
000	150%	$ 1,125,000	30%	Revenue	$ 337,500	$ 168,750	$ 337,500	$ 5
			30%	EPS	$ 337,500	$ 168,750	$ 337,500	$ 5
			15%	Operating Cash Flow	$ 168,750	$ 84,375	$ 168,750	$ 2
			15%	Individual goals	$ 168,750			

$receivable 420,918 -- -- 420,918 Deferred costs 203,800 (172,120)(B) -- 31,680 Note receivable from officer 16,183 -- -- 16,183 Assets held for sale 2,433,350 (2,433,350)(C) -- -- ------------ ------------ ------------ ------------ Total current assets 3,773,375 1,494,530 (3,000,000) 2,267,905 LONG TERM INVESTMENTS 52,822 -- -- 52,822 PROPERTY AND EQUIPMENT, net 287,412 -- 13,975,000(G) 14,262,412 OTHER ASSETS: Deposits 60,887 -- -- 60,887 Deferred costs 609 -- -- 609 Goodwill, net 750,399 -- -- 750,399 ------------ ------------ ------------ ------------ Total other assets 811,895 -- -- 811,895 ------------ ------------ ------------ ------------ TOTAL ASSETS $ 4,925,504 $ 1,494,530 $ 10,975,000 $ 17,395,034 ============ ============ ============ ============ LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES: Accounts payable $ 317,232 -- 175,000(G) $ 492,232 Accrued expenses 601,211 1,570,000(D) -- 2,171,211 Deferred revenue 115,083 (113,823)(A) -- 1,260 Current portion of long-term debt -- -- 157,467(H) 157,467 ------------ ------------ ------------ ------------ Total current liabilities 1,033,526 1,456,177 332,467 2,822,170 OTHER LIABILITIES: Accounts payable 131,211 -- -- 131,211 Other liabilities 19,439 -- -- 19,439 Long-term debt, less current portion -- -- 10,642,533(H) 10,642,533 STOCKHOLDERS' EQUITY Preferred stock 160 -- -- 160 Common stock 79,682 -- -- 79,682 Common stock warrants 127,660 -- -- 127,660 Additional paid-in capital 42,056,199 -- -- 42,056,199 Accumulated earnings (deficit) (38,519,456) 38,353(E) -- (38,481,103) Accumulated other comprehensive loss: Net unrealized loss on available-for-sale securities (2,917) -- -- (2,917) ------------ ------------ ------------ ------------ Total stockholders' equity 3,741,328 38,353 -- 3,779,681 ------------ ------------ ------------ ------------ TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY $ 4,925,504 $ 1,494,530 $ 10,975,000 $ 17,395,034 ============ ============ ============ ============ 34 Notes to Unaudited Pro Forma Consolidated Balance Sheet Reflecting Impact of Asset Sale and Proposal Two Asset Acquisition (Unaudited) The unaudited pro forma consolidated balance sheet gives effect to the asset sale and the asset acquisitions as described in Proposal Two, as if it had occurred as of June 30, 2002. Asset Sale On May 24, 2002, following the approval of our board of directors, we entered into a letter of intent agreement with OnePlace, LLC, a wholly owned subsidiary of Salem Communications ("Salem"). The asset purchase agreement dated as of August 19, 2002 contemplates that, subject to the satisfaction of the conditions contained therein (including obtaining the approval of the stockholders of Crosswalk), OnePlace, LLC would acquire substantially all of Crosswalk's Internet related intellectual property and other technology assets, email lists and newsletters, customer base and trademarks for a purchase price of $4.1 million, to be paid in cash (the "asset sale"). Crosswalk currently intends to use the proceeds of this sale to initiate the business plan, which is the subject of

Proposal Two submitted for stockholder approval herein. There is no assurance that Crosswalk can successfully consummate the asset sale. The following adjustments are reflected in the unaudited pro forma condensed consolidated balance sheet: (A) To record the total asset sale price of $4.1 million to be paid in cash at closing which is expected to be promptly after if and when stockholder approval is achieved. (B) To record reversal of deferred revenue and cost associated with contracts, which are, part of the asset sale. (C) To record elimination of carrying value of goodwill, intangible assets, and property plant and equipment included in the asset sale and classified as Assets held for sale pursuant to Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." (D) To record accrual for estimated costs related to the asset sale, which include, but are not limited to, $45,000 of deferred license fees, $1.0 million of commitments related to rent and hosting agreements, $330,000 of employee severance costs, $125,000 of legal and advisory fees, and $150,000 for obsolescence related to assets which will no longer be in use. (E) To record the estimated pro forma gain on the asset sale. 35 Asset Acquisition The pro forma statement includes the impact of an intended acquisition of two secondary office market properties in Midland and Lubbock, Texas which will be acquired subject to their existing leases. The twenty-four story Midland property of which construction was completed in 1977, encompasses 329,178 rentable square feet and is currently 80% occupied. It also includes a 17-lane drive through bank and a 900 space-parking garage. The average lease term is 4 years and the major tenant is Bank of America. The Lubbock property was built in 1966 and is a fifteen story high rise with 210,659 rentable square feet, a 214 space-parking garage, and is currently 85% occupied. Wells Fargo Bank is the primary tenant and the average tenant lease term is 7 years. The negotiated price for these assets will be supported through the financial statements for these properties for the years ended December 31, 2000 and 2001, audited by the CPA firm of Johnson Miller & Co. of Midland, TX, and current market appraisals dated May 14, 2002 completed by unaffiliated Real Estate Research Corporation (RERC) of Houston, TX. RERC was hired by Wells Fargo RETECHS from Houston, TX to independently appraise both buildings as required pursuant to recent refinancing. These appraisals were self-contained reports that complied with the reporting requirements set forth in Standards Rule 2-2 of the Uniform Standards of Professional Appraisal Practice. The following adjustments are reflected in the unaudited pro forma condensed consolidated balance sheet: (F) To record down payment for building acquisition. (G) Consists of building acquisition cost of $13.8 million and $175,000 in capital improvements. (H) To record liabilities for repayment of debt incurred in building acquisition. The total of the long-term debt and current portion of long-term debt equals $10.8 million. This debt consists of the assumption of a $6.8 million non-recourse note

in favor of Wells Fargo Bank and subordinated note to TCTB in the amount of $4,000,000 bearing a 6% interest rate. Payments of the TCTB note will be made from (NOL) savings, but interest will be deferred until the third year of operation and could also be paid out of surplus cash only if available. The Wells Fargo Bank note balloons in June 2009 and has a fixed rate of interest of 7.23 % and a 20-year amortization. Crosswalk Pro Forma Consolidated Statements of Operations Representing Impact of Asset Sale and Proposal Two Asset Acquisition (Unaudited) The following unaudited pro forma consolidated statements of operations for the year ended December 31, 2001, and the six months ended June 30, 2002 were prepared to illustrate the estimated effects of the discontinuance of the business associated with the asset sale and the commencement of business related to the building acquisitions described in Proposal Two. The unaudited pro forma consolidated statement of operations for the year ended December 31, 201, assume that the sale and acquisition occurred as of January 1, 2001. The unaudited pro forma consolidated statement of operations for the six months ended June 30, 2002, assume that the sale and acquisition occurred as of January 1, 2002. The unaudited pro forma consolidated statements of operations exclude the effects of transactions that are not reasonably expected to reoccur subsequent to the asset sale and include the audited financial data for the year ended December 2001 related to the properties which are the subject of the Proposal Two acquisition. In the proforma consolidated periodic statement of operations for the six months ended June 30, 2002, per SFAS No. 144, the Company has removed the business attributable to the asset being sold, from continuing operations. The net loss attributable to the business of the asset being sold is reflected in discontinued operations in the income statement for the six months ended June 30, 2002. The Acquisition proforma adjustment for this six-month period are based on the historical numbers for the interim period presented. The unaudited pro forma consolidated statements of operations should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements of Crosswalk, including the notes thereto, appearing in our Annual Form 10-K for the year ended December 31, 2001 and "Management's Discussion and Analysis or Plan of Operation" and the consolidated financial statements of Crosswalk, including the notes thereto, appearing on interim report Form 10-QSB for the quarter ended June 30, 2002. Depreciation charges are based on the new accounting basis for the assets acquired, and interest expense is based on the revised debt structure as disclosed. The unaudited pro forma consolidated statements of operations and related notes are provided for informational purposes only and do not purport to be indicative of the results of operations that would have been reported had the events assumed, occurred on the dates indicated, or purport to be indicative of results of operations that may be achieved in the future. 36 Historical Proforma Year Ended Asset Sale Acquisition

Year Ended December 31, Proforma Proforma December 31, 2001 Adjustment Adjustment 2001 -- REVENUES -------- Advertising and online services $ 4,506,291 $(3,302,484)(a) $ -- $ 1,203,807 Rental Income from building acquisition -- -- 3,942,978(c) 3,942,978 ----------- ----------- ----------- ----------- Total revenues $ 4,506,291 $(3,302,484)(a) $ 3,942,978(c) $ 5,146,785 OPERATING EXPENSES: Cost of advertising and online services 1,737,095 (783,078)(a) -- 954,017 Building acquisition operating expenses -- -- 2,746,248(d) 2,746,248 Crosswalk operations 2,774,780 (2,487,679)(a) 287,101 Sales and marketing 1,525,243 (1,331,013)(a) 194,230 Amortization of Goodwill and Intangibles 1,682,235 (1,485,557)(b) 196,678 General and administrative 1,654,513 (1,185,471)(a) 321,616(e) 790,658 ----------- ----------- ----------- ----------- Total operating expenses 9,373,866 (7,272,798) 3,067,864 5,168,932 ----------- ----------- ----------- ----------- INCOME (LOSS) FROM OPERATIONS (4,867,575) 3,970,314 875,114 (22,147) OTHER INCOME (EXPENSE): Interest income 91,699 -- -- 91,699 Interest (expense) (8,638) -- (714,830)(f) (723,468) ----------- ----------- ----------- ----------- Total other income (expense) 83,061 -- (714,830)(f) (631,769) NET INCOME (LOSS) $(4,784,514) $ 3,970,314 $ 160,284 $ (653,916) =========== =========== =========== =========== Net loss per common share $ (0.60) $ (0.08) (basic and diluted) Weighted average number of common shares outstanding 7,947,555 7,947,555 ========= ========= 37 Historical Proforma Six Months Asset Sale Acquisition Six Months Ended Proforma Proforma Ended June 30, 2002 Adjustment Adjustment June 30, 2002 -- REVENUES Advertising and online services $ 484,615 $ -- $ -- $ 484,615 Rental Income from building acquisition -- -- 2,134,083(c) 2,134,083 ----------- ----------- ----------- ----------- Total revenues $ 484,615 $ -- $ 2,134,083(c) $ 2,618,698 OPERATING EXPENSES: Cost advertising and online services 374,340 -- -- 374,340 Building acquisition operating expenses -- -- 1,138,584(d) 1,138,584 Crosswalk operations 112,340 -- -- 112,034 Sales and marketing 70,430 -- -- 70,430 General and administrative 351,777 -- 140,596(e) 492,373 ----------- ----------- ----------- ----------- Total operating expenses 908,581 -- 1,279,180 2,187,761 ----------- ----------- ----------- ----------- INCOME (LOSS) FROM CONTINUING OPERATIONS (423,966) -- 854,903 430,937 OTHER INCOME (EXPENSE): Interest income 23,826 -- -- 23,826 Interest expense (5,643) -- (366,822)(f) (372,465) ----------- ----------- ----------- ----------- Total other income (expense) 18,183 -- (366,822)(f) (348,639) INCOME (LOSS) FROM CONTINUING OPERATIONS $ (405,783) $ -- $ 488,081 $ 82,298 Loss from discontinued operations (504,187) 504,187(a) -- -- ----------- ----------- ----------- ----------- Income (loss) before cumulative effect of a change in accounting policy $ (909,970) $

504,187 $ 488,081 $ 82,298 Recognition of impairment loss as a result of transitional goodwill impairment test (750,000) -- -- (750,000) ----------- ----------- ----------- ----------- NET INCOME (LOSS) $(1,659,970) $ 504,187 $ 488,081 $ (667,702) =========== =========== =========== =========== Amounts per common share: Income (loss) from continuing operations $ (0.05) $ .02 Loss from discontinued operations (0.06) $ -- ----------- ----------- Income (loss) before cumulative effect of a change in accounting principle $ (0.11) $ .02 Recognition of impairment loss as a result of transitional goodwill impairment test (0.10) (0.10) ----------- ----------- Net loss per common share (basic and diluted) $ (0.21) $ (0.08) =========== =========== Weighted average number of common shares outstanding 7,967,470 7,967,470 38 Notes to Adjustments to Unaudited Pro Forma Consolidated Statements of Operations Reflecting the Asset Sale Only The following footnotes set forth the contributing factors to the proforma (a) To reflect the elimination of revenues and associates costs and expenses generated from substantially all of Crosswalk's Internet assets and intellectual property and other technology assets sold to Salem. (b) To record the elimination of expenses incurred during the respective period for goodwill and intangible assets sold to Salem. (c) To record gross revenues associated with the operations of acquired buildings as described in Proposal Two. They represent actual rental income from existing leases of the Midland and Lubbock buildings beginning from the assumed proforma date of acquisition. (d) To record period operating expenses associated with the operations of acquired buildings as described in Proposal Two. They represent actual operating expenses incurred for the periods presented for items such as repair and maintenance, management, security, utilities, insurance and real estate taxes related to the operations of the Midland and Lubbock buildings. (e) To record depreciation associated with acquired buildings as described in Proposal Two. Depreciation is figured with 30% allocation of purchase price to land with a 39-year straight-line schedule for 70% of the balance. Capital expenditure depreciation is straight-line based on a 10-year useful life. (f) To record interest expense associated with acquired buildings as described in Proposal Two. This interest relates to the Wells Fargo Bank note and the TCTB note. The Wells Fargo Bank note is $6,800,000, and interest is computed based on a fixed rate of interest of 7.23% and a 20-year amortization from the assumed proforma date of acquisition. The resulting proforma interest expense is $474,830 and $246,822 for the year ended December 31, 2001 and the six-month period ended June 30, 2002, respectively. Payments of the TCTB note in the amount of $4,000,000 bearing a 6% interest rate will be made from (NOL) savings or surplus cash only if available, and will be deferred until the third year of operation. The proforma effect of accrued interest expense related to this note for the year ended December 31, 2001 and the six-month period ended, June 30, 2002, of $240,000 and $120,000, respectively, is included in the proforma consolidated

statements of operations. Unaudited Financial Statements for the Two Secondary Office Market Properties in Midland and Lubbock, Texas for the Six Month Period Ended June 30, 2002 The following financial statements are provided for the interim period ended June 30, 2002 for TCTB. Also included are operational financial statements for 1500 Broadway, Ltd. through liquidation effective June 5, 2002 when TCTB acquired the Lubbock property from 1500 Broadway, Ltd. Therefore, the financial statements of TCTB include the operations of the Midland and Lubbock building for the month of June 2002. The 1500 Broadway, Ltd. partnership was liquidated upon closing of the sale of the Lubbock property to TCTB. Only operations of the Lubbock building through May 2002 are reflected in the 1500 Broadway, Ltd. unaudited financial statements, and are compared to operations of the Lubbock building in 2001 for the six months ended June 30, 2002. The gain on the sale and distribution to the partners of 1500 Broadway, Ltd. are not known or relevant to the proforma or projected financial statements related to Proposal Two, and therefore are not reflected in these unaudited financial statements. 39 TCTB PARTNERS, LTD. (A TEXAS LIMITED PARTNERSHIP) TABLE OF CONTENTS Page FINANCIAL STATEMENTS (Unaudited) BALANCE SHEET as of June 30, 2002 2 STATEMENTS OF EARNINGS for the six months ended June 30, 2002 and 2001 3 STATEMENTS OF CASH FLOWS for the six months ended June 30, 2002 and 2001 4 NOTES TO FINANCIAL STATEMENTS 5 40 TCTB Partners, Ltd. (A Texas Limited Partnership) BALANCE SHEET (Unaudited) June 30, ASSETS 2002 2001 ---------- ---------- CURRENT ASSETS Cash $ 352,535 90,598 Accounts receivable - related party -- 2,738 ---------- ---------- Total current assets 352,535 93,336 INVESTMENTS 366,625 362,500 PROPERTY AND EQUIPMENT, net of accumulated depreciation of $271,565 and $129,244 8,683,847 4,120,256 OTHER ASSETS 130,751 35,298 ---------- ---------- $9,533,758 4,611,390 LIABILITIES AND PARTNERS' CAPITAL CURRENT LIABILITIES Accounts payable $ 76,203 66,486 Accrued liabilities 116,553 39,835 Deferred revenues 90,136 52,635 Current portion of long-term debt 143,908 551,470 ---------- ---------- Total current liabilities 426,800 710,426 LONG-TERM DEBT, less current portion 6,635,205 2,497,621 PARTNERS' CAPITAL 2,471,753 1,403,343 ---------- ---------- $9,533,758 4,611,390 ========== ========== The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -2- 41 TCTB Partners, Ltd. (A Texas Limited Partnership) STATEMENTS OF EARNINGS (Unaudited) Six months ended June 30, 2002 2001 ---------- ---------- Rental revenues $1,330,709 1,092,860 ---------- ---------- Expenses: Operating expense 670,586 719,307 Depreciation and amortization expense 69,058 51,883 Interest expense 118,388 126,559 ---------- ---------- Total expenses 858,032 897,749 Net earnings from operations 472,677 195,111 Other income, net 368 1,249 ---------- ---------- NET EARNINGS $ 473,045 196,360 ==========

========== See Note D The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -3- 42 TCTB Partners, Ltd. (A Texas Limited Partnership) STATEMENTS OF CASH FLOWS (Unaudited) Six months ended June 30, 2002 2001 ----------- ----------- Increase (Decrease) in Cash and Cash Equivalents Cash flows from operating activities: Net earnings $ 473,045 196,360 Adjustments to reconcile net earnings to net cash provided by operating activities: Depreciation and amortization 69,058 51,883 Changes in assets and liabilities: Decrease in accounts receivable-trade 91,426 155,344 Increase in accounts receivable-related party -- (635) Increase in other assets (111,827) (14,683) (Decrease) increase in accounts payable 1,408 (18,284) Decrease in accrued liabilities (48,979) (129,573) Increase (decrease) in deferred revenues 17,997 (16,017) ----------- ----------- Net cash provided by operating activities 492,128 224,395 Cash flows from investing activities: Property and equipment additions (4,362,309) (127,398) Investments in partnerships (2,045) (362,500) ----------- ----------- Net cash used in investing activities (4,364,354) (489,898) Cash flows from financing activities: Additional borrowings of debt 6,800,000 465,524 Repayment of debt (2,802,891) (173,784) Distributions -- (285,524) ----------- ----------- Net cash (used in) provided by financing activities 3,997,109 6,216 Net increase (decrease) in cash and cash equivalents 124,883 (259,287) Cash and cash equivalents at beginning of period 227,652 349,885 Cash and cash equivalents at end of period $ 352,535 90,598 =========== =========== The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -4- 43 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS Unaudited June 30, 2002 NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 1. Organization and Basis of Accounting TCTB Partners, Ltd. (the Partnership), a Texas Limited Partnership was organized effective March 1, 2000. The primary business activities of the Partnership is to engage generally in the real estate business, including, but not limited to, the purchase, improvement, development, leasing, sale, and exchange of real estate, and the construction, alteration, or repair of buildings or structures on real estate. The Partnership operates primarily in Midland, Texas. 2. Cash Equivalents The Partnership considers cash on hand, cash on deposit in banks, money market mutual funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. 3. Long-Lived Assets In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS No. 144 provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of other than by sale (e.g. abandoned) be classified as "held and used" until it is

disposed of, and establishes more restrictive criteria to classify an asset as "held for sale." The Partnership has adopted the SFAS No. 144 effective January 1, 2002. Management does not believe that impairment exists or that the adoption of SFAS No. 144 will have a significant impact on results of operations or financial position. 4. Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is based on the straight-line method over the estimated economic lives of 40 years for building improvements and 3-15 years for machinery and equipment, or the lease term, whichever is less. Maintenance and repairs are charged to operations as incurred. Renewals and significant betterments and improvements are capitalized and depreciation over their estimated useful lives. 5. Lease Revenue Recognition Certain of the Partnership lease agreements contain provisions for escalating rental payments over the life of the leases. In accordance with the provisions of SFAS No. 13, Accounting for Leases, the Partnership recognizes rental income from these leases on a straight-line basis over the life of the respective leases. 6. Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. -5- 44 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) Unaudited June 30, 2002 NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 7. Environmental The Partnership is subject to extensive federal, state and local environmental laws and regulations. These laws regulate asbestos in buildings that require the Partnership to remove or mitigate the environmental effects of the disposal of the asbestos at the buildings. Environmental costs that relate to current operations are expensed or capitalized as appropriate. Costs are expensed when they relate to an existing condition caused by past operations and will not contribute to current or future revenue generation. Liabilities related to environmental assessments and/or remedial efforts are accrued when property or services are provided or can reasonably be estimated. NOTE B - CONCENTRATIONS OF CREDIT RISK The Partnership maintains cash balances at one financial institution, which at times may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on such accounts. The Partnership's revenues are derived principally from uncollateralized rents from tenants. The concentration of credit risk in a single industry affects its overall exposure to credit risk because tenants may be similarly affected by changes in economic and other conditions. NOTE C - LONG-TERM DEBT On April 4, 2000, the Partnership entered into a loan agreement with a reputable financial institution for a term loan in the amount of $2,962,723 with an interest rate equal to the financial institution's prime rate plus one quarter of one percentage point (.25%), but in

no event to exceed the highest lawful rate. Commencing on May 15, 2000, the Partnership was required to make monthly payments of outstanding principal, each in the amount of $27,135, plus accrued interest. The final date of maturity is April 15, 2005, at which time all of the outstanding principal and accrued interest shall be due and payable in their entirety. The loan agreement is secured by substantially all of the assets of the Partnership. The loan agreement restricts cash distributions to the partners' owners other than for purposes of allowing those Partners to pay any income taxes owed by them in connection with their ownership of interests in the Partnership. The loan agreement also contains other customary conditions and events of default, the failure to comply with, or occurrence of, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings along with accrued interest under the loan agreement. Such events of default include (a) non-payment of loan agreement debt and interest thereon, (b) non-compliance with the terms of the credit agreement covenants, (c) cross-default with other debt in certain circumstances and (d) bankruptcy. On April 26, 2001, the Partnership entered into an agreement to borrow an additional $285,524 as an amendment to the previous loan agreement, for a total term loan in the amount of $2,897,963. Commencing on May 15, 2001, the Partnership was required to make monthly payments of outstanding principal, each in the amount of $30,300, plus accrued interest. The final maturity date remains at April 15, 2005, along with all other terms of the original term note. As of December 31, 2001, the outstanding principal balance was $2,782,004. The term note was subsequently paid in full in the second quarter of 2002. -6- 45 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) Unaudited June 30, 2002 NOTE C - LONG-TERM DEBT (CONTINUED) On June 5, 2002, the Partnership entered into a loan agreement with a reputable financial institution for a term note of $6,800,000 and a revolving line of credit note of $200,000. The term note bears interest at a fixed rate per annum of 7.23% and the line of credit bears interest at a variable rate per annum equal to the Wells Fargo Bank Texas, N.A. Base Rate plus one-half of one percentage point (0.5000%). Commencing on June 30, 2002, the Partnership was required to start making monthly payments of principal and interest in the amount of $53,663 for the term note until maturity of the note on May 31, 2009. Commencing on June 30, 2002, the Partnership was required to start making monthly interest payments computed on the unpaid principal balance of the revolving line of credit note due to mature on May 31, 2003. The loan agreement is secured by substantially all of the assets of the Partnership. The loan agreement restricts cash distributions to the partners' owners. The Partnership shall not declare or pay any distributions in excess of tax liability due annually (but in any event, no more than 40% of net income), either in cash or any other property to any partner or partners' owners, nor redeem, retire, repurchase or otherwise

acquire any interest of any partner or partners' owners. The loan agreement also contains other customary conditions and events of default, the failure to comply with, or occurrence of, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings along with accrued interest under the loan agreement. Such events of default include (a) non-payment of loan agreement debt and interest thereon, (b) non-compliance with the terms of the credit agreement covenants, (c) cross-default with other debt in certain circumstances, (d) bankruptcy and (e) a final judgment or order for the payment of money in excess of $100,000. Maturities of long-term debt at June 30, 2002 were as follows: 2002 $ 64,235 2003 168,225 2004 180,799 2005 194,313 2006 208,837 Thereafter 5,962,704 ------------- Total 6,779,113 Less: current portion 143,908 ------------- Long-term portion $ 6,635,205 ============= -7- 46 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) Unaudited June 30, 2002 NOTE D - ACQUISITION OF 1500 BROADWAY BUILDING AND RENTAL ARRANGEMENTS Effective June 5, 2002, the Partnership purchased a building located at 1500 Broadway, Lubbock, TX, from a third party for $4,100,000. The Partnership has acquired the building subject to their existing operating leases. Future minimum lease payments under non-cancelable operating leases aggregate approximately $10,730,000 as of June 30, 2002 and are due as follows: 2002 $ 872,717 2003 1,623,431 2004 1,548,693 2005 1,422,234 2006 1,257,094 Thereafter 4,012,980 ------------- Total $ 10,737,149 ============= The Partnership also has rented facilities under operating leases in Midland, TX. Future minimum lease payments under non-cancelable operating leases aggregate approximately $4,287,000 as of June 30, 2002 and due as follows: 2002 $ 1,007,185 2003 1,290,652 2004 1,084,455 2005 630,515 2006 139,075 Thereafter 135,227 ------------- Total $ 4,287,109 ============= The following represents the portion of TCTB's Statement of Earnings for the six-months ended June 30, 2002 related to the Lubbock building for June 2002, the first month of operation as a TCTB asset: Revenue $ 133,028 Expenses: Operating expenses 32,405 Depreciation and amortization 8,545 Interest expense 13,013 ------------- Total expenses $ 53,963 ============= Net earnings from operations $ 79,065 ============= NOTE E - RELATED PARTY TRANSACTIONS For the six-month periods ended June 30, 2002 and 2001 certain of the Partnership's partners were tenants. The Partnership received rental income from these partners of approximately $64,000 in each of these six-moth periods. -8- 46 1500 Broadway, Ltd. (A TEXAS LIMITED PARTNERSHIP) TABLE OF CONTENTS Page FINANCIAL STATEMENTS (Unaudited) BALANCE SHEET as of May 31, 2002 2 STATEMENTS OF EARNINGS for the five months ended May 31, 2002 and six months ended June 30, 2001 3 STATEMENTS OF CASH FLOWS for the five months ended May 31, 2002 and

six months ended June 30, 2001 4 NOTES TO FINANCIAL STATEMENTS 5 48 1500 Broadway, Ltd. (A Texas Limited Partnership) BALANCE SHEETS (Unaudited) ASSETS May 31, June 30, 2002 2001 ---------- ---------- CURRENT ASSETS Cash $ 116,364 27,792 Total current assets 116,364 27,792 PROPERTY AND EQUIPMENT, net of accumulated depreciation of $190,958 and $63,498 2,912,824 1,800,704 OTHER ASSETS 5,392 10,530 ---------- ---------- $3,034,580 1,839,026 LIABILITIES AND PARTNERS' CAPITAL CURRENT LIABILITIES Accounts payable $ 43,958 40,058 ---------- ---------- Total current liabilities 43,958 40,058 PARTNERS' CAPITAL 2,990,622 1,798,968 ---------- ---------- $3,034,580 1,839,026 ========== ========== See Footnote C The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -2- 49 1500 Broadway, Ltd. (A Texas Limited Partnership) STATEMENTS OF EARNINGS (Unaudited) Five Months Six Months Ended May 31, Ended June 30, 2002 2001 -------- -------- Rental revenues $803,374 822,091 Expenses: Operating expense 467,998 593,796 Depreciation and amortization expense 69,807 49,646 -------- -------- Total expenses 537,805 643,442 -------- -------- NET EARNINGS $265,569 178,649 ======== ======== See Note C The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -3- 50 1500 Broadway, Ltd. (A Texas Limited Partnership) STATEMENTS OF CASH FLOWS (Unaudited) Five Months Six Months Ended May 31, Ended June 30, 2002 2001 --------- --------- Increase (Decrease) in Cash and Cash Equivalents Cash flows from operating activities: Net earnings $ 265,569 178,649 Adjustments to reconcile net earnings to net cash provided by operating activities: Depreciation and amortization 69,807 49,646 Changes in assets and liabilities: Decrease in accounts receivable 72,866 4,494 (Increase) in other assets (4,742) (10,530) (Decrease) in accounts payable (35,008) (206,627) (Decrease) in deferred revenues (83,678) (983) --------- --------- Net cash provided by operating activities 284,814 14,649 Cash flows from investing activities: Property and equipment additions (731,009) (399,045) --------- --------- Net cash used in investing activities (731,009) (399,045) Cash flows from financing activities: Contributions 518,785 375,000 Distributions (493,867) -- --------- --------- Net cash provided by financing activities 24,918 375,000 Net increase in cash and cash equivalents (421,277) (9,396) Cash and cash equivalents at beginning of period 537,641 37,188 Cash and cash equivalents at end of period $ 116,364 27,792 ========= ========= The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -4- 51 1500 Broadway, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS June 5, 2002 NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 1. Organization and Basis of Accounting 1500 Broadway, Ltd. (the Partnership), a Texas Limited Partnership was organized effective June 13, 2000. The

primary business activities of the Partnership is to engage generally in the real estate business, including, but not limited to, the purchase, improvement, development, leasing, sale, and exchange of real estate, and the construction, alteration, or repair of buildings or structures on real estate. The Partnership operates primarily in Lubbock, Texas. 2. Cash Equivalents The Partnership considers cash on hand, cash on deposit in banks, money market mutual funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalent. 3. Long-Lived Assets In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS No. 144 provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of other than by sale (e.g. abandoned) be classified as "held and used" until it is disposed of, and establishes more restrictive criteria to classify an asset as "held for sale." The Partnership has adopted the SFAS No. 144 effective January 1, 2002. Management does not believe that impairment exists or that the adoption of SFAS No. 144 will have a significant impact on results of operations or financial position. 4. Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is based on the straight-line method over the estimated economic lives of 40 years for building improvements and 3-15 years for machinery and equipment, or the lease term, whichever is less. Maintenance and repairs are charged to operations as incurred. Renewals and significant betterments and improvements are capitalized and depreciation over their estimated useful lives. 5. Lease Revenue Recognition Certain of the Partnership lease agreements contain provisions for escalating rental payments over the life of the leases. In accordance with the provisions of SFAS No. 13, Accounting for Leases, the Partnership recognizes rental income from these leases on a straight-line basis over the life of the respective leases. 6. Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. -5- 52 1500 Broadway, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) June 5, 2002 NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 7. Environmental The Partnership is subject to extensive federal, state and local environmental laws and regulations. These laws regulate asbestos in buildings that require the Partnership to remove or mitigate the environmental effects of the disposal of the asbestos at the buildings. Environmental costs that relate to current operations are expensed or capitalized as appropriate. Costs are expensed when they relate to an existing condition caused by past operations and will not contribute to

current or future revenue generation. Liabilities related to environmental assessments and/or remedial efforts are accrued when property or services are provided or can reasonably be estimated. NOTE B - CONCENTRATIONS OF CREDIT RISK The Partnership maintains cash balances at one financial institution, which at times may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on such accounts. The Partnership's revenues are derived principally from uncollateralized rents from tenants. The concentration of credit risk in a single industry affects its overall exposure to credit risk because tenants may be similarly affected by changes in economic and other conditions. NOTE C - SALE OF PARTNERSHIP ASSETS Effective June 5, 2002, the Partnership sold its primary asset, the building located at 1500 Broadway to a third party for $4,100,000 and liquidated the Partnership. -6- 53 Audited Financial Statements for the Two Secondary Office Market Properties in Midland and Lubbock, Texas On August 15, 2002 the CPA firm of Johnson Miller & Co. of Midland, TX, completed an audit of the income statements for TCTB and 1500 Broadway, Ltd., a Texas limited partnership. The primary assets of TCTB and 1500 Broadway, Ltd. are the Midland and Lubbock properties, respectively, which are the subject of potential acquisition by the Company as indicated in Proposal Two. The audited income statements for TCTB related to the Midland building are for the year ended December 31, 2001 and for the period from March 1, 2000 (date of inception) through December 31, 2000. The audited income statements for 1500 Broadway, Ltd., related to the Lubbock building are for the year ended December 31, 2001 and for the period from June 13, 2000 (date of inception) through December 31, 2000. Prior to these periods, these buildings were not revenue producing assets, and therefore a schedule of operating revenues and expenses is not available. 54 FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS TCTB PARTNERS, LTD. (A TEXAS LIMITED PARTNERSHIP) December 31, 2001 and 2000 55 TABLE OF CONTENTS Page REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 1 FINANCIAL STATEMENTS BALANCE SHEETS 2 STATEMENTS OF EARNINGS 3 STATEMENTS OF CHANGES IN PARTNERS' CAPITAL 4 STATEMENTS OF CASH FLOWS 5 NOTES TO FINANCIAL STATEMENTS 7 56 JOHNSON, MILLER & CO. Odessa, Texas Certified Publis Accountants Midland, Texas A professional Corporation Hobbs, New Mexico -- An Independent member of BDO Siedman Alliance Report of Independent Certified Public Accountants To the Members of TCTB Partners, Ltd. A Texas Limited Partnership We have audited the balance sheets of TCTB Partners, Ltd. a Texas Limited Partnership, (the Partnership) as of December 31, 2001 and 2000, and the related statements of earnings, partners' capital and cash

flows for the year ended December 31, 2001 and for the period from March 1, 2000 (date of inception) through December 31, 2000. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 audit provides a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TCTB Partners, Ltd., a Texas Limited Partnership, as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the year ended December 31, 2001 and the period from March 1, 2000 (date of inception) through December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. /s/ Johnson, Miller & Co. Midland, Texas August 15, 2002 57 TCTB Partners, Ltd. (A Texas Limited Partnership) BALANCE SHEETS December 31, ASSETS 2001 2000 ---------- ---------- CURRENT ASSETS Cash (note A2) $ 227,652 349,885 Accounts receivable 91,426 155,344 Accounts receivable - related party -- 2,103 ---------- ---------- Total current assets 319,078 507,332 INVESTMENTS 364,580 -- PROPERTY AND EQUIPMENT, net of accumulated depreciation of $202,507 and $77,361 (notes A4, A5 and E) 4,390,596 4,044,741 OTHER ASSETS 18,924 20,615 ---------- ---------- $5,093,178 4,572,688 ========== ========== LIABILITIES AND PARTNERS' CAPITAL CURRENT LIABILITIES Accounts payable $ 74,795 84,770 Accrued liabilities 165,532 169,408 Deferred revenues 72,139 68,652 Current portion of long-term debt (note C) 457,790 111,371 ---------- ---------- Total current liabilities 770,256 434,201 72,804 LONG-TERM DEBT, less current portion (note C) 2,324,214 2,645,980 PARTNERS' CAPITAL 1,998,708 1,492,507 ---------- ---------- $5,093,178 4,572,688 ========== ========== The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -2- 58 TCTB Partners, Ltd. (A Texas Limited Partnership) STATEMENTS OF EARNINGS Year ended December 31, 2001 and from March 1, 2000 (Date of Inception) to December 31, 2000 2001 2000 ---------- ---------- Rental revenues $2,166,374 1,380,432 Expenses: Operating expense 1,440,558 971,066 Depreciation and amortization expense 128,408 79,808 Interest expense 224,439 192,491 Other expense 21,874 25,126 ---------- ---------- Total expenses 1,815,279 1,268,491 ---------- ---------- Net earnings from operations 351,095 111,941 Other

income, net 7,569 11,187 ---------- ---------- NET EARNINGS $ 358,664 123,128 ========== ========== The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -3- 59 TCTB Partners, Ltd. (A Texas Limited Partnership) STATEMENTS OF CHANGES IN PARTNERS' CAPITAL Year ended December 31, 2001 and from March 1, 2000 (Date of Inception) to December 31, 2000 General Limited Partner Partners Total --------- --------- --------- Beginning Partners' Capital, March 1, 2000 $ -- -- -- Contributions 13,694 1,355,685 1,369,379 Net earnings 1,231 121,897 123,128 --------- --------- --------- Ending Partners' Capital, December 31, 2000 14,925 1,477,582 1,492,507 Contributions 1,475 146,062 147,537 Net earnings 3,586 355,078 358,664 --------- --------- --------- Ending Partners' Capital, December 31, 2001 $ 19,986 1,978,722 1,998,708 ========= ========= ========= The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -4- 60 TCTB Partners, Ltd. (A Texas Limited Partnership) STATEMENTS OF CASH FLOWS Year ended December 31, 2001 and from March 1, 2000 (Date of Inception) to December 31, 2000 2001 2000 ---------- ---------- Increase (Decrease) in Cash and Cash Equivalents Cash flows from operating activities: Net earnings $ 358,664 123,128 Adjustments to reconcile net earnings to net cash provided by operating activities: Depreciation and amortization 128,408 77,361 Equity in income from investment in partnerships (2,080) -- Changes in assets and liabilities: Decrease (increase) in accounts receivable-trade 63,918 (155,344) Decrease (increase) in accounts receivable-related party 21,875 (2,103) Decrease (increase) in other assets 1,691 (20,615) (Decrease) increase in accounts payable (9,975) 84,770 (Decrease) increase in accrued liabilities (3,876) 169,408 Increase in deferred revenues 3,487 68,652 ---------- ---------- Net cash provided by operating activities 562,112 345,257 ---------- ---------- Cash flows from investing activities: Property and equipment additions (60,974) (4,122,102) Investments in partnerships (362,500) -- ---------- ---------- Net cash used in investing activities (423,474) (4,122,102) ---------- ---------- Cash flows from financing activities: Additional borrowings of debt -- 2,962,723 Repayment of debt (260,871) (205,372) Partner contributions -- 1,369,379 ---------- ---------- Net cash (used in) provided by financing activities (260,871) 4,126,730 ---------- ---------- Net increase in cash and cash equivalents (122,233) 349,885 Cash and cash equivalents at beginning of period 349,885 -- ---------- ---------- Cash and cash equivalents at end of period $ 227,652 349,885 ========== ========== Cash paid during the year for: Interest $ 224,439 192,491 The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -5- 61 TCTB Partners, Ltd. (A Texas Limited Partnership) STATEMENTS OF CASH FLOWS Year ended December 31, 2001 and from March 1, 2000 (Date of Inception) to December 31, 2000 2001 2000 -------- -------- Noncash investing and financing activities:

--- Acquisition of property and equipment in exchange for a partnership interest $413,289 -- Acquisition of debt in exchange for a partnership interest 285,524 -- Exchange of related party liability for a partnership interest 19,772 -- The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -6- 62 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS December 31, 2001 and 2000 NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 1. Organization and Basis of Accounting TCTB Partners, Ltd. (the Partnership), a Texas Limited Partnership was organized effective March 1, 2000. The primary business activities of the Partnership is to engage generally in the real estate business, including, but not limited to, the purchase, improvement, development, leasing, sale, and exchange of real estate, and the construction, alteration, or repair of buildings or structures on real estate. The Partnership operates primarily in Midland, Texas. 2. Cash Equivalents The Partnership considers cash on hand, cash on deposit in banks, money market mutual funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. 3. Fair Value of Financial Instruments The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 107, Disclosures about Fair Value of Financial Instruments, which requires entities to disclose the SFAS No. 107 value of certain on-and off-balance sheet financial instruments for which it is practicable to estimate. Value is defined in SFAS No. 107 as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Partnership believes the carrying amounts of its financial instruments classified as current assets and liabilities in its balance sheet approximate SFAS No. 107 value due to the relatively short maturity of these instruments. The Partnership considers the disclosure of the SFAS 107 value of the loans to be impracticable. 4. Long-Lived Assets In March 1995, the FASB issued SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, which requires impairment losses to be recorded on long-lived assets used in operation when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. SFAS No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. Management does not believe that impairment exists. -7- 63 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) December 31, 2001 and 2000 NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 5. Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is based on the straight-line method over the estimated economic lives of 40 years for building improvements and 3-15 years for machinery and

equipment, or the lease term, whichever is less. Maintenance and repairs are charged to operations as incurred. Renewals and significant betterments and improvements are capitalized and depreciation over their estimated useful lives. 6. Lease Revenue Recognition Certain of the Partnership lease agreements contain provisions for escalating rental payments over the life of the leases. In accordance with the provisions of SFAS No. 13, Accounting for Leases, the Partnership recognizes rental income from these leases on a straight-line basis over the life of the respective leases. 7. Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. 8. Impact of Recently Issued Accounting Standards In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS No. 144 provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of other than by sale (e.g. abandoned) be classified as "held and used" until it is disposed of, and establishes more restrictive criteria to classify an asset as "held for sale." The Partnership expects to adopt the SFAS No. 144 effective January 1, 2002 and does not anticipate adoption will have a significant effect on results of operations or financial position. 9. Environmental The Partnership is subject to extensive federal, state and local environmental laws and regulations. These laws regulate asbestos in buildings that require the Partnership to remove or mitigate the environmental effects of the disposal of the asbestos at the buildings. -8- 64 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) December 31, 2001 and 2000 NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 9. Environmental (Continued) Environmental costs that relate to current operations are expensed or capitalized as appropriate. Costs are expensed when they relate to an existing condition caused by past operations and will not contribute to current or future revenue generation. Liabilities related to environmental assessments and/or remedial efforts are accrued when property or services are provided or can reasonably be estimated. NOTE B - CONCENTRATIONS OF CREDIT RISK The Partnership maintains cash balances at one financial institution, which at times may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on such accounts. The Partnership's revenues are derived principally from uncollateralized rents from tenants. The concentration of credit risk in a single industry affects its overall exposure to credit risk because tenants may be similarly affected by changes in economic

and other conditions. NOTE C - LONG-TERM DEBT On April 4, 2000, the Partnership entered into a loan agreement with a reputable financial institution for a term loan in the amount of $2,962,723 with an interest rate equal to the financial institution's prime rate plus one quarter of one percentage point (.25%), but in no event to exceed the highest lawful rate. Commencing on May 15, 2000, the Partnership was required to make monthly payments of outstanding principal, each in the amount of $27,135, plus accrued interest. The final date of maturity is April 15, 2005, at which time all of the outstanding principal and accrued interest shall be due and payable in their entirety. The loan agreement is secured by substantially all of the assets of the Partnership. The loan agreement restricts cash distributions to the partners' owners other than for purposes of allowing those Partners to pay any income taxes owed by them in connection with their ownership of interests in the Partnership. The loan agreement also contains other customary conditions and events of default, the failure to comply with, or occurrence of, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings along with accrued interest under the loan agreement. Such events of default include (a) non-payment of loan agreement debt and interest thereon, (b) non-compliance with the terms of the credit agreement covenants, (c) cross-default with other debt in certain circumstances and (d) bankruptcy. As of December 31, 2000, the outstanding principal balance was $2,757,351. -9- 65 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) December 31, 2001 and 2000 NOTE C - LONG-TERM DEBT (CONTINUED) On April 26, 2001, the Partnership entered into an agreement to borrow an additional $285,524 as an amendment to the previous loan agreement, for a total term loan in the amount of $2,897,963. Commencing on May 15, 2001, the Partnership was required to make monthly payments of outstanding principal, each in the amount of $30,300, plus accrued interest. The final maturity date remains at April 15, 2005, along with all other terms of the original term note. As of December 31, 2001, the outstanding principal balance was $2,782,004. The term note was subsequently paid in full in fiscal year 2002. On June 5, 2002, the Partnership entered into a loan agreement with a reputable financial institution for a term note of $6,800,000 and a revolving line of credit note of $200,000. The term note bears interest at a fixed rate per annum of 7.23% and the line of credit bears interest at a variable rate per annum equal to the Wells Fargo Bank Texas, N.A. Base Rate plus one-half of one percentage point (0.5000%). Commencing on June 30, 2002, the Partnership was required to start making monthly payments of principal and interest in the amount of $53,663 for the term note until maturity of the note on May 31, 2009. Commencing on June 30, 2002, the Partnership was required to start making monthly interest payments computed on the unpaid principal balance of the revolving line of credit note due to mature on May 31, 2003. The loan agreement is secured by substantially

all of the assets of the Partnership. The loan agreement restricts cash distributions to the partners' owners. The Partnership shall not declare or pay any distributions in excess of tax liability due annually (but in any event, no more than 40% of net income), either in cash or any other property to any partner or partners' owners, nor redeem, retire, repurchase or otherwise acquire any interest of any partner or partners' owners. The loan agreement also contains other customary conditions and events of default, the failure to comply with, or occurrence of, would prevent any further borrowings and would generally require the repayment of any outstanding borrowings along with accrued interest under the loan agreement. Such events of default include (a) non-payment of loan agreement debt and interest thereon, (b) non-compliance with the terms of the credit agreement covenants, (c) cross-default with other debt in certain circumstances, (d) bankruptcy and (e) a final judgment or order for the payment of money in excess of $100,000. -10- 66 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) December 31, 2001 and 2000 NOTE C - LONG-TERM DEBT (CONTINUED) Maturities of long-term debt at December 31, 2001 were as follows: 2002 $ 457,790 2003 492,007 2004 528,782 2005 568,305 2006 610,783 Thereafter 124,337 ------------- Total 2,782,004 Less: current portion 457,790 ------------- Long-term portion $ 2,324,214 ============= NOTE D - RENTAL ARRANGEMENTS The Partnership has rented facilities under operating leases. Future minimum lease payments under non-cancelable operating leases aggregate approximately $5,294,000 and $7,255,000 as of December 31, 2001 and 2000, respectively and are due as follows: December 31, 2001: 2002 $ 2,014,361 2003 1,290,652 2004 1,084,455 2005 630,515 2006 139,075 Thereafter 135,227 ------------- Total $ 5,294,285 ============= -11- 67 TCTB Partners, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) December 31, 2001 and 2000 NOTE E - PROPERTY AND EQUIPMENT INFORMATION The following is a summary of property and equipment and the related accumulated depreciation as of December 31, 2001 and 2000: 2001 2000 ----------- ----------- Buildings $ 4,465,789 4,042,117 Furniture and fixtures 9,684 1,688 Vehicle 3,000 3,000 Tenant improvements 46,914 13,567 Land 67,716 61,730 ----------- ----------- 4,593,103 4,122,102 Accumulated depreciation (202,507) (77,361) ----------- ----------- Property and equipment, net $ 4,390,596 4,044,741 =========== =========== NOTE F - SIGNIFICANT TENANTS For the year ended December 31, 2001, rent income that accounted for more than ten-percent of the partnership's revenue was as follows: Bank of America, N.A. 32% Pioneer Natural Resources USA, Inc. 15% Faskin Oil and Ranch, Inc. 13% NOTE G - RELATED PARTY TRANSACTIONS During 2001 and 2000 certain of the Partnership's partners were tenants. The Partnership received rental income from these partners of approximately $128,000 and $57,300 during 2001 and

2000, respectively. At December 31, 2000, the General Partner owed the Partnership approximately $1,000. NOTE H - SUBSEQUENT EVENTS Effective June 5, 2002, the Partnership purchased a building from a third party for $4,100,000. 68 REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 1500 BROADWAY, LTD. (A TEXAS LIMITED PARTNERSHIP) December 31, 2001 and 2000 69 TABLE OF CONTENTS Page ---- REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 1 FINANCIAL STATEMENTS BALANCE SHEETS 2 STATEMENTS OF EARNINGS 3 STATEMENTS OF CHANGES IN PARTNERS' CAPITAL 4 STATEMENTS OF CASH FLOWS 5 NOTES TO FINANCIAL STATEMENTS 6 70 JOHNSON, MILLER & CO. Odessa, Texas Certified Publis Accountants Midland, Texas A professional Corporation Hobbs, New Mexico -- An Independent member of BDO Siedman Alliance Report of Independent Certified Public Accountants To the Members of 1500 Broadway, Ltd. A Texas Limited Partnership We have audited the balance sheets of 1500 Broadway, Ltd., a Texas Limited Partnership, (the Partnership) as of December 31, 2001 and 2000, and the related statements of earnings, partners' capital and cash flows for the year ended December 31, 2001 and for the period from June 13, 2000 (date of inception) through December 31, 2000. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 audit provides a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 1500 Broadway, Ltd., a Texas Limited Partnership, as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the year ended December 31, 2001 and the period from June 13, 2000 (date of inception) through December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. /s/ Johnson, Miller & Co. Midland, Texas August 15, 2002 71 1500 Broadway, Ltd. (A Texas Limited Partnership) BALANCE SHEETS December 31, ASSETS 2001 2000 ---------- ---------- CURRENT ASSETS Cash (note A2) $ 537,641 37,188 Accounts receivable 72,866 4,494 ---------- ---------- Total current assets 610,507 41,682 PROPERTY AND EQUIPMENT, net of accumulated depreciation of $121,151 and $13,852 (notes A3, A4

and D) 2,251,622 1,451,305 OTHER ASSETS 650 -- ---------- ---------- $2,862,779 1,492,987 ========== ========== LIABILITIES AND PARTNERS' CAPITAL CURRENT LIABILITIES Accounts payable $ 78,966 246,685 Deferred revenues 83,678 983 ---------- ---------- Total current liabilities 162,644 247,668 72,804 PARTNERS' CAPITAL 2,700,135 1,245,319 ---------- ---------- $2,862,779 1,492,987 ========== ========== The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -2- 72 1500 Broadway, Ltd. (A Texas Limited Partnership) STATEMENTS OF EARNINGS Year ended December 31, 2001 and from June 13, 2000 (Date of Inception) to December 31, 2000 2001 2000 ---------- ---------- Rental revenues $1,776,604 765,344 Expenses: Operating expense 1,305,690 664,748 Depreciation and amortization expense 107,299 13,852 ---------- ---------- Total expenses 1,412,989 678,600 ---------- ---------- NET EARNINGS $ 363,615 86,744 ========== ========== The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -3- 73 1500 Broadway, Ltd. (A Texas Limited Partnership) STATEMENTS OF CHANGES IN PARTNERS' CAPITAL Year ended December 31, 2001 and from June 13, 2000 (Date of Inception) to December 31, 2000 Beginning Partners' Capital, June 13, 2000 $ -- Contributions 1,200,000 Distributions (41,425) Net earnings 86,744 ----------- Ending Partners' Capital, December 31, 2000 1,245,319 Contributions 1,300,000 Distributions (208,799) Net earnings 363,615 ----------- Ending Partners' Capital, December 31, 2001 $ 2,700,135 =========== The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -4- 74 1500 Broadway, Ltd. (A Texas Limited Partnership) STATEMENTS OF CASH FLOWS Year ended December 31, 2001 and from June 13, 2000 (Date of Inception) to December 31, 2000 2001 2000 ----------- ----------- Increase (Decrease) in Cash and Cash Equivalents Cash flows from operating activities: Net earnings $ 363,615 86,744 Adjustments to reconcile net earnings to net cash provided by operating activities: Depreciation and amortization 107,299 13,852 Changes in assets and liabilities: Increase in accounts receivable (68,372) (4,494) Increase in other assets (650) -- (Decrease) increase in accounts payable (167,719) 246,685 Increase in deferred revenues 82,695 983 ----------- ----------- Net cash provided by operating activities 316,868 343,770 ----------- ----------- Cash flows from investing activities: Property and equipment additions (907,616) (1,465,157) ----------- ----------- Net cash used in investing activities (907,616) (1,465,157) ----------- ----------- Cash flows from financing activities: Contributions 1,300,000 1,200,000 Distributions (208,799) (41,425) ----------- ----------- Net cash provided by financing activities 1,091,201 1,158,575 ----------- ----------- Net increase in cash and cash equivalents 500,453 37,188 Cash and cash equivalents at beginning of period 37,188 -- ----------- ----------- Cash and cash

equivalents at end of period $ 537,641 37,188 =========== =========== The accompanying summary of accounting policies and footnotes are an integral part of these financial statements. -5- 75 1500 Broadway, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS December 31, 2001 and 2000 NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 1. Organization and Basis of Accounting 1500 Broadway, Ltd. (the Partnership), a Texas Limited Partnership was organized effective June 13, 2000. The primary business activities of the Partnership is to engage generally in the real estate business, including, but not limited to, the purchase, improvement, development, leasing, sale, and exchange of real estate, and the construction, alteration, or repair of buildings or structures on real estate. The Partnership operates primarily in Lubbock, Texas. 2. Cash Equivalents The Partnership considers cash on hand, cash on deposit in banks, money market mutual funds and highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalent. 3. Long-Lived Assets In March 1995, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, which requires impairment losses to be recorded on long-lived assets used in operation when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. SFAS No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. Management does not believe that impairment exists. 4. Property, Plant and Equipment Property, plant and equipment are stated at cost. Depreciation is based on the straight-line method over the estimated economic lives of 40 years for building improvements and 3-15 years for machinery and equipment, or the lease term, whichever is less. Maintenance and repairs are charged to operations as incurred. Renewals and significant betterments and improvements are capitalized and depreciation over their estimated useful lives. -6- 76 1500 Broadway, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) December 31, 2001 and 2000 NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) 5. Lease Revenue Recognition Certain of the Partnership lease agreements contain provisions for escalating rental payments over the life of the leases. In accordance with the provisions of SFAS No. 13, Accounting for Leases, the Partnership recognizes rental income from these leases on a straight-line basis over the life of the respective leases. 6. Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. 7. Impact of Recently Issued Accounting Standards In

October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS No. 144 provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of other than by sale (e.g. abandoned) be classified as "held and used" until it is disposed of, and establishes more restrictive criteria to classify an asset as "held for sale." The Partnership expects to adopt SFAS No. 144 effective January 1, 2002 and does not anticipate adoption will have a significant effect on results of operations or financial position. 8. Environmental The Partnership is subject to extensive federal, state and local environmental laws and regulations. These laws regulate asbestos in buildings that require the Partnership to remove or mitigate the environmental effects of the disposal of the asbestos at the buildings. Environmental costs that relate to current operations are expensed or capitalized as appropriate. Costs are expensed when they relate to an existing condition caused by past operations and will not contribute to current or future revenue generation. Liabilities related to environmental assessments and/or remedial efforts are accrued when property or services are provided or can reasonably be estimated. -7- 77 1500 Broadway, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) December 31, 2001 and 2000 NOTE B - CONCENTRATIONS OF CREDIT RISK The Partnership maintains cash balances at one financial institution, which at times may exceed federally insured limits. The Partnership has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on such accounts. The Partnership's revenues are derived principally from uncollateralized rents from tenants. The concentration of credit risk in a single industry affects its overall exposure to credit risk because tenants may be similarly affected by changes in economic and other conditions. NOTE C - RENTAL ARRANGEMENTS The Partnership has rented facilities under operating leases. Future minimum lease payments under non-cancelable operating leases aggregate approximately $11,610,000 and $13,129,000 as of December 31, 2001 and 2000, respectively and are due as follows: December 31, 2001: 2002 $ 1,745,434 2003 1,623,431 2004 1,548,693 2005 1,422,234 2006 1,257,094 Thereafter 4,012,980 ------------- Total $ 11,609,866 ============= December 31, 2000: 2001 $ 1,518,671 2002 1,745,434 2003 1,623,431 2004 1,548,693 2005 1,422,234 Thereafter 5,270,074 ------------- Total $ 13,128,537 ============= There can be no assurance that any of the Partnership's leases will be renewed. -8- 78 1500 Broadway, Ltd. (A Texas Limited Partnership) NOTES TO FINANCIAL STATEMENTS (CONTINUED) December 31, 2001 and 2000 NOTE D - PROPERTY AND EQUIPMENT INFORMATION The following is a summary of property and equipment and the related accumulated depreciation as of December 31, 2001 and

2000: 2001 2000 ----------- ----------- Buildings $ 1,651,098 1,101,566 Furniture and fixtures 13,873 6,921 Equipment 22,774 9,484 Tenant improvements 455,028 117,186 Land 230,000 ----------- ----------- 230,000 2,372,773 1,465,157 Accumulated depreciation (121,151) (13,852) ----------- ----------- Property and equipment, net $ 2,251,622 1,451,305 =========== =========== The Partnership has a non-cancelable operating lease agreement for land on which approximately twenty-five per cent of the Partnership's rental office is built. The terms of the present lease agreement will expire on September 30, 2013. The existing lease requires monthly lease payments of $3,495 per month. These payments are adjusted every five years for the change in the consumer price index. The next adjustment will occur on October 1, 2003. Future minimum lease payments under the agreement aggregate approximately $ 493,000 as of December 31, 2001 and are as follows: 2002 $ 41,940 2003 41,940 2004 41,940 2005 41,940 2006 41,940 Thereafter 283,095 ------------- Total $ 492,795 ============= NOTE E - SIGNIFICANT TENANTS For the year then ended December 31, 2001, rent income that accounted for more than ten-percent of the Partnership's revenue was as follows: Wells Fargo Bank, Texas N.A. 37% Lubbock Club 11% 79 DESCRIPTION OF BUSINESS OVERVIEW The following is a historical overview of our business in the context of current business operations. However, if the proposals brought forth in this proxy statement are approved, these statements and the current business discussion will no longer be pertinent. Crosswalk.com, Inc. is primarily known as the creator of crosswalk.com(TM), an interactive Web site, which provides information and resources that we believe generally appeals to the Christian and family friendly community. We focus on "the intersection of faith and life", covering a growing spectrum of everyday life within a Christian context. Our strategy has been to make crosswalk.com a community portal with deep content and broad information for Christians, not just Christian information, drawing many from the broad Christian community offline to an online experience where faith and life meet every day. The content provided by crosswalk.com is presented in the form of different online topical areas or channels. They focus on entertainment, money, home schooling, news and culture, family living, women, travel, bible study, book reviews and spiritual life. Crosswalk.com also features online applications like cross-referenced Bible study databases, daily devotionals, stock and mutual fund screening tools, broadcast guide, e-greeting cards, along with services ranging from an extensive searchable directory of Christian resources to family-friendly movie reviews. Community-building areas like chat, discussion forums, and thirty-five topical and community related e-mail newsletters are a focal point for generating repeat visits to crosswalk.com. The economic impact of several factors such as the September 11 tragedy, the overall advertising market recession, and the going concern qualification issued by our auditors in connection with our 2001 Annual Report,

have made success even more difficult. The result has been that our business model to generate advertising revenues from organizations seeking to reach this audience has not been sufficient to generate consistent cash positive operations on a monthly basis, despite our substantial reduction in expenses. BUILDING COMMUNITY ON THE INTERNET Our product development strategy focuses on providing information, inspiration and interaction for the online Christian community and we seek the most in-demand consumer-driven information areas and applications on the Internet and then deliver them to the Christian marketplace with what we believe is meaningful distinction. Our task is not to create a community, but to enhance an online community of people whose everyday life is focused on a biblical foundation and faith in Christ. We are also seeking to adapt to the Internet, topical areas for which obtaining information and services are cumbersome and inconvenient offline. To this end, Crosswalk.com offers content areas or channels focusing on News & Culture, Family Living, Homeschool, Spiritual Life, Money, Entertainment, Book Reviews and Women. CROSSWALK.COM SERVICES AND SENSE OF COMMUNITY In order to provide opportunities for interaction for our over 900 thousand monthly unique visitors, crosswalk.com offers community-building areas like chat and discussion forums. We also offer the largest Christian Website directory, e-greeting cards, and thirty-five free topical and community related email newsletters for which there are more than 1.4 million subscribers. Additional services include: an entertainment area and a broadcast guide, daily features and columns; an award-winning directory of nationwide events of special interest to the Christian community; free web tools enabling users to link to content on crosswalk.com, daily devotionals and an online movie review area with current reviews and an archive of family-friendly movie reviews. We also offer visitors the ability to post classified ads or explore existing ads free of charge for everything from items for sale to personal announcements. Bible Study Tools offers to pastors and laypeople alike, what we believe is the most complete source for biblical study and encouragement on the Web. References such as lexicons, concordances, commentaries, sermon helps, and input from ministry leaders can be found in this area. For those who want to dig into scripture, we believe there is no greater resource online. 80 TECHNOLOGY During 2001, we turned to Starwire, Inc., the parent company of the Christianity.com network, for content management and network infrastructure services, which would allow us to increase productivity and flexibility in content delivery, and reduce the cost of delivery. Pursuant to the unfortunate liquidation of Starwire, Inc., we immediately implemented specific contingency plans already in place under our arrangement with Starwire. This resulted in our access to productivity enhancing content management software built on the industry leading Vignette platform, and the transition of our network infrastructure support requirements to Worldcom in

November 2001. The robust, highly available and highly scalable hosting environment contracted for a three-year period with Worldcom provides a fully redundant, high speed, low latency network infrastructure. This network consists of equipment from Cisco Systems and Foundry Network, both leaders in the development of mission critical networking hardware. Additionally, we are using F5 Labs' BigIP systems for load balancing and fail-over. These systems have a proven track record for providing rock solid service. We are using Compaq and Sun servers running Redhat Linux and Solaris combined with the proven stability and performance of Oracle's 8i engine to provide the computing platform for delivery of our content. The combination of high performance and reliability with industry leading high-density packaging has enabled us to build an environment that allows for rapid and painless expansion of compute capacity as demand grows for services. The system software has been implemented using Sun's Java 2 Enterprise Edition (J2EE) framework which, when combined with the Java capabilities of the Oracle 8i platform, has enabled us to develop an N-Tiered architecture with a brisk amount of flexibility to support future expansion. The robust network computing features of the J2EE platform, using servlets and enterprise javabeans (EJBs), allow Crosswalk.com to add additional computing resources at essentially any point in the system. This also allows us to deploy limited dedicated resources, in the form of single servers or clusters, to any component in the application. The Oracle 8i engine's support of EJBs directly in the engine also gives us the flexibility of moving processing directly into the database engine, further improving the performance and scalability of data intensive components. SALES & MARKETING Despite our best efforts in the Internet advertising marketplace, Crosswalk's financial difficulties have continued. We were not successful in establishing the strategic partnerships and advertising agency relationships we believed were necessary to increase revenues. While the Company has been able to retain several significant customers and entered into numerous long-term advertising agreements, we have been unable to tap into the ad budgets of larger organizations due to the potential concerns with niche affiliation and most significantly the absence of funding to effectively market the Company. We also believe that while our sales team remains as productive as possible with the resources at our disposal, the team of five has been inadequate to generate revenues necessary to cover our mostly fixed costs of operation. Surveys we initiated indicated that attempts we made to seek new revenue streams were not compelling or were too costly to implement. With weakened sales, cost cutting has been a continual necessity, which has required us to reduce the offerings on crosswalk.com. This has led to a reduction in the effectiveness of our viral marketing capability, as there were less new venues by which to promote and attract new visitors. Competition Competition in the form of multiple media markets for reduced advertising budgets in the midst of a slow

economy have reduced the demand for our services. There are several companies, including nonprofit organizations, which are attempting or may attempt to aggregate Christian or family-friendly content on the Internet. These competitors include; Gospel Communications Network, a not-for-profit Website operated by a division of Gospel Films; Oneplace.com, a broadcasting Website owned by Salem Communications, and Christian Answers.Net, a Website operated by Eden Communications, supported entirely by donations, including an area of interest to young Christians and movie reviews. We also face competition for advertising dollars from Internet and multi-media companies who are among the largest providers of online navigation, information, entertainment, business and community services, such as 81 Yahoo!, Lycos, AltaVista, Microsoft, Netscape and America Online. These organizations provide Internet products and services that target a wide range of audiences and communities which may also appeal to our Christian and family-friendly audience. Likewise, we face competition from companies providing similar services to other vertical markets or targeted audiences, which overlap with the interests of our audience. Many of these competitors may have longer operating histories, greater name recognition and significantly greater financial and other resources than Crosswalk. Moreover there are no substantial technical barriers to entry in our markets. Therefore, it is feasible that this competition may intensify. EMPLOYEES In our four internal functional areas of technical, sales, editorial and administration, we had to implement measured but substantial decreases in expenses. As of July 30, 2002, we had a total of 22 employees, two of which were part time employees. The full time employees consist of four engaged in technical support, seven engaged in sales and sales support, one in email operations, five engaged in editorial functions of crosswalk operations and three in administration. PROPERTIES We currently maintain our executive offices in approximately 13,530 square feet of space at 4100 Lafayette Center Dr. Suite 110, Chantilly, Virginia pursuant to a five-year lease agreement terminating in November 30, 2004 with an unaffiliated third party at an annual rental of approximately $274,000. We have subleased 2,945 square feet of this facility to an unaffiliated third party on a below market month-to-month sublease. We receive approximately $38,000 in rent offsets annually from this sublease arrangement. LEGAL PROCEEDINGS In June 2001, Scott Fehrenbacher, President and Chief Executive Officer of Crosswalk.com, Inc. learned that he was named in criminal proceedings in Orange County, Florida, involving business matters with his former company prior to joining Crosswalk.com in 1998. The allegations, which do not involve Crosswalk.com directly, are related to a dispute with a former business competitor who was involved in purchasing Mr. Fehrenbacher's successful former business, but which apparently suffered losses since its sale in 1998. The State of Florida is the plaintiff; the sole defendant is Scott Fehrenbacher. Since this is a

criminal proceeding, no relief is specified. Crosswalk.com is not a party to the proceeding and therefore would have no liability, monetary or otherwise, if the proceeding's outcome is adverse to Mr. Fehrenbacher. However, any verdict against Mr. Fehrenbacher could impair his ability to carry out his duties as an employee of the Company, and therefore could negatively impact the Company, depending upon Mr. Fehrenbacher's duties at the time of such verdict. Defense counsel continues to seek a dismissal of charges against Mr. Fehrenbacher while the case remains in the discovery phase. It is the opinion of defense counsel and of Company management that the allegations against Mr. Fehrenbacher are of a purely civil nature and do not rise to the level of criminal conduct. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION The following discussion relates to our business, which may include forward-looking statements made in the context of current business operations. However if the proposals brought forth in this proxy statement, are approved these statements and the current business discussion will no longer be pertinent. Crosswalk.com, Inc. is primarily known as the creator of crosswalk.com(TM), an interactive Website, which provides information and resources that the Company believes generally appeals to the English speaking Christian and family-friendly community. The Biblically based content offered is available and may be conducive to helping families educate their children, manage their money, evaluate opportunities for entertainment, and more, regardless of religious persuasion. The information and resources are developed and made available, both by the Company and by Christian and secular retailers, publishers, charities and ministries. The Company generates revenues through the sale of online and offline advertising and sponsorship agreements; referral fees from co-marketing relationships; and the provision of limited Internet services. In 2000, the Company abandoned the pursuit of sponsorship agreements, transitioning to an ad sales model. Thus, sponsorship revenues generated in 2002 are in recognition of services provided under contracts signed prior to 2000. 82 Crosswalk.com offers content focused on topical and lifestyle channels like Entertainment, Money, News, HomeSchool, Family Living, Spiritual Life, Women, Live It--Christian book reviews and more; unique online applications like cross-referenced Bible study databases, stock and mutual fund screening tools, greeting cards, and more; community-building areas like chat, discussion forums, the largest Christian Web site directory, and more; and over thirty topical and community related email newsletters. Crosswalk also provides email subscription service to send information to over 800,000 opt-in email addresses. After achieving disappointing sales results early in the second quarter, the directors of the Company reviewed financial performance, outlooks and strategies going forward. Because of the lasting impact on the advertising market of several factors such as the September 11 tragedy, and the troubled stock market, compounded by the going concern qualification issued by our auditors in

connection with our 2001 Annual Report, we have not been meeting the revenue targets necessary to generate progress toward consistent monthly cash positive operations. IN ORDER TO MAKE PROGRESS TOWARD REDUCING OUR MONTHLY CASH BURN RATE, WE CONTINUE TO REDUCE EXPENSES, WHICH HAS HAD THE EFFECT OF LOWERING THE FAIR MARKET VALUE OF OUR WEBSITE ASSET. Analysis of the Website's traffic patterns, and the outlook for online advertising sales indicate that this trend of reducing cash burn could only be maintained through further expense reductions, which would seriously impact the effectiveness of the Website. The board of directors determined continuing operations in this manner would generate only nominal cashflow for the stockholders over the next few years, and hasten the risk of declining fair market value of the Website. In addition, consideration of engaging new revenue streams, involves further capital infusion which would only further dilute the stockholders. Therefore, in order for the Company to be in the best financial position to satisfy outstanding obligations and maximize the potential for return of value to stockholders, the board of directors authorized the chief executive officer to explore the market for a potential sale of the Internet properties of Crosswalk (the "asset sale"). This resulted in Crosswalk entering into a letter of intent with OnePlace, LLC, a wholly owned subsidiary of Salem Communications Corporation. Under the terms of the asset purchase agreement, Crosswalk will sell substantially all of its Internet related intellectual property and other technology assets, email lists and newsletters, customer base and trademarks to Salem for $4,100,000 in cash. There is no assurance that the asset sale will be completed, as it is subject in all respects to the satisfaction of the conditions and covenants specified in the asset purchase agreement, including stockholder approval. THE COMPANY INTENDS TO UTILIZE THE PROCEEDS OF THE ASSET SALE TO CAPITALIZE ON ITS MATERIAL REMAINING ASSETS OF A PUBLIC COMPANY FOUNDATION, AND A NET OPERATING TAX LOSS CARRYFORWARD (NOL) OF OVER $29 MILLION. The business plan formulated in this regard involves the acquisition of currently cash generating assets, consisting primarily of office buildings in secondary stagnant markets, office buildings in out of favor growth markets and oil and gas royalties. This focus is designed to diversify holdings while offering sufficient markets to exploit in order to provide the greatest opportunity for seeking increased value for the stockholders. While the Company has eliminated most discretionary and variable expenses, the Company's inability to generate sales sufficient to cover an increasing portion of relatively flat fixed expenses led to an increase in the second quarter average monthly cash burn rate to $115,000 on revenues of $700,000, up from $80,000 on revenues of $1,064,000 in the preceding first quarter of 2002. This also compares to an average monthly cash burn rate in the second quarter of 2001 of $175,000 on revenues of

$1,427,000. IF THE SECOND QUARTER 2002 AVERAGE MONTHLY CASH BURN RATE OF $115,000 IS SUSTAINED, THE COMPANY WOULD NOT BE ABLE TO MAINTAIN OPERATIONS WITHOUT FURTHER CAPITAL INFUSION BEYOND THE END OF FISCAL 2002. The Company has also historically published unique visitor, pageviews and email views as a measure of the number of unique visitors, total pages viewed by visitors to crosswalk.com and the number of emails sent at the request of Crosswalk.com's constituents in a month. In the second quarter of 2002, a monthly average of 755,578 unique visitors came to crosswalk.com, versus 927,150 unique visitors in the frist quarter of 2002. Visitor loyalty to crosswalk.com remains high, as about 37%of visitors are repeat visitors. In the first quarter of 2002, the Company changed its disclosure of pageviews to report only those pages where advertisements are offered and viewed. This, the Company believes, is a better reflection of crosswalk.com's value, as its revenue model is largely dependent on the sale of advertising. In the second quarter of 2002, average monthly page views as defined herein, fell to 9,167,000 from 9,384,000 reported for the first quarter of 2002. Though the drop in unique visitors was significant, the average number of pages viewed per visit in the first quarter 2002 versus second quarter, increased from four to 83 six and therefore, the drop in total pageviews was not as dramatic. Comparative pageviews generated in the second quarter of 2001 were 8,572,000, representing a 6% year on year increase in traffic with no expenditure on direct marketing of the Website. Average monthly Email views during the second quarter of 2002 were approximately 14.4 million as compared to 15.8 million during the preceding first quarter of 2002. This reduction reflects the Company's continued challenges in upgrading its email delivery software, which is intended to provide a more productive method of delivering this opt-in email traffic, but has caused significant interruptions of service. The Company has also consolidated several newsletters and reduced the frequency of distribution in response to subscriber feedback. Despite these occurrences, during the second quarter, subscriptions to the thirty-five active newsletters remained at 1.1 million and the number of unique subscribers increased 20% to 748,000 from 625,000. The Company's business must be considered in light of the risks, expenses and problems frequently encountered by companies in new and rapidly evolving markets, such as the Internet. The market for the Company's services and products, continues to develop, and may change based on market opportunities, competitive forces, technology and availability of resources for expansion. As a result, the Company's mix of services and products may undergo substantial changes as the Company reacts to these developments in the overall Internet market. The Company has incurred net losses since inception and expects to continue to operate at a loss until sufficient revenues are generated to cover expenses. As of June 30, 2002, the Company had an accumulated deficit of $38,519,456. The Company's

expense levels are based in part on possible future revenues, of which there can be no assurance. The Company's ability to generate revenue from the commercial sale of advertising space on crosswalk.com is tied to its ability to generate traffic on the Website, and the effectiveness of its sales staff. CONTINUED SHORTFALLS IN REVENUES WITHOUT COMMENSURATE REDUCTIONS IN COST COULD HAVE AN IMMEDIATE ADVERSE IMPACT ON THE COMPANY'S BUSINESS, RESULTS OF OPERATIONS, AND FINANCIAL CONDITION. THE COMPANY EXPECTS TO EXPERIENCE SIGNIFICANT FLUCTUATIONS IN FUTURE QUARTERLY OPERATING RESULTS, AND BELIEVES THAT PERIOD-TO-PERIOD COMPARISONS OF ITS RESULTS OF OPERATIONS ARE NOT NECESSARILY MEANINGFUL AND SHOULD NOT BE RELIED UPON AS ANY INDICATION OF FUTURE PERFORMANCE. COMPARISON OF THE YEAR ENDED DECEMBER 31, 2001 TO THE YEAR ENDED DECEMBER 31, 2000 NET LOSS For 2001, the Company reported a net loss of $4,784,514, ($.60) per share, compared to a net loss before cumulative effect of a change in accounting practice of $8,620,449, ($1.11) per share in 2000. In the first quarter of 2000, the Company recorded a $1,407,589 one-time charge in response to the Securities and Exchange Commission Staff Accounting Bulletin 101 issued in December 1999. In this regard, the Company chose to change its revenue and applicable cost recognition on the integration and development fee portion of prior year sponsorship contracts, to a more preferable method of deferral ratably over the term of the contract. If this accounting change had been implemented January 1, 1999, the net loss for the 1999 would have been $11,614,048. The decrease in loss before cumulative effect of a change in accounting practice in 2001 of $3,835,935 (45%) over 2000, was due primarily to an decrease in operational expenditures, the details of which follow, offset in part due to a decrease in gross margin, and a decrease in other income. The decreased loss consisted of a $4,978,661 or 40% decrease in Operating expenses for 2001. Operating expenses as herein described, exclude cost of goods sold. Gross margin decreased by $910,660 or 25% in 2001 over 2000. In 2001, the Company recognized a $500,000 charge for goodwill impairment, $116,785 greater loss on disposal of property and equipment than recorded in 2000, and a $115,281 reduction in interest income due to the decrease in working capital. OPERATING REVENUES Revenue for 2001 was $4,506,291 compared to $6,380,943 in 2000. The 2001 performance represents a 29% decline in total revenue over 2000. This reduction of $1,874,652 is mostly attributable to the $1,924,909 reduction in sponsorship and barter revenue recognition, and a $309,250 or 20% reduction on card deck sales, offset by a $697,089 or 35% increase in advertising sales. In addition, $337,582 of the decrease in revenue was due to the Company's decision to phase out Internet services and also the move to an affiliate model for providing products online, such as

music and home schooling. This transition has enabled the Company, and its affiliated distributors, 84 the opportunity to synergistically focus on core strengths, which the Company believes, will generate better margins and provide a better experience for visitors to crosswalk.com. Acknowledging that there is diversity of practice within the Internet industry in recognizing revenue and associated cost on initial content integration and/or development fees, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" (SAB 101) in December 1999. Prior to the issuance of SAB 101, the Company had been recording revenue for the content integration or development fee portion of sponsorships of its Website upon completion of work scope related to the contract implementation. Pursuant to SAB 101, effective January 1, 2000, the Company elected to change its revenue recognition on these content integration or development fees to a more preferable method whereby revenue will be recognized ratably over the term of the contract. During the year ended December 31, 2001, the impact of the change in accounting was to decrease net loss by approximately $248,000, comprised of the net of the related deferred revenues of $489,000 and costs of $241,000 that were recognized as revenue and cost during 2001. The cumulative effect of this change is to increase the accumulated deficit by approximately $1.4 million at January 1, 2000. Had the change been made at January 1, 1999, revenues for the year ended December 31, 1999 would have been reduced by approximately $2.2 million and the net loss of the Company for the year ended December 31, 1999 would have been increased by $1.4 million or ($0.20) per share. COST OF GOODS AND SERVICES Cost of goods and services, consisting of commissions and other costs related to delivery of client online content and offline advertising products; retailing Christian interest products on crosswalk.com; and, the provision of Internet services was $1,737,095 and $2,701,087 for the years ended December 31, 2001 and 2000, respectively. The Company's gross margin for 2001 increased to 61% from 58% in 2000. This increase is due primarily to the decrease in barter transactions and the move to dependence on affiliate relationships for product distribution and sales. CROSSWALK OPERATIONS Crosswalk.com operational expenses, consisting primarily of costs related to the Company's development, maintenance, and enhancements of crosswalk.com, decreased to $2,774,780 in 2001 as compared to $5,517,600 in 2000. The decrease from 2000 to 2001 of $2,742,820 (50%) is mostly due to a $2,242,400 savings directly related to decreased headcount. The next largest contributor was a $574,819 decrease in consulting and content outsourcing expenses as the Company was able to establish cost saving relationships with key third-party content providers by leveraging market positioning as well as reducing content procurement as a result of editorial productivity improvements made available through software investments made by the Company. These savings were somewhat offset by

increased costs for capacity, hosting, licensing and maintenance fees of approximately $122,000. In the fourth quarter of 2001, Crosswalk operations included a $370,000 reduction in expense due to the change of events related to the Starwire contract, which resulted in the Company having to recognize as an asset, software development costs which had been previously recognized as Crosswalk operations expenses during 2001. Therefore, there was no impact to Crosswalk operations expense for the year to year comparison. SALES AND MARKETING Sales and marketing expenses decreased in 2001 from 2000 by $1,932,970 (56%) to $1,525,243 from $3,458,213 in 2000. Reductions in sales and marketing expenses occurred primarily as the result of the Company's continued reliance on efficient viral marketing in 2001, in lieu of the more costly cross-media marketing campaigns which included television and print media ads, concert and event sponsorships and online ads and prizes the Company engaged in during 2000. The Company also utilized marketing consultants in 2000, which was curtailed in 2001 resulting in cost savings of about $252,000. In addition, in 2001, the Company eliminated its marketing and communications staff and increased sales and sales staff support resulting in a net reduction in salaries related expenses by approximately $190,000. This was somewhat offset by the $67,000 expense incurred for outsourcing of marketing and communications services. 85 AMORTIZATION OF GOODWILL AND INTANGIBLES In 2001, amortization of Goodwill and intangibles was $1,682,235 as compared to $1,182,331 in 2000. This consists primarily of the amortization of goodwill from the 1999 purchase of Wike Associates. A portion of this goodwill is being amortized over five years and a portion over ten years, using the straight-line method. In 2001, the Company recognized a $500,000 goodwill impairment charge to reduce the carrying amount of the Wike Associates, Inc. acquisition consistent with the overall reduction in the market value of Internet companies in general. GENERAL AND ADMINISTRATIVE General & administrative (G&A) expenses in 2001 were $1,507,262, a decrease of $802,775 or 35% from $2,310,037 in 2000. The decrease in G&A expense between 2001 and 2000 is largely due to a $410,000 reduction in bad debt expense. The Company also consolidated its remote facilities, which reduced expenses by almost $300,000. In addition, the Company reduced its dependency on professional services, which resulted in year-to-year savings of $161,724. These reductions were partly offset by a $90,000 increase in dividends payable on the Series "A" preferred stock, issued in September 2000. OTHER INCOME Other income consists of interest income and interest expense. In 2001, interest income, net was $83,061 versus $198,342 in 2000. The $115,281 or 58% decrease in 2001 from 2000 was due primarily to the use of investment funds for operations. COMPARISON OF THE YEAR ENDED DECEMBER 31, 2000 TO THE YEAR ENDED DECEMBER 31, 1999 NET LOSS For 2000, the Company reported a net loss before cumulative effect of

a change in accounting practice of $8,620,449, ($1.11) per share, compared to a net loss of $10,652,717, ($1.56) per share in 1999. In the first quarter of 2000, the Company recorded a $1,407,589 one-time charge in response to the Securities and Exchange Commission Staff Accounting Bulletin 101 issued in December 1999. In this regard, the Company chose to change its revenue and applicable cost recognition on the integration and development fee portion of prior year sponsorship contracts, to a more preferable method of deferral ratably over the term of the contract. If this accounting change had been implemented January 1, 1999, the net loss for the 1999 would have been $11,614,048. The decrease in loss before cumulative effect of a change in accounting practice in 2000 of $2,032,268 (19%) over 1999, was due primarily to an decrease in expenditures, the details of which follow, and an increase in gross margin, offset by a decrease in other income. The decreased loss consisted of a $1,999,571 or 14% decrease in Operating expenses for 2000, of $12,468,181, as compared to $14,467,752 in 1999. Operating expenses as herein described, exclude cost of goods sold. Gross margin increased $509,386 or 16% in 2000 over 1999, offset by a $476,689 (74%) decrease in Other income. Other income decreased primarily as a result of a $465,765 (70%) decrease in interest income from the investment of funds (generated from the redemption of Purchase Warrants and exercise of Underwriter Warrants issued in the Company's initial public offering) used for operations. OPERATING REVENUES Revenue for 2000 was $6,380,943 compared to $6,898,746 in 1999. The 2000 performance represents a 7% decline in total revenue over 1999. Revenue generated from Advertising/sponsorship sales in 2000 and 1999 was $5,958,419 and $6,374,176, respectively. Revenue generated from Retail sales was $289,127 in 2000, and $343,447 in 1999. Internet services revenue has gradually reduced per the business plan to $133,397 in 2000, from $181,123 in 1999. 86 Contributing to the decrease in revenue was the Company's decision to move to an affiliate model for providing products online, such as music and home schooling. This transition has enabled the Company, and its affiliated distributors, the opportunity to synergistically focus on core strengths, which the Company believes, will generate better margins and provide a better experience for visitors to crosswalk.com. The decrease in revenue was also due to a reduction in revenue generated from barter transactions in 2000. Barter agreements, which allow for the exchange of goods and services such as advertising, marketing, and content services, amounted to fifteen percent of revenue generated in 2000, versus forty-two percent in 1999. Therefore, cash revenue in 2000 was $5,397,030 versus approximately $4,040,000 in 1999, a growth of 34%. The Company is successfully transitioning to an ad based revenue model from the sale of labor intensive, lower margin channel sponsorships. The Company previously entered into barter transactions when it believed that the services, products and sponsorship received enhanced the Company's brand recognition

and market share in a manner which the Company might not have been able to acquire through other marketing or purchasing channels without incurring expense greater than the value of the barter received. Acknowledging that there is diversity of practice within the Internet industry in recognizing revenue and associated cost on initial content integration and/or development fees, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" (SAB 101) in December 1999. Prior to the issuance of SAB 101, the Company had been recording revenue for the content integration or development fee portion of sponsorships of its Website upon completion of work scope related to the contract implementation. Pursuant to SAB 101, effective January 1, 2000, the Company elected to change its revenue recognition on these content integration or development fees to a more preferable method whereby revenue will be recognized ratably over the term of the contract. The cumulative effect of this change is to increase the accumulated deficit by approximately $1.4 million at January 1, 2000. Had the change been made at January 1, 1999, revenues for the year ended December 31, 1999 would have been reduced by approximately $2.2 million and the net loss of the Company for the year ended December 31, 1999 would have been increased by $1.4 million or ($0.20) per share. COST OF GOODS AND SERVICES Cost of goods and services, consisting of costs related to integration of client content on crosswalk.com and related commissions; retailing Christian interest products on crosswalk.com; and provision of Internet services; was $2,701,087 and $3,728,276 for the years ended December 31, 2000 and 1999, respectively. The Company's gross margin for 2000 increased to 58% from 46% in 1999. This increase is due primarily to the decrease in barter transactions and the move to dependence on affiliate relationships for product distribution and sales. CROSSWALK OPERATIONS Crosswalk.com operational expenses, consisting primarily of costs related to the Company's development, maintenance, and enhancements of crosswalk.com, increased to $5,517,600 in 2000 as compared to $4,795,061 in 1999. The increase from 1999 to 2000 of $722,539 (15%) is mostly due to growth in the Channel content on crosswalk.com and to increased headcount. The largest increase in costs was in depreciation expense, which accounted for $331,518 of this increase. This was primarily due to capital acquisitions in 1999 underlying the Company's migration to an Oracle/Sun server architecture. The next largest contributor was a $286,400 increase in content expenses from Company content procurement from a wider variety of sources and on many more topics due to the increased number of channels and the depth of those channels. Staffing and associated costs accounted for $276,168 of this year to year increase. Finally, with the increase in Web traffic, capacity, headcount and associated software needs, hosting, licensing and maintenance fees made up approximately $125,000 of this overall increase. These increases were offset by consulting expenses

related to database and server migration incurred in 1999 but not in 2000, leading to a reduction of $91,958. In addition, travel expenses incurred in supporting sponsorship contracts and migration activities were reduced by $154,792. SALES AND MARKETING Sales and marketing expenses decreased in 2000 from 1999 by $3,235,516 or 48% to $3,458,213 from $6,693,729 in 1999. Reductions in sales and marketing expenses occurred, as the Company was able to increase registered users and Website traffic through efficient viral marketing in lieu of the more costly cross-media marketing campaign that the Company engaged in during 1999. 87 AMORTIZATION OF GOODWILL AND INTANGIBLES In 2000, amortization of Goodwill and intangibles was $1,182,331 as compared to $457,262 in 1999. This consists primarily of the amortization of goodwill from the August 1999 purchase of Wike Associates. A portion of this goodwill is being amortized over five years and a portion over ten years, using the straight-line method. GENERAL AND ADMINISTRATIVE General & administrative (G&A) expenses in 2000 were $2,310,037, a decrease of $211,663 or 8% from $2,521,700 in 1999. The decrease in G&A expense between 2000 and 1999 is largely due to a reduction in investor relations expenses of $179,235, consulting services of $144,952 and travel expenses of approximately $41,000, partially offset by increased rent expense of $133,747 and bad debt expense of $82,649. OTHER INCOME Other income consists of interest income and expense. In 2000, interest income, net was $198,342 versus $666,819 in 1999. The $468,477 or 70% decrease in 2000 from 1999 was due primarily to the use of investment funds for operations. COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001 The Company has adopted the provisions of Statement of Financial Accounting Standards (SFAS) 144, "Accounting for the Impairment of Disposal of Long-Lived Assets," specifically as it relates to the treatment of long-lived assets held for sale pursuant to the Company's announcement of it's intent to sell substantially all of its Internet assets to Salem Communications for $4.1 million. The Company believes that the asset sale will close no later than the end of the third quarter of 2002. On June 1, 2002, the Company determined that the plan of sale criteria of SFAS 144 had been met. Accordingly, the Company's periodic statement of operations for the three months and six months ended June 30,2002 include only as discontinued operations, the activities related to the Internet portion of its business. However, so that the reader can assess material changes in financial condition and results of operation for the periods presented, the following comparative period information includes results related to discontinued operations, with comparative data after discontinued operations noted. NET LOSS For the six months ended June 30, 2002, the Company incurred a net loss before the cumulative effect of a change in accounting principle and after loss from discontinued operations, of $909,970, as compared to $2,378,885 for the same period ended June 30, 2001. Before the cumulative effect of a change in

accounting principle, the decreased net loss for the first six months of 2002 over the first six months of 2001 was $1,468,915 or 60%. This decrease, inclusive of discontinued operations, is primarily due to a $2,428,640 or 49% decrease in operating expenses, offset to an extent by a $925,475 or 37% decrease in total revenues, and a $34,250 or 65% in other income, net. In January of 2002, the Company adopted the provisions of SFAS 142, "Goodwill and Other Intangible Assets," and the Company completed a transitional goodwill impairment test related to both its online and offline advertising functions. The result of this analysis was recognition of a goodwill impairment loss of $750,000 related to the offline business area in June 2002. The fair value of that business area was estimated using the expected values of future cash flows. Pursuant to this rule, the $750,000 reduction in the carrying amount of goodwill for this business area is reflected as the effect of a change in accounting principle on the Company's consolidated statement of operations. Discontinued operations, recorded in accordance with SFAS 144, amounted to $534,573. This represents the loss associated with the Internet assets, which are held for sale as of June 30, 2002, pursuant to the Company's sale of these assets to Salem Communications, pending shareholder approval. The loss from continuing operations of 88 $423,966 for the six months ended June 30, 2002, is comparable to a loss from continued operations of approximately $469,000 for the six months ended June 30, 2001. REVENUES Total revenue for the first six months of 2002, including discontinued operations, was $1,566,068, down $925,475 or 37% from the same period in 2001. The $1,566,068 revenue earned in the first six months of 2002 consisted of $1,459,145 from advertising/sponsorship sales, of which $484,615 was related to the continuing operations of the offline advertising business, $19,813 from royalties, and $87,110 from Internet services, while in the first six months of 2001, the $2,491,543 of revenue earned consisted of $2,439,904 from advertising/sponsorship sales, of which $615,684 was related to the continuing operations of the offline advertising business, $15,507 from royalties, and $36,131 from Internet services. The year on year change in revenue includes an $867,000 reduction in advertising sales and an $114,000 reduction in SAB 101 and prior year sponsorship revenue recognition. This decrease in revenue was partly offset by a $55,000 increase in Internet services and royalties. In response to the Securities and Exchange Commission Staff Accounting Bulletin 101 issued in December 1999, the Company chose to change its revenue recognition on the integration and development fee portion of 1999-year sponsorship deals, to a more preferable method of deferral ratably over the term of the contract. Under this method, in the first six months of 2002, the amount of revenue recorded from discontinued operations that was previously deferred totaled $113,826 versus $259,441 for the same period in 2001, a reduction of $145,615 or 56%. Total revenue in the first six months of 2002 and 2001 would have been $1,452,242 and $2,232,101, respectively net of the impact of this

change in accounting method. Gross margin in the first six months of 2002 would have been reduced by $86,644 or 9% to $878,763, and overall gross margin increases to 60.5% net of the impact of this change in accounting method. In the first six months of 2001, the gross margin would have been reduced by $138,905 or 9% to $1,490,294, representing an overall increase to a 66.8% gross margin net of the impact of this change in accounting method. The decrease in revenues is a reflection of the Company's inability to establish the strategic partnerships and advertising agency relationships necessary to increase revenues. While the Company has been able to retain several significant customers and entered into numerous long-term advertising agreements, it has been unable to tap into the ad budgets of larger organizations due to the potential concerns with niche affiliation, overall recession in the ad market and the absence of funding to effectively market the Company. While the Company's sales team remains as productive as possible with the resources at their disposal, the team of five has been inadequate to generate revenues necessary to cover the mostly fixed costs of operation. COST OF GOODS AND SERVICES Cost of goods and services, consisting of commissions and other costs related to delivery of client online content and offline advertising products; and the provision of Internet services, including discontinued operations, was $600,661, of which $374,340 was related to the continuing operations of the offline advertising business, and $862,344, of which $510,142 was related to the continuing operations of the offline advertising business, for the six months ended June 30, 2002 and 2001, respectively. The Company's gross margin, including discontinued operations, for the six months ended June 30, 2002 decreased to 61.6% from 65.4% for the same period in 2001. This decrease is due primarily to the overall decrease in higher margin online advertising revenues. Gross margin from continuing operations increased to 22.7% from 17% for the six months ended June 30, 2002 and 2001, respectively. In response to the Securities and Exchange Commission Staff Accounting Bulletin 101 issued in December 1999, the Company chose to change its revenue and applicable cost recognition on the integration and development fee portion of 1999-year sponsorship deals, to a more preferable method of deferral ratably over the term of the contract. Under this method, the amount of deferred cost from discontinued operations recorded in the first six months of 2002 was $27,182 versus $120,536 recorded in the first six months of 2001, a reduction of $93,354 or 77%. Total cost of goods and services in the first six months of 2002 and 2001 would have been $573,479 and $741,807, respectively net of the impact of this change in accounting method. Gross margin in the first six months of 2002 would have been reduced by $86,644 or 9% to $878,763, and overall gross margin increases to 60.5% net of the impact of this change in accounting method. In the first six months of 2001, the gross margin would have been reduced by $138,905 or 9% to $1,490,294, representing an overall increase to a 66.8% gross margin net of the impact of

this change in accounting method. 89 Crosswalk Operations Crosswalk operations expenses, consisting primarily of costs related to the Company's development, maintenance, content and enhancements for the discontinued operations of crosswalk.com, and depreciation related to continuing operations, decreased to $692,830 for the six months ended June 30, 2002, as compared to $1,715,480 for the same period in 2001. The approximate $1,022,000 or 59% decrease in cost of Crosswalk operations was due primarily to a $291,000 reduction in hosting & software licensing costs, a $389,000 reduction in salary related expenses, $128,000 reduction in depreciation, a $180,000 reduction in content acquisition costs, and a $31,000 reductions in consulting expenditures. Depreciation related to continuing operations is unchanged at approximately $112,000 for the comparative six-month periods. SALES AND MARKETING In the first six months of 2002, sales and marketing expenses, including discontinued operations, decreased to $474,105 from $842,827 for the same period in 2001. This $368,722 or 44% decrease was largely due to the transition to reduced and more efficient methods of corporate marketing which led to the reduction of $240,000 in salary related expenses, $39,000 in travel, $20,000 in telecommunications, $54,000 in consulting and promotions, and an $8,000 reduction in software licensing. Sales and Marketing from continuing operations were $70,430 to $95,769 for the six-month period ending June 30, 2002 and 2001, respectively. GENERAL AND ADMINISTRATIVE The Company decreased its general & administrative costs, including discontinued operations, in the first six months of 2002 to $726,625 from $1,502,210 in the first six months of 2001. This decrease of over $775,000 or 51% is mostly due to the adoption of FASB 142, "Goodwill and Other Intangible Assets," which resulted in a $578,000 reduction in recognition of goodwill amortization. Other expenses included in this category such as salary expenses, rent expenses, investor relations, legal, taxes, office expenses, outside services, telecommunications and travel expenses, accounted for approximately $220,000 of the overall reduction, offset to an extent by the accrual of $24,000 in dividends related to the Series "B" preferred stock issued in January 2002. General and Administrative expenses from continuing operations were $419,432 and $351,777 for the six month period ending June 30, 2002 and 2001, respectively. OTHER INCOME NET Other income net in the first six months of 2002 decreased to $18,183, down $52,433 for the same period in 2001. This $34,250 or 65% decrease is due to the use of investments for business operations. Also, interest expense increased to $5,643 from $4,582 for the same period in 2001, due to costs associated with capital leases. COMPARISON OF THE THREE MONTHS ENDED JUNE 30, 2002 AND 2001 NET LOSS For the quarter ended June 30, 2002, before the cumulative effect of a change in accounting principle, and after loss from discontinued operations, the Company incurred a net loss of $459,506, as compared to a net loss of $1,054,611 the same quarter

in 2001. This decreased loss of $595,105 or 56% was the result of an across the board decrease in all four operating expense categories (cost of goods sold, crosswalk operations, sales and marketing, and general and administrative) of $1,332,887, offset in part by a decline in total revenues of $727,234, and a $10,549 reduction in other income net. In January of 2002, the Company adopted FASB 142, "Goodwill and Other Intangible Assets," and the Company completed a transitional goodwill impairment test related to both its online and offline advertising functions. The result of this analysis was recognition of a goodwill impairment loss of $750,000 related to the offline business area in June 2002. The fair value of that business area was estimated using the expected values of future cash flows. Pursuant to this rule, the $750,000 reduction in the carrying amount of goodwill for this business area is reflected as the effect of a change in accounting principle on the Company's consolidated statement of operations. 90 Discontinued operations, recorded in accordance with SFAS 144, amounted to $312,597. This represents the loss associated with the Internet assets, which are held for sale as of June 30, 2002, pursuant to the Company's sale of these assets to Salem Communications, pending shareholder approval. The loss from continuing operations of $185,749 for the three months ended June 30, 2002, is comparable to a loss from continued operations of approximately $246,000 for the three months ended June 30, 2001. Revenues Total revenue for the quarter ending June 30, 2002, including discontinued operations, was $700,003 down $727,234 or 51% from the same period in 2001. The reduction in revenue consists of a $645,000 reduction in advertising sales, including an $81,000 reduction on the continuing operations of the offline advertising business and an $83,000 reduction in SAB 101 and prior year sponsorship revenue recognition. In response to the Securities and Exchange Commission Staff Accounting Bulletin 101 issued in December 1999, the Company chose to change its revenue recognition on the integration and development fee portion of 1999-year sponsorship deals, to a more preferable method of deferral ratably over the term of the contract. Under this method, the amount of deferred revenue from discontinued operations recorded in the second quarter of 2002 was $56,913 versus $123,054 recorded in the second quarter of 2001, a reduction of $66,141 or 54%. Total revenue in the second quarter of 2002 and 2001 would have been $643,090 and $1,304,183 respectively net of the impact of this change in accounting method. Gross margin in the second quarter of 2002 would have been reduced by $43,322 or 11% to $349,408, and overall gross margin would have decreased to 54.3% net of the impact of this change in accounting method. In the second quarter 2001, gross margin would have been reduced by $62,786 or 7% to $840,967, representing an overall increase to a 64.5% gross margin net of the impact of this change in accounting method. The decrease in revenues is a reflection of the Company's inability to establish the strategic partnerships and advertising agency relationships

necessary to increase revenues. While the Company has been able to retain several significant customers and entered into numerous long-term advertising agreements, it has been unable to tap into the ad budgets of larger organizations due to the potential concerns with niche affiliation, overall recession in the ad market and the absence of funding to effectively market the Company. While the Company's sales team remains as productive as possible with the resources at their disposal, the team of five has been inadequate to generate revenues necessary to cover the mostly fixed costs of operation. COST OF GOODS AND SERVICES Cost of goods and services, consisting of commissions and other costs related to delivery of client online content and offline advertising products and the provision of Internet services, including discontinued operations, was $307,273 and $523,484 for the quarters ended June 30, 2002 and 2001, respectively. Cost of goods and services from continuing operations decreased from $331,368 to $245,627 for the quarters ended June 30, 2002 and 2001, respectively. The Company's gross margin for the quarter ended June 30, 2002, including discontinued operations, decreased to 56.1% from 63.3% for the same period in 2001. This decrease is due primarily to the associated reduction in advertising revenue. In response to the Securities and Exchange Commission Staff Accounting Bulletin 101 issued in December 1999, the Company chose to change its revenue and applicable cost recognition on the integration and development fee portion of 1999-year sponsorship deals, to a more preferable method of deferral ratably over the term of the contract. Under this method, the amount of deferred cost from discontinued operations recorded in the second quarter of 2002 was $13,591 versus $60,268 recorded in the second quarter of 2001, a reduction of $46,677 or 77%. Total cost of goods and services in the second quarter of 2002 and 2001 would have been $293,682 and $463,216 respectively net of the impact of this change in accounting method. Gross margin in the second quarter of 2002 would have been reduced by $43,322 or 11% to $349,408, and overall gross margin would have decreased to 54.3% net of the impact of this change in accounting method. In the second quarter 2001, gross margin would have been reduced by $62,786 or 7% to $840,967, representing an overall increase to a 64.5% gross margin net of the impact of this change in accounting method. 91 CROSSWALK OPERATIONS Crosswalk operations expenses, consisting primarily of costs related to the Company's development, maintenance, content and enhancements for the discontinued operations of crosswalk.com, decreased to $261,314 for the quarter ended June 30, 2002, as compared to $813,584 for the same period in 2001. The $552,270 or 67% decrease in cost of Crosswalk operations was primarily due to a $245,000 reduction in hosting & software licensing, a $107,000 reduction in salary related expenses, a $98,000 reduction in depreciation, a $91,000 reduction in content acquisition cost, and an $11,000 reduction in consulting expenditures. Depreciation related to continuing operations is unchanged at approximately $54,000 for the comparative

three-month periods. Sales and Marketing In the quarter ended June 30, 2002, sales and marketing expenses, including discontinued operations, decreased to $245,010 from $423,921 for the same period in 2001. This $178,911 or 42% decrease was largely due to the transition to reduced and more efficient methods of corporate marketing. The reduction in sales and marketing expenditures includes $125,000 in salary related expenses, $32,000 in travel, and a $20,000 in telecommunications. Sales and Marketing from continuing operations were $50,391 and $33,693 for the three- month period ending June 30, 2002 and 2001, respectively. GENERAL AND ADMINISTRATIVE The Company decreased its general & administrative costs in the second quarter of 2002, including discontinued operations, to $354,366 from $739,861 in the same period of 2001. This $385,495 or 52% decrease is primarily due to the adoption of FASB 142, "Goodwill and Other Intangible Assets," which resulted in reduced amortization in the second quarter of 2002 to $5,136 from $296,399 in the same quarter of 2001. Other expenses included in this category such as salary expenses, rent expenses, investor relations, legal, taxes, office expenses, outside services, telecommunications and travel expenses, accounted for approximately $104,000 of the overall reduction, offset to an extent by the accrual of $12,000 in dividends related to the Series "B" preferred stock issued in January 2002. General and Administrative expenses from continuing operations were $222,553 and $162,349 for the three month period ending June 30, 2002 and 2001, respectively. OTHER INCOME NET Other income net in the second quarter of 2002 decreased to $8,453, down from income of $19,002 for the same period in 2001. This $10,549 or 56% decrease is due to the use of investments for business operations. Also, interest expense increased to $2,977 from $2,391 in the second quarter of 2002, due to costs associated with capital leases. LIQUIDITY AND CAPITAL RESOURCES During the years ended December 31, 2001, 2000, and 1999, net cash used in operating activities was $1,864,247, $7,783,019, and $8,766,112, respectively. The decrease of net cash used in operating activities in 2001 was for the most part, a result of decreased expenses. In 2000 the decrease was due mostly to increases in cash revenues. During the six months ending June 30, 2002 and 2001, net cash used in operating activities were $613,769 and $1,548,980 respectively. Net cash provided by investing activities was $964,411 and $5,392,443 for the years ended December 31, 2001 and 2000, respectively and net cash used in investing activities was $10,421,778 for the year ended December 31, 1999. Net cash used in investing activities was $194,346 for the first half of 2002, and provided by investing activities was $1,359,441 for the same period of 2001. Net cash provided by financing activities was $528,775, $2,021,675, and $17,781,933, for the years ended December 31, 2001, 2000, and 1999, respectively. At the end of 2001, the net cash provided by financing activities consists primarily of $500,000 from the

purchase of Series "B" preferred stock that closed on January 9, 2001, in the total amount of $800,000. The Series "B" preferred stock is convertible into an aggregate of 933,269 shares of Crosswalk.com common stock over the next three years, and will accrue 6% interest per annum payable in cash or the Company's common stock, at the discretion of the Company. The 2000 cash flow from financing activities consisted primarily of the receipt of $2,000,000 from the issuance of 80,000 shares of Series "A" preferred stock on 92 September 29, 2000. The three-year Series "A" preferred stock is convertible into currently at most 2,465,787 shares of common stock. The Series "A" preferred stock will also accrue a 6% dividend per annum. The 1999 cash flow from financing activities consisted of the receipt of $17,781,933 from the exercise of 2,528,451 Common Stock Purchase Warrants, 317,500 Common Stock Underwriter Warrants and 190,870 vested stock options. Net cash provided by financing activities for the six months ended June 30, 2002 and 2001 was $299,798 and $28,776, respectively. The 2002 net cash provided by financing activities is from the realization of a $300,000 subscription receivable related to the Series "B" preferred stock on January 9, 2002. If the asset sale is not completed, it is likely that Crosswalk would continue operations, and without an increase in sales necessary to cover mostly fixed costs, Crosswalk may be forced to resort to business liquidation. If the asset sale is completed, Crosswalk intends to implement the business plan as brought to the stockholders for approval in Proposal Two and Three. Until the use of proceeds of the asset sale as indicated in Proposal Two is accomplished, proceeds will be maintained in short term interest bearing accounts and the Company will most likely to continue to experience losses from operations and negative cash flows and will continue to require working capital to fund its remaining operations. If second quarter 2002 revenue levels are maintained, we believe that existing cash and cash equivalents will be sufficient to meet operating and capital requirements at its currently anticipated level of operations through the end of fiscal 2002. 93 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT Security Ownership of Certain Beneficial Owners. The following table and accompanying notes contain information about any person (including any "group") who is known by us to be the beneficial owner of more than 5% of Crosswalk's common stock as of July 31, 2002.

--- -------------------------------
Name and Address of Beneficial Owner Amount and Nature of Beneficial Ownership1 Percent of Outstanding Shares2

--- -------------------------------
Dodge Jones Foundation C/O Joseph Edwin Canon 739,7363 8.5% P.O. Box 176 Abilene, TX 79604 -----------------------------------
--- -------------------------------
Timothy B. Robertson 295 Bendix Road, Suite 130 504,000 5.9%

Virginia Beach, VA 23452 -----------------------------------
--- --------------------------------
(1) Unless otherwise noted, all persons named in the table have sole voting and sole investment power with respect to all shares of common stock beneficially owned by them, and no persons named in the table are acting as nominees for any persons or are otherwise under the control of any person or group of persons. As used herein, the term "beneficial ownership" with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as consisting of sole or shared voting power (including the power to vote or direct the vote) or sole or shared investment power (including the power to dispose or direct the disposition) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, including a right to acquire any such power during the period 60 days from the record date of March 15, 2002. (2) Based upon 7,968,221 shares of common stock outstanding as of the Record Date. (3) Includes 431,513 and 308,223 shares issuable upon conversion of Series "A" and Series "B", respectively. Joseph Edwin Canon is the natural person having voting or investment control over Crosswalk securities owned by this entity. Security Ownership of Management. The following table and accompanying notes contain information about the beneficial ownership of Crosswalk common stock as of July 31, 2002 by each of Crosswalk's (a) directors, and (b) executive officers as defined in Item 402(a)(2) of Regulation S-B, and (c) all of Crosswalk's executive officers, and directors as a group. Except as otherwise indicated below, each of the stockholders named below has sole voting and investment power with respect to the shares of common stock beneficially owned. Effect has been given to shares reserved for issuance under outstanding stock options where indicated: 94

--- --------------------------------
Name and Address of Beneficial Owner Amount and Nature of Beneficial Ownership1 Percent of Outstanding Shares2

--- --------------------------------
Eric L. Oliver 400 Pine St. 830,774(3) 9.7% Abilene, TX 79601

--- --------------------------------
Bruce E. Edgington 7857 Heritage Drive 689,536(4) 8.2% Annandale, VA 22003 -----------------------------------
--- --------------------------------
Jon M. Morgan 303 W. Wall St 689,610(5) 8.0% Suite 1700 Midland, TX 79701 -----------------------------------
--- --------------------------------
Earl E. Gjelde 42 Bristlecone Crt. 187,689(6) 2.3% Keystone, CO 80435 -----------------------------------
--- --------------------------------
Gary A. Struzik 4100 Lafayette Center Dr. 143,916(7) 1.7% Chantilly, VA 20151 -----------------------------------

-- ------------------------------

Scott Fehrenbacher 4100 Lafayette Center Dr. 135,000(8) 1.6% Chantilly, VA 20151 -----------------------------------

-- ------------------------------

James G. Buick 2047 Little Heron Court 103,755(9) 1.3% Grand Rapids, MI -----------------------------------

-- ------------------------------

William R. "Max" Carey 4401 Northside Prkwy, Suite 100 88,788(10) 1.1% Atlanta. GA 30327 -----------------------------------

-- ------------------------------

Joseph V. Forche 4100 Lafayette Center Dr. 15,875(11) .2% Chantilly, VA 20151 -----------------------------------

-- ------------------------------

Dr. Dwight "Ike" Rhiegard P.O. Box 2349 7,632(12) .1% Kennesaw, GA 30156 -----------------------------------

-- ------------------------------

All executives and directors As a group (9 persons) 2,876,700 28.3% -----------------------------------

-- ------------------------------

(1) Unless otherwise noted, all persons named in the table have sole voting and sole investment power with respect to all shares of common stock beneficially owned by them, and no persons named in the table are acting as nominees for any persons or are otherwise under the control of any person or group of persons. As used herein, the term "beneficial ownership" with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as consisting of sole or shared voting power (including the power to vote or direct the vote) or sole or shared investment power (including the power to dispose or direct the disposition) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, including a right to acquire any such power during the period 60 days from the record date of June 14, 2002. (2) Based upon 7,968,221 shares of common stock outstanding as of the Record Date. (3) Includes 307,250 shares beneficially owned by Softvest L.P. Mr. Oliver is General Partner and lead investment officer of Softvest L.P. Also includes 308,233 and 41,086 shares issuable upon conversion of Series A preferred stock (the Series 95 "A"), beneficially owned by SoftOP, L.P. and Lighthouse Partners, L.P., respectively. Mr. Oliver is General Partner of SoftOP, L.P. and a Limited Partner of Lighthouse Partners, L.P. Also includes 154,112 shares issuable upon conversion of Series B preferred stock (the Series "B"), beneficially owned by SoftOP, L.P. Also includes 20,103 shares issuable upon exercise of currently exercisable stock options. (4) Includes 200,000 issuable upon conversion of the Series "B", 322,160 shares of restricted common stock and 167,376 shares issuable upon exercise of currently exercisable stock options. (5) Includes 246,578 shares issuable upon conversion of the Series "A", beneficially owned by the Jon M. Morgan Pension Plan. Mr. Morgan is trustee of the Jon M. Morgan Pension Plan. Also includes 246,578 shares issuable upon conversion of the Series

"A", beneficially owned by J.M. Midland Land Co., Inc. Mr. Morgan is President of J.M. Midland Land Co, Inc. Also includes 154,112 shares issuable upon conversion of the Series "B", and 37,242 shares issuable upon exercise of currently exercisable stock options. (6) Includes 116,822 shares issuable upon conversion of the Series "B", and 68,367 shares issuable upon exercise of currently exercisable stock options. (7) Includes 141,916 shares issuable upon exercise of currently exercisable stock options. (8) Does not include 10,000 shares of common stock beneficially owned by Institute for American Values Investing. Consists entirely of shares issuable upon exercise of currently exercisable stock options. (9) Includes 61,505 shares issuable upon exercise of currently exercisable stock options. (10) Includes 17,415 shares of common stock issuable to Corporate Resource Development, Inc. Mr. Carey is Chairman and Chief Executive Officer of Corporate Resource Development. Also includes 71373 shares issuable upon exercise of currently exercisable stock options. (11) Mr. Forche is Director of Sales. Includes 14,375 shares issuable upon exercise of currently exercisable stock options. (12) Consists completely of shares issuable upon exercise of currently exercisable stock options. 96 SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires that our executive officers and directors and persons who own more than ten percent of a registered class of Crosswalk's equity securities (collectively, the "Reporting Persons") to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish the Company with copies of these reports. The Company believes that all filings required to be made, by the Reporting Persons during the fiscal year ended December 31, 2001 were made on a timely basis. PERSONS MAKING THE SOLICITATION The enclosed proxy is solicited on behalf of the board of directors of Crosswalk. We will pay the cost of soliciting proxies in the accompanying form. We may solicit proxies by email, mail, telephone and delivery service by officers, directors and our employees. We may also request banking institutions, brokerage firms, custodians, and trustees, or their nominees and fiduciaries to forward solicitation material to the beneficial owners of the common stock that those companies or persons hold of record. We will pay for reasonable costs of the solicitation and will reimburse forwarding expenses. OTHER MATTERS The board of directors is not aware of any matter to be presented for action at the meeting other than the matters set forth herein. Should any other matter requiring a vote of stockholders arise, the proxies in the enclosed form confer upon the person or persons entitled to vote the shares represented by such proxies discretionary authority to vote the same in accordance with their best judgment in the interest of Crosswalk. IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON, YOU ARE URGED TO COMPLETE, SIGN AND RETURN THE

PROXY IN THE ENCLOSED POSTAGE-PAID, ADDRESSED ENVELOPE. BY ORDER OF THE BOARD OF DIRECTORS, GARY A. STRUZIK CHIEF FINANCIAL OFFICER AND SECRETARY 97 ANNEX A

ASSET PURCHASE AGREEMENT by and between CROSSWALK.COM, INC., as Seller, and ONEPLACE, LTD., as Buyer, Dated as of August 19, 2002

TABLE OF CONTENTS Page ARTICLE I PURCHASE AND SALE 1.1 Sale Assets..1 (a) Tangible Personal Property..................................1 (b) Licenses and Permits.......................................1 (c) Business Agreements...2 (d) Advertising Agreement......................................2 (e) Intellectual Property......................................2 (f) Records..2 (g) Purchase Orders..2 (h) Motor Vehicles...2 (i) Miscellaneous Assets.......................................2 1.2 Excluded Assets..2 1.3 Assumption of Liabilities...4 1.4 Employees...4 1.5 Operating Agreement...4 ARTICLE II PURCHASE PRICE 2.1 Purchase Price..5 2.2 Purchase Price Allocation...5 2.3 Purchase Price Adjustments..5 2.4 Sales and Transfer Taxes...6 ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER 3.1 Organization..6 3.2 Authorization and Binding Effect of Agreements.......................7 3.3 Absence of Conflicts..7 3.4 Consent of Third Parties..8 3.5 Sale Assets...8 3.6 Tangible Personal Property..8 3.7 Business Agreements...8 3.8 Advertiser Agreements...9 3.9 Litigation..9 3.10 Labor Matters..9 i 3.11 Employee Benefit Plans..10 3.12 Environmental Matters...10 3.13 Compliance with Law...10 3.14 Tax Matters..11 3.15 Absence of Insolvency...11 3.16 Products; Product Warranties......................................11 3.17 Intellectual Property...11 3.18 Transactions with Interested Persons...............................12 3.19 Permits...12 3.20 Customers and Suppliers...13 3.21 Traffice Reports..13 3.22 Financial

Schedules..13 3.23 Business Since the Base Balance Sheet Date..........................13 3.24 Broker's or Finder's Fees..14 3.25 Disclosures..14 ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER 4.1 Organization and Good Standing.....................................14 4.2 Authorization and Binding Effect of Agreements......................14 4.3 Absence of Conflicts...15 4.4 Consent of Third Parties...15 4.5 Disclosures..15 ARTICLE V PRE-CLOSING COVENANTS 5.1 Conduct of the Business..15 5.2 Third Party Consents...17 5.3 No Solicitation..17 5.4 Shareholder Meeting..18 5.5 Access; Information; Confidentiality; Publicity.....................19 5.6 Cooperation & Inconsistent Actions.................................20 5.7 Tax Returns and Payments..20 ARTICLE VI CASUALTY ii ARTICLE VII CONDITIONS PRECENDENT TO THE OBLIATION OF BUYER TO CLOSE 7.1 Accuracy of Representations and Warranties..........................21 7.2 Performance of Agreement...21 7.3 Adverse Proceedings..21 7.4 Conveyance Free and Clear of Liens.................................21 7.5 Buyer's Satisfaction...21 7.6 Employment of Key Personnel..21 7.7 Shareholder Approval...22 ARTICLE VIII CONDITIONS PRECENDENT TO THE OBLIATION OF SELLER TO CLOSE 8.1 Accuracy of Representations and Warranties..........................22 8.2 Performance of Agreement...22 8.3 Adverse Proceedings..22 8.4 Shareholder Approval...22 ARTICLE IX THE CLOSING 9.1 Closing..22 9.2 Seller's Closing Deliveries..22 9.3 Buyer's Closing Deliveries..25 ARTICLE X CERTAIN POST-CLOSING COVENANTS 10.1 Confidentiality..25 10.2 Change of Seller's Name...25 10.3 Non-Competition...26 10.4 Further Assurances..27 ARTICLE XI SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION 11.1 Survival of Representation and Warranties..........................27 11.2 Indemnification in General...28 11.3 Indemnification by Seller..28 11.4 Indemnification by Buyer and Parent................................28 ARTICLE XII TERMINATION; LIQUIDATED DAMAGES 12.1 Termination..29 12.2 Obligation Upon Termination..30 12.3 Specific Performance...31 iii ARTICLE XIII

MISCELLANEOUS 13.1 Payment of
Expenses..31 13.2
Notices..32 13.3 Entire
Agreement..32 13.4 Binding Effect;
Benefits..32 13.5
Assignment...33 13.6 Governing
Law..33 13.7 Amendments and
Waivers..33 13.8
Severability...33 13.9
Headings..33 13.10
Counterparts..33 13.11
References...33 13.12 Definition
of "Knowledge."..33 iv INDEX OF
DEFINITIONS Acquisition
Proposal...5.3(i) Adjustment
List...Section 2.3(c) Advertiser
Agreements......................................Section 1.1(d)(ii)
Agreement..Introductory paragraph
Approvals..Section 3.19
Assumed Liabilities..Section 1.3(a)
Blue-penciling..Section 10.3(d)
Business...Recitals Business
Agreements..Section 1.1(c)(ii)
Buyer...Introductory Paragraph
Buyer's Liquidated Damages Amount ....Section
12.2(c) Closing..Section 9.1
Closing Date..Section 9.1
Confidential Information.......................................Section 5.5(c)
Consents..Section 3.4
Copyrights..Section 3.17(a)
Employment Waiver ....Section 12.2(c)
Excluded Assets..Section 1.2
Fee..Section 5.3(c) Financial
Schedules...Section 3.21
Lien..Section 3.3(a)
Marks..Section 3.17(a)
Material Adverse Condition..Section 3.1
Material Adverse Effect...Section 3.1
Operating Agreement..Section 1.5
Organic Documents...Section 3.3(b)
Other Business...Recitals
Patents...Section 3.17(a)
Permitted Lien ....Section 3.3(a)
Products..Section 3.16 Proxy
Statement...Section 5.4 Purchase
Price...Section 2.1
Records...Section 1.1(f)
Releases..Section 5.5(d)
Releasing Party..Section 5.5(d)
Representatives..Section 5.5(c)
Rights...Section 3.17(a) Sale

Assets...Section 1.1
SEC..Section 5.4
Seller...Introductory paragraph
Seller's Liquidated Damages Amount ....Section 12.2(c) Shareholders' Meeting..Section 5.4 Superior Proposal...Section 5.3(b)(i)
Survival Period..Section 11.1
Tangible Personal Property......................................Section 1.1(a)
Trade Secrets..Section 3.17(a)
Transaction Documents...Section 3.2 v
ASSET PURCHASE AGREEMENT This Agreement ("Agreement") is made as of this 19th day of August 2002 by and between Crosswalk.com, Inc. ("Seller") and OnePlace, LLC ("Buyer"). RECITALS: WHEREAS Seller, through its Crosswalk.com website (the "Business"), provides a comprehensive range of content and community services to support the integration of faith and values into everyday life, including: topical and lifestyle channels (e.g. Entertainment, Money, News, HomeSchool, Family Living, Spiritual Life, Women and Live It), unique online applications (e.g. cross-referenced Bible study databases, stock and mutual fund screening tools, and greeting cards), community-building areas (e.g. chat, discussion forums, and a Christian Web site directory) and over thirty topical and community related email newsletters; WHEREAS Seller engages in other business activities, including its "card deck" business (the "Other Business"); WHEREAS Seller desires to sell to Buyer, and Buyer desires to purchase from Seller, the Business and, as set forth herein, certain assets and properties of Seller relating to the Business as identified below; NOW THEREFORE, in exchange for good and valuable consideration, including the mutual covenants contained herein, the receipt and sufficiency of which are hereby acknowledged, Seller and Buyer hereby agree as follows: ARTICLE I PURCHASE AND SALE 1.1 Sale Assets. On the Closing Date, Seller shall sell, transfer, assign, convey and deliver to Buyer, and Buyer will purchase or acquire from Seller, free and clear of all Liens, all right, title and interest, legal and equitable, in and to all properties, assets and rights used or required, for the ownership and operation of the Business (collectively, the "Sale Assets") including, without limitation, the following: (a) Tangible Personal Property. All machinery, equipment, software, leasehold improvements, inventory (including all raw materials, work-in-process and finished goods), parts, supplies, furniture, furnishings, vehicles, tools, fixtures and other tangible personal property including but not limited to the items set forth on Schedule 3.6 (collectively, "Tangible Personal Property"). (b) Licenses and Permits. All rights associated with the Approvals. 1 (c) Business Agreements. (i) All rights and interests of Seller in, to or under those agreements, leases, vendor contracts, orders and other commitments which Seller is a party to or bound by (other than agreements specifically excluded under this Agreement) and which are set forth on Schedule 3.7; and (ii) Any

renewals, extensions, amendments or modifications of those agreements being assumed which are made in the ordinary course of Seller's operation of the Business or in accordance with the terms and provisions of this Agreement (all such agreements, leases, contracts, orders and other commitments referred to in clauses (i) and (ii) being hereinafter referred to collectively as the "Business Agreements"). (d) Advertising Agreement. (i) All rights and interests of Seller in, to or under its agreements with customers, advertisers or sponsors, and which are set forth on Schedule 3.8; and (ii) Any renewals, extensions, amendments or modifications of those agreements being assumed which are made in the ordinary course of Seller's operation of the Business or in accordance with the terms and provisions of this Agreement (all such agreements, leases, contracts, orders and other commitments referred to in clauses (i) and (ii) being hereinafter referred to collectively as the "Advertising Agreements"). (e) Intellectual Property. All Intellectual Property. (f) Records. The originals (where available) or true and complete copies (if originals are not available) of all of the customer lists, customer contact information, books, records, files, logs and ledgers pertaining to the Sale Assets or used in the operation of the Business (collectively, "Records"); provided, that with respect to any such Records that Seller is reasonably required (i) to retain by law or (ii) to disclose for financial or tax reporting purposes, Seller shall be entitled to keep copies thereof. (g) Purchase Orders. All purchase orders, forms, labels, stationery, materials, catalogs, brochures, artwork, photographs and advertising materials held by Seller. (h) Miscellaneous Assets. Any other tangible or intangible assets, properties or rights of any kind or nature not otherwise described above in this Section 1.1 and relating to the Business. 1.2 Excluded Assets. Notwithstanding any provision of this Agreement to the contrary, there shall be excluded from the Sale Assets the following assets in existence on the Closing Date ("Excluded Assets"): (a) Any and all cash, cash equivalents, cash deposits to secure contract obligations (except to the extent Seller receives a credit therefore under Section 2.3, in which event the deposit shall be included as part of the Sale Assets), all inter-company receivables from 2 any affiliate of Seller and all other accounts receivable, bank deposits and securities held by Seller at the Closing Date. (b) Any and all claims of Seller with respect to transactions prior to the Closing including, without limitation, claims for tax refunds. (c) All prepaid expenses (except to the extent Seller receives a credit therefore under Section 2.3, in which event the prepaid expense shall be included as part of the Sale Assets). (d) All contracts of insurance and claims against insurers. (e) All contracts that are terminated in accordance with the terms and provisions of this Agreement or have expired prior to the Closing Date in the ordinary course of business; and all loans and loan agreements. (f) All tangible personal property disposed of or consumed between the date hereof and the Closing Date in accordance with the terms and provisions of this Agreement. (g)

All commitments, contracts and agreements not specifically assumed by Buyer pursuant to Section 1.3 hereof. (h) All personal items owned by employees or independent contractors of Seller and located at Seller's place of business, including, without limitation, the personal items set forth on Schedule 1.2(a). (i) Any records of Seller not related to the Business or that Seller is required to retain by law; provided, however, with respect to any such records that Seller is reasonably required (i) to retain by law or (ii) to disclose for financial reporting purposes and, in each case, that constitute Records, Buyer shall be entitled to copies thereof. (j) Any assets of Seller relating to any employee benefit plan, arrangement, policy or commitment (including any employee benefit plan within the meaning ascribed to such term in Section 3(3) of ERISA including, without limitation, any employment, consulting or deferred compensation agreement, executive compensation, bonus, incentive, pension, profit sharing, savings, retirement, stock option, stock purchase or severance pay plan, any life, health, disability, accident or insurance plan or any holiday, vacation or other employee practice, policy or benefit). (k) Any rights that accrue or will accrue to Seller under this Agreement or under any other Transaction Document. (l) All insurance proceeds receivable under any insurance policy, subject to the terms of Article VI. 3 (m) All assets, tangible or intangible, used solely in the operation of the Other Business. 1.3 Assumption of Liabilities. (a) At Closing, Buyer shall assume and agree to perform, without duplication of Seller's performance, the following liabilities and obligations of Seller (the "Assumed Liabilities"): (i) Current liabilities of Seller for which Buyer receives a credit pursuant to Section 2.3, but not in excess of the amount of such credit. (ii) Liabilities and obligations arising under the Business Agreements, if any, assumed by and transferred to Buyer in accordance with this Agreement, but only to the extent such liabilities and obligations relate to any period of time after the Closing Date. (iii) Liabilities and obligations arising under the Advertising Agreements, if any, assumed by and transferred to Buyer in accordance with this Agreement, but only to the extent such liabilities and obligations relate to any period of time after the Closing Date. (b) Except for the Assumed Obligations, Buyer shall not assume or in any manner be liable for any duties, responsibilities, obligations or liabilities of Seller of any kind or nature, whether express or implied, known or unknown, contingent or absolute, including, without limitation, any liabilities to or in connection with Seller's employees whether arising in connection with the transaction contemplated hereunder or otherwise. 1.4 Employees. Buyer shall be free to hire employees of Seller on such terms and conditions of employment as Buyer shall determine in the exercise of its sole discretion, and without regard to any agreement restricting such person from competing with Seller or working for any entity in competition with Seller; however, nothing in this Agreement shall establish any obligation or commitment on the part of Buyer for any right or claim (legal or

equitable) of any person other than the parties hereto, including, without limitation, any employee of Seller or Buyer or any beneficiary of such employee. Nothing in this Section 1.4 shall be deemed to grant such employees third-party beneficiary rights with respect to their non-competition agreements with Seller, except to the extent that such employees are released by Seller to work for Buyer. ARTICLE II PURCHASE PRICE 2.1 Purchase Price. Buyer shall pay the Purchase Price to Seller, at the Closing, in cash by wire transfer of immediately available funds. (a) For purposes of this Agreement, the "Purchase Price" shall be defined as: 4 (i) If Closing shall, for any reason, occur on or before September 20, 2002, Four Million One Hundred Thousand Dollars ($4,100,000); (ii) If Closing shall, for any reason, occur on or after September 21, 2002 and on or before October 20, 2002, Three Million Nine Hundred Thousand Dollars ($3,900,000); (iii) If Closing shall, for any reason, occur on or after October 21, 2002 and on or before November 20, 2002, Three Million Six Hundred Thousand Dollars ($3,600,000); (iv) If Closing shall, for any reason, occur on or after November 21, 2002 and on or before December 20, 2002, Three Million Two Hundred Thousand Dollars ($3,200,000); (v) If Closing shall, for any reason, occur on or after December 21, 2002 and on or before January 31, 2003, Two Million Five Hundred Thousand Dollars ($2,500,000); and, (vi) If Closing shall, for any reason, occur after January 31, 2003, Two Million Dollars ($2,000,000). (b) Notwithstanding anything in Section 2.1(a) to the contrary, in the event Seller is ready, willing and able to consummate the transactions set forth in this agreement and the Closing is otherwise delayed directly as a result of the failure of Buyer to satisfy its obligations under this Agreement when due, each date set forth in Section 2.1(a) shall be extended in an amount equal to the number of days the Closing is delayed directly as a result of the failure of Buyer to satisfy its obligations under this Agreement when due. 2.2 Purchase Price Allocation. Within ninety (90) days after the Closing, Buyer shall reasonably determine the allocation of the Purchase Price in consultation with Seller and in accordance with Section 1060 of the Internal Revenue Code and submit such determination to Seller. Buyer and Seller further agree to file all applicable tax returns reflecting such allocation, Form 8594 and any other reports required by Section 1060. 2.3 Purchase Price Adjustments. (a) All operating income, operating expenses and prepayments related to the Business Agreements of the Business shall be adjusted and allocated between Seller and Buyer, and an adjustment in the Purchase Price shall be made as provided in this Section 2.3, to the extent necessary to reflect the principle that all such income and expenses attributable to the operation of the Business on or before the Closing Date shall be for the account of Seller, and all income and expenses attributable to the operation of the Business after the closing Date shall be for the account of Buyer. 5 (b) To the extent not inconsistent with the express provisions of this Agreement, the allocations made pursuant to this Section 2.3 shall be made in accordance with generally accepted

accounting principles. (c) For purposes of making the adjustments pursuant to this Section, Buyer shall prepare and deliver an itemized list of all sums to be credited or charged against the account of Buyer, with a brief explanation in reasonable detail of the credits or charges (the "Adjustment List") to Seller within thirty (30) days following the Closing Date, or such earlier or later date as shall be mutually agreed to by Seller and Buyer. Seller shall reasonably cooperate with Buyer to prepare the Adjustment List. If the Adjustment Amount is a credit to the account of Buyer, Seller shall pay such amount to Buyer, and if the Adjustment Amount is a charge to the account of Buyer, Buyer shall pay such amount to Seller. In the event Seller disagrees with the Adjustment Amount determined by Buyer or with any other matter arising out of this subsection, and Buyer and Seller cannot within sixty (60) days resolve the disagreement themselves, the parties will refer the disagreement to a firm of independent certified public accountants, mutually acceptable to Seller and Buyer, whose decision shall be final and whose fees and expenses shall be allocated between and paid by Seller and Buyer, respectively, to the extent that such party does not prevail on the disputed matters decided by the accountants. 2.4 Sales and Transfer Taxes. All sales taxes, transfer taxes, use taxes, recordation fees and taxes, documentary taxes, stamp taxes, excise taxes, personal property taxes, fees and duties under applicable law incurred in connection with this Agreement and the Transaction Documents or the transactions contemplated hereby and thereby will be borne and paid by the party so required by applicable law. Each party shall pay one-half (1/2) of any transfer, registration or similar fees due to Network Solutions, Inc. in connection with the assignments of domain names incident to the transactions contemplated hereby. Otherwise, each party hereto shall pay any and all taxes incurred by such party in connection with the transactions contemplated by this Agreement. ARTICLE III REPRESENTATIONS AND WARRANTIES OF SELLER Seller hereby represents and warrants to Buyer as follows: 3.1 Organization. Seller is a corporation duly organized and validly existing under the laws of the State of Delaware. Seller is duly authorized to transact business in Virginia, South Carolina and each and every other jurisdiction in which it is required to be authorized by reason of the property owned by or leased by it or the nature of the business transactions by it. Each such other jurisdiction is identified on Schedule 3.1 hereof. Seller has all requisite corporate power to own, operate and lease its properties and carry on its business as it is now being conducted and as the same will be conducted until the Closing. Seller is duly qualified to do business in each jurisdiction where a failure to so qualify would have a Material Adverse Effect. For purposes of this Agreement, a "Material Adverse Effect" or "Material Adverse Condition" shall mean a material cost, burden or other adverse effect upon the assets, business, properties, prospects, condition (financial or otherwise) or results of operations of the Business, 6 taken as a whole, occurring before, on or after the Closing Date, in the

amount of $5,000 or more. 3.2 Authorization and Binding Effect of Agreements. The execution and delivery of and the performance of its obligations under this Agreement and each of the other agreements to be delivered at Closing (collectively, the "Transaction Documents") and the consummation by Seller of the transactions contemplated hereby and thereby have been duly authorized and approved by all necessary corporate action on the part of Seller and, prior to closing, will be by its shareholders. This Agreement has been, and each of the other Transaction Documents to which Seller is a party will be duly executed and delivered by Seller at the Closing. This Agreement constitutes (and each of the other agreements and documents, when so executed and delivered, will constitute) legal and valid obligations of Seller enforceable against it in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights or remedies generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law). 3.3 Absence of Conflicts. The execution and delivery of and the performance of its obligations under this Agreement and each of the other Transaction Documents to which Seller is a party and the consummation by Seller of the transactions contemplated hereby and thereby: (a) Do not (with or without the giving of notice or the passage of time or both) violate (or result in the creation of any Lien on any of the Sale Assets) any provision of a rule or regulation or any order, judgment, injunction, decree or ruling applicable to Seller in any manner which could have a Material Adverse Effect. For purposes of this Agreement, a "Lien" shall be defined as any mortgage, pledge, security interest, charge, restriction, hypothecation and encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise, affecting any assets or property, including any written or oral agreement to give or grant any of the foregoing, any conditional sale or other title retention agreement, and the filing of or agreement to give any financing statement with respect to any assets or property under the Uniform Commercial Code as in effect in an applicable jurisdiction or comparable law of any jurisdiction, other than a Permitted Lien. For purposes of this Agreement, a "Permitted Lien" shall be defined as (i) liens for taxes not due and payable or that are being contested in good faith by appropriate proceedings and for which Seller has placed in reserve adequate amounts for payment; (ii) mechanics, materialmen's, carriers', warehousemen's, landlords' or other similar liens in the ordinary course of business for sums not yet due or which are being contested in good faith by appropriate proceedings and for which Seller has placed in reserve adequate amounts for payment; (iii) liens or mortgages that will be released at Closing; and (iv) a Lien securing only an Assumed Liability; and, (b) Do not conflict with or result in a material breach or termination of, or constitute a material default or give rise to a right of termination or acceleration under Seller's bylaws, articles

of incorporation or other organic document ("Organic Documents") or pursuant to any Business Agreement, Advertising Agreement or any other lease, agreement, commitment or other instrument to which Seller is a party, or bound by, or by which any of the Sale Assets may be bound, or result in the creation of any Lien upon any of the Sale Assets. 7 3.4 Consent of Third Parties. The execution and delivery of, and the performance of its obligations under this Agreement and each of the other Transaction Documents, and the consummation by Seller of the transactions contemplated hereby and thereby, do not require the consent, waiver, approval, permit, license, clearance or authorization of, or any declaration or filing with, any court or public agency or other authority, or the consent of any person under any agreement, arrangement or commitment of any nature to which Seller is a party or by which any Sale Asset is bound, except for such consents, waivers, approvals, permits, licenses, clearances or authorizations set forth on Schedule 3.4 (collectively, the "Consents") and except for any such consents, individually or in the aggregate, that would not reasonably be expected to have a Material Adverse Effect. 3.5 Sale Assets. (a) The Sale Assets include all of the assets, properties and rights of every type and description, real, personal and mixed, tangible and intangible, that are (i) used, required or useful in the operation of the Business in the manner in which it is now, and historically has been, operated, or (ii) material to the ongoing operation of the Business as it is now conducted. Seller has good, valid and marketable title to all of the Sale Assets, free and clear of any Liens. Seller has the right to transfer the Sale Assets pursuant to the terms of this Agreement and the other Transaction Documents. (b) Upon the delivery of the instruments of transfer described in Section 9.2, above, to Buyer at the Closing, the Sale Assets shall have been transferred to Buyer, free and clear of any Liens of any kind whatsoever. 3.6 Tangible Personal Property. Schedule 3.6 contains a list of all tangible personal property used, required or useful in the operation of the Business in the manner in which it is now and in the manner it has historically been operated. Except as set forth on Schedule 3.6: (a) The Tangible Personal Property is in good operating condition subject to ordinary wear and tear; and (b) There is no material defect in the condition or operation of any item of the Tangible Personal Property, which is reasonably likely to have a Material Adverse Effect. 3.7 Business Agreements. The Business Agreements identified on Schedule 3.7 (complete and correct copies of which have previously been provided to Buyer), constitute all of the agreements related to the Sale Assets, other than the Advertiser Agreements. Except as set forth on Schedule 3.7, (i) all Business Agreements are legal, valid and enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors'/debtors' rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in any proceeding at law or in equity; (ii)

neither Seller nor, to the knowledge of Seller, any other party thereto, is in material breach of or in material default under any Business Agreement; (iii) there has not occurred any event which, after the giving of notice or the lapse of time or both, would constitute a material default under, or result in the material breach of, any Business Agreement; (iv) Seller holds the right to enforce and receive the benefits under all of the Business Agreements, free and 8 clear of all Liens but subject to the terms and provisions of each such agreement; (v) no consent, waiver, approval, permit, license, clearance or authorization is required to the assignment and assumption of such agreement as contemplated by the transactions described in this Agreement; (vi) except as set forth on Schedule 3.7 each Advertising Agreement may be terminated by Seller upon less than thirty (30) days prior written notice without penalty or cost. 3.8 Advertiser Agreements. The Advertiser Agreements identified on Schedule 3.8 (complete and correct copies of which have previously been provided to Buyer), constitute all of the agreements currently in effect with advertisers, customers and sponsors. Except as set forth on Schedule 3.8, (i) all Advertiser Agreements are legal, valid and enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors'/debtors' rights generally, and subject, as to enforceability, to general principles of equity regardless of whether enforcement is sought in any proceeding at law or in equity; (ii) neither Seller nor, to the knowledge of Seller, any other party thereto, is in material breach of or in material default under any Advertiser Agreement; (iii) there has not occurred any event which, after the giving of notice or the lapse of time or both, would constitute a material default under, or result in the material breach of, any Advertiser Agreement; (iv) Seller holds the right to enforce and receive the benefits under all of the Advertiser Agreements, free and clear of all Liens but subject to the terms and provisions of each such agreement; (v) no consent, waiver, approval, permit, license, clearance or authorization is required to the assignment and assumption of such agreement as contemplated by the transactions described in this Agreement; (vi) except as set forth on Schedule 3.8 each Advertising Agreement may be terminated by seller upon less than thirty (30) days prior written notice without penalty or cost. 3.9 Litigation. There are no claims, investigations or administrative proceedings, arbitrations or other proceedings pending or, to the best knowledge of Seller, threatened against Seller which would individually or in the aggregate, if adversely determined, have a Material Adverse Effect, constitute a Material Adverse Condition or which would give any third party the right to enjoin the transactions contemplated by this Agreement. There is no basis for any such claim, investigation, action, suit or proceeding which would, individually or in the aggregate if adversely determined, have a Material Adverse Effect or constitute a Material Adverse Condition. There are no existing or, to the best knowledge of Seller, pending orders, judgments or

decrees of any court or governmental agency to which the Seller is a party. 3.10 Labor Matters. (a) Attached hereto as part of Schedule 3.10 is a list of the names or description of all persons who are employed by Seller who work in connection with the Business (other than those involved in accounting or in senior management of Seller), and, for those named, their job titles, original date of hire, annual base compensation, and full or part-time status. Seller is not a party to any collective bargaining agreement, and there is no collective bargaining agreement that determines the terms and conditions of employment of any employees of Seller. The consummation of the transactions contemplated by this Agreement in accordance with the terms hereof shall not, because of the transactions contemplated hereby, impose upon Buyer any obligation to employ any person, including such persons listed on Schedule 3.10 9 hereof, nor shall Buyer have any obligation to such persons arising out of their agreement, if any, with seller. (b) Except as set forth on Schedule 3.10: (i) there is no labor strike, dispute, slowdown or stoppage pending or, to the knowledge of Seller, threatened against the Business; (ii) there are neither any pending nor, to the knowledge of Seller, any threatened suits, actions, administrative proceedings, union organizing activities, arbitrations, grievances or other proceedings to which the Seller is a party; and there are no existing labor or employment or other controversies or grievances to which the Seller is a party involving employees of the Business; (iii) with respect to the Business, (A) Seller is in compliance in all material respects with all laws, rules and regulations relating to the employment of labor and all employment contractual obligations, including those relating to wages, hours, collective bargaining, affirmative action, discrimination, sexual harassment, wrongful discharge and the withholding and payment of taxes and contributions; (B) Seller has withheld all amounts required by law or agreement to be withheld from the wages or salaries of its employees; and (C) Seller is not liable to any present or former employees or any governmental authority for damages, arrears of wages or any tax or penalty for failure to comply with the foregoing. 3.11 Employee Benefit Plans. The consummation of the transactions contemplated by this Agreement in accordance with the terms hereof shall not, because of the transactions contemplated hereby, impose upon Buyer any obligation under any Benefit Plan, contract or arrangement (regardless of whether they are written or unwritten and funded or unfunded) covering employees or former employees of Seller in connection with their employment by Seller as a result of any action, inaction, error or omission by Seller before, on or after Closing. For purposes of this Agreement, a "Benefit Plan" shall include, without limitation, employee benefit plans within the meaning of the Employee Retirement Income Security Act of 1974, as amended, vacation benefits, accrued sick leave, employment and severance contracts, stock option plans, unit appreciation rights plans, bonus programs and plans of deferred compensation. 3.12 Environmental Matters.

Seller has not, and to the knowledge of Seller, no other person has, caused materials to be present, generated, released, stored or disposed of on, under or at Seller's current places of business or at any of Seller's former places of business during or prior to the time of Seller's occupancy thereof, which materials, if known to be present, would result in liability or require remedial or responsive action under Environmental Laws. For purposes of this Agreement, "Environmental Laws" shall be defined as the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Clean Air Act and the Toxic Substances Control Act, each as amended, and any other applicable federal, state and local laws concerning the environment, including the treating, producing, handling, storing, releasing, spilling, leaking, pumping, pouring, emitting or dumping of hazardous materials. 3.13 Compliance with Law. The operation of the Business complied in the past and now complies in all material respects with all applicable statutes, laws, ordinances, rules and regulations of all federal, state, local or other governmental authorities, and all applicable orders, writs, injunctions or decrees of any court, commission, board, agency or other instrumentality. Seller has not been charged with, or to the knowledge of Seller, threatened with any charge 10 concerning or under investigation with respect to, any violation of any provision of law applicable to or materially affecting the Business. 3.14 Tax Matters. Except as may be required by Section 2.4, Buyer shall not have any liability for payment or otherwise with respect to any taxes arising out of, attributable to or affecting the Sale Assets or the conduct of the Business through the Closing as a result of any action, inaction, error or omission by Seller before, on or after the Closing Date. Except as set forth in Section 2.4, there does not exist and will not exist any liability for taxes that may be asserted by any taxing authority against the Sale Assets or the conduct of the Business through the Closing for which Buyer will have any liability for payment as a result of any action, inaction, error or omission by Seller before, on or after the Closing Date, and no Lien for such taxes has or will attach to the Sale Assets through the Closing, except any Lien for ad valorem taxes for the calendar year of 2002 which are not yet due and payable. 3.15 Absence of Insolvency. No insolvency proceedings of any character including without limitation, bankruptcy, receivership, reorganization, composition or arrangement with creditors, voluntary or involuntary, (i) is pending against Seller or any of the Sale Assets, (ii) to the knowledge of Seller, is affecting Seller or any of the Sale Assets, or (iii) to the knowledge of Seller, is threatened, and Seller has made no assignment for the benefit of creditors, nor taken any action with a view to, or which would constitute the basis for the institution of, any such insolvency proceedings. 3.16 Products; Product Warranties. Set forth on Schedule 3.16 attached hereto is a list of all products sold, licensed or marketed by Seller in connection with the Business (collectively, the "Products")

including, without limitation, domain names, program titles and themes. Except as set forth on Schedule 3.16, (a) there are no warranties express or implied, written or oral, with respect to the Products of the Business and (b) there are no pending or, to the knowledge of Seller, threatened claims with respect to any such warranty, and, to the best knowledge of Seller, Seller has no liability with respect to any such warranty, whether known or unknown, absolute, accrued, contingent or otherwise and whether due or to become due. 3.17 Intellectual Property. (a) All of the Seller's Intellectual Property (as that term is defined below), together with its applicable registration or application information, is set forth on Schedule 3.17 attached hereto. For purposes hereof, the term "Intellectual Property" shall include all intangible properties that are (i) used in the operation of the Business in the manner in which it has been and is now operated, or (ii) material to the ongoing operation of the Business as it is now conducted, and including, without limitation: (i) all patents, patent applications, patent rights and inventions and discoveries and invention disclosures (whether or not patented) (collectively, the "Patents"); (ii) and all trade names including trade dress, logos, packaging design, slogans, domain names, registered and unregistered trademarks and service marks and applications together with the goodwill of the business represented thereby (collectively, the "Marks"); (iii) all copyrights in both published and unpublished works (collectively, the "Copyrights"); (iv) all know-how, trade secrets, confidential or proprietary information and customer lists (collectively, the "Trade Secrets"); (v) all goodwill, franchises, licenses, permits, consents, approvals, technical information, telephone numbers, and claims of infringement against third 11 parties (collectively, the "Rights") and (vi) all contracts relating to the Intellectual Property and/or relating to the Products to which Seller is a party or is bound, including without limitation, all nondisclosure and/or confidentiality agreements entered into by persons in connection with disclosures by Seller relating to any disclosure made pursuant to Section 5.3 hereof. (b) Seller has exclusive ownership of, and has good, valid and marketable title to, all of the Intellectual Property, free and clear of any Liens, and has the right to use all of the Intellectual Property without payment to any third party; and Seller's rights in all of such Intellectual Property are freely transferable subject to filing the instruments of transfer referred to in Section 9.2, hereof. Except as set forth in Schedule 3.16, the Intellectual Property constitutes all of the assets of Seller used or held by Seller in designing, creating, developing, marketing and distributing the Products. Seller has the exclusive right to use, license, distribute, transfer and bring infringement actions with respect to the Intellectual Property and Seller is not obligated to and does not pay royalties or other fees to anyone for its ownership, use, license or transfer of any of the Intellectual Property. (c) None of the sources included in the Products, Copyrights, or Trade Secrets is copied from, based upon, or derived from any other source in violation of the rights of any third

party. Any substantial similarity of the Products, Copyrights or Trade Secrets to any owned by any third party did not result from the Products, Copyrights or Trade Secrets being copied from, based upon, or derived from such similar products of such third party in violation of the rights of such third party or from any other violation of the rights of a third party (d) Seller has taken all reasonable security measures to protect the secrecy, confidentiality and value of all Trade Secrets. To the knowledge of Seller, there has not been any breach by any party to any such confidentiality or non-disclosure agreement. The Trade Secrets have not been disclosed by Seller to any person or entity other than employees or contractors of Seller who had a need to know and use the Trade Secrets in the course of their employment or contract performance. 3.18 Transactions with Interested Persons. Except as set forth on Schedule 3.18 hereto, neither Seller, nor, to the best knowledge of Seller, any shareholder or supervisory employee of Seller or, to the knowledge of Seller, any of their respective spouses or family members owns directly or indirectly on an individual or joint basis any material interest in, or serves as an officer or director or in another similar capacity of, any competitor or supplier of the Business, or any organization which has a material contract or arrangement with the Business. 3.19 Permits. To Seller's knowledge, Schedule 3.19 lists all the licenses, permits, easements, registrations, applications and authorizations (and any renewals, extensions, amendments or modifications thereof) (collectively, the "Approvals") required from federal, state or local authorities in order for Seller to conduct the Business consistent with past practice. Seller has obtained all such Approvals, which are valid and in full force and effect, and is operating in compliance therewith. Such Approvals include, but are not limited to, those required under federal, state or local statutes, ordinances, orders, requirements, rules, regulations, or laws pertaining to environmental protection, public health and safety, worker health and safety, buildings, highways or zoning. 12 3.20 Customers and Suppliers. Seller's relations with its customers and suppliers, taken as a whole, are good and there are not pending or, to Seller's knowledge, threatened claims or controversies with any customer or supplier that are material to the Sale Assets or the Business or could reasonable have a Material Adverse Effect on Buyer. 3.21 Traffic Report. Attached hereto as Schedule 3.21 are copies of all the documents which have been previously provided to Buyer related to the number of page views and other customary and other specifically requested information relating to traffic on the websites of the Business (collectively the "Traffic Report"). The Traffic Report fairly, accurately and completely sets forth the information contained therein. Since June 30, 2002, there has been no material adverse changes in the traffic on the websites of the Business. 3.22 Financial Schedules. Attached hereto as Schedule 3.22 are copies of documents which have been previously provided to Buyer related to the financial performance of the Business (collectively the "Financial Schedules"). The Financial Schedules

have been prepared by management of Seller in accordance with Seller's historical accounting practices for the Business during the periods covered thereby and, in all material respects, comply with the Accounting Standards. For purposes of this Agreement, "Accounting Standards" shall mean that the applicable documents present fairly and accurately, in all material respects, the results of operations of the Business for the periods covered thereby and were prepared in accordance with Generally Accepted Accounting Standards. As of June 30, 2002 ("Financial Schedules Date"), Seller had no material liabilities or obligations of any kind with respect to the Business, whether accrued, contingent or otherwise, that are not disclosed and adequately reserved for on the Financial Schedules, other than immaterial liabilities incurred in the ordinary course of business which would not be reflected in the Financial Schedules under the Accounting Standards, applied consistently. 3.23 Business Since the Financial Schedules Date. Since the Financial Schedules Date: (a) There has been no (i) material adverse change in the Business or in the Sale Assets, operations or financial condition of the Business and (ii) event, circumstance or combination thereof, whether arising prior to or after the Financial Schedules Date, that might reasonably be expected to result in a Material Adverse Condition; (b) The Business has, in all material respects, been conducted in the ordinary course and in substantially the same manner as it was conducted before the date of the Financial Schedules Date; (c) There has not been any material obligation or liability (contingent or other) incurred by Seller with respect to the Business, outside the ordinary course; (d) There has not been any purchase, sale or other disposition, or any agreement or other arrangement, oral or written, for the purchase, sale or other disposition, of any material properties or assets of the Business, outside the ordinary course; 13 (e) There has not been any mortgage, encumbrance or Lien placed on any of the Sale Assets, nor any payment or discharge of a material Lien or liability of Seller, which was not reflected on the Financial Schedules; (f) There has not been any damage, destruction or loss, whether or not covered by insurance, adversely affecting the Business or Sale Assets; (g) There has not been any change in the collection, payment and accounting policies used by Seller in the Business; (h) There has not been any agreement or understanding, whether in writing or otherwise, for Seller to take any of the actions specified above; and (i) Seller has not granted or agreed to grant any increase in the compensation of any employee of the Business (including any such increase pursuant to any bonus, pension, profit-sharing or other plan or commitment) or any increase in the compensation payable or to become payable to any employee of the Business, except for those granted in the ordinary course of business consistent with past practice. 3.24 Broker's or Finder's Fees. No agent, broker, investment banker or other person or firm acting on behalf of or under the authority of Seller or any affiliate of Seller is or will be entitled to any broker's or finder's fee or any other commission or similar fee, directly or indirectly, in

connection with the transactions contemplated by this Agreement. 3.25 Disclosures. No representation, warranty or schedule by Seller contained in this Agreement nor any statement or certificate furnished or to be furnished by or on behalf of Seller to Buyer contains or will contain any untrue statement of material fact, or omits or will omit to state any material fact required to make the statements contained herein and therein not misleading. There is no fact (other than matters of a general economic nature which do not affect the Business uniquely) known to Seller that has not been disclosed by Seller to Buyer that might reasonably be expected to be a Material Adverse Condition. ARTICLE IV REPRESENTATIONS AND WARRANTIES OF BUYER Buyer represents and warrants to Seller as follows: 4.1 Organization and Good Standing. Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware. Buyer has all requisite corporate power to own, operate and lease its respective properties and carry on its business as it is now being conducted and as the same will be conducted following the Closing. Buyer is, or at Closing will be, qualified to do business in each other jurisdiction in which it is required to so qualify by reason of the character of the property owned or leased by it or the nature of the business transacted by it. 4.2 Authorization and Binding Effect of Agreements. As to Buyer: (i) the execution and delivery, and the performance of its obligations under, this Agreement and each of 14 the other Transaction Documents to which it is a party and the consummation by it of the transactions contemplated hereby and thereby to be consummated by it have been duly authorized and approved by all necessary action on its part; (ii) it has the power and authority to execute, deliver and perform its obligations under this Agreement and each of the other Transaction Documents to which it is a party and to consummate the transactions hereby and thereby contemplated to be consummated by it; (iii) this Agreement and each of the other Transaction Documents to which it is a party have been, or at the Closing will be, duly executed and delivered by it; and (iv) this Agreement constitutes (and each of the other agreements and documents to which it is a party, when so executed and delivered by it, will constitute) legal and valid obligations of it enforceable against it in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting the enforcement of creditors' rights or remedies generally, and subject, as to enforceability, to general principles of equity (regardless of whether such enforceability is sought in a proceeding in equity or at law). 4.3 Absence of Conflicts. The execution, delivery and the performance of the obligations of Buyer under this Agreement, and each of the other Transaction Documents, to which they may be a party and the consummation by them of the transactions contemplated hereby and thereby: (a) Do not (with or without the giving of notice or the passage of time or both) violate (or result in the creation of any Lien on any of the assets or properties of it) any

provision of law, rule or regulation or any order, judgment, injunction, decree or ruling applicable to it in any manner which could have a material adverse effect on its assets, business, operation or financial condition or results of operations; and (b) Do not (with or without the giving of notice or the passage of time or both) conflict with or result in a breach or termination of, or constitute a default or give rise to a right of termination or acceleration under, its certificate of incorporation or bylaws or any lease, agreement, commitment or other instrument to which it is a party or by which it or any material portion of its assets or properties may be bound. 4.4 Consent of Third Parties. The execution and delivery of, and the performance of Buyer's obligations under, this Agreement and each of the other Transaction Documents and the consummation by Buyer of the transactions contemplated hereby and thereby, do not require the consent, waiver, approval, permit, license, clearance or authorization of, or any declaration or filing with, any court or public agency or other authority, or the consent of any person under any agreement, arrangement or commitment of any nature to which it is a party or by which it or any material portion of its assets or properties is bound. 4.5 Disclosures. No representation, warranty or schedule of Buyer in this Agreement or any other Transaction Document furnished by Buyer or on its behalf contains or will contain any untrue statement, or omits or will omit to state a material fact required to be disclosed hereunder. 15 ARTICLE V PRE-CLOSING COVENANTS 5.1 Conduct of the Business. Seller covenants and agrees with Buyer that between the date hereof and the Closing Date, unless the Buyer otherwise agrees in writing (which agreement shall not be unreasonably withheld), Seller shall: (a) Use reasonable efforts to keep the Business operating in a manner consistent with its historic operations: (b) Use reasonable commercial efforts to maintain insurance upon all of the tangible Sale Assets in such amounts and of such kind materially comparable to that in effect on the date hereof with respect to such Sale Assets with insurers of substantially the same or better financial condition; (c) Operate the Business in material accordance with all rules and regulations, statutes, ordinances and orders of all governmental authorities having jurisdiction over any aspect of the operation of the Business, except where the failure to so operate would not have a material adverse effect on the Sale Assets or the operation of the Business or on the ability of Seller to consummate the transactions contemplated hereby. (d) Maintain the Records of the Business in Seller's customary manner on a basis materially consistent with prior years; (e) Comply in all material respects with all Business Agreements and Advertising Agreements now or hereafter existing which are material, individually or in the aggregate, to the operation of the Business; (f) Promptly notify Buyer of any material default by, or claim of default against, any party under any Business Agreements or Advertising Agreement which are material, individually or in the aggregate, to the operation of the Business, and any event or

condition which, with notice or lapse of time or both, would constitute a material default under such agreements; (g) Not mortgage, pledge or subject to any Lien (except in the ordinary course of business) any of the Sale Assets; (h) Not sell, lease or otherwise dispose of, nor agree to sell, lease or otherwise dispose of, any of the Sale Assets, except for dispositions in the ordinary course of business; (i) Not amend or terminate any Business Agreement or Advertising Agreement, other than in the ordinary course of business; (j) Not introduce any material change with respect to the Business; and, 16 (k) Notify Buyer of any material litigation pending or threatened against the Business or Seller or any material damage to or material destruction of any assets included or to be included in the Sale Assets. 5.2 Third Party Consents. Between the date of this Agreement and the Closing, the Seller shall obtain the consent of any third party necessary for the assignment of any contract or agreement to be assigned hereunder. In the event of a consent or waiver required with respect to the assignment of a contract that has not been obtained before the Closing, and Buyer, in its sole discretion, waives the right to receive such consent or waiver (to the extent required in order to close the transactions contemplated herein), then the Seller shall use its commercially reasonable efforts to provide Buyer with the benefits of any such contract, including without limitation, permitting Buyer to enforce any rights of Seller under such contract. 5.3 No Solicitation. (a) Seller will immediately cease any existing discussions or negotiations with any third parties conducted prior to the date hereof with respect to any Acquisition Proposal (as defined below). Seller shall not, directly or indirectly, through any officer, director, employee, representative or agent, or otherwise: (i) solicit, initiate, continue or encourage any inquiries, proposals or offers that constitute, or could reasonably be expected to lead to, a proposal or offer for a merger, consolidation, business combination, sale of the Sale Assets (or any of them), sale of substantially all the assets or a sale of at least a majority of capital stock (including, without limitation, by way of a tender offer) involving Seller, other than the transactions contemplated by this Agreement, (any of the foregoing inquiries or proposals are being referred to in this Agreement as an "Acquisition Proposal"), (ii) solicit, initiate, continue or engage in negotiations or discussions concerning, or provide any information or data to any person or entity relating to, or otherwise cooperate in any way with, or assist or participate in, or facilitate or encourage any Acquisition Proposal, or (iii) agree to, approve or recommend any Acquisition Proposal. (b) Notwithstanding Section 5.3(a) hereof, Seller may furnish non-public information to, or enter into discussions or negotiations with, any person or entity in connection with any unsolicited Acquisition Proposal by such person or entity (including a new and unsolicited Acquisition Proposal received by Seller after the execution of this Agreement from a person or entity whose initial contact with Seller may have been solicited by Seller prior to the execution of this Agreement), and Seller may

recommend such an unsolicited bona fide written Acquisition Proposal to the shareholders of Seller, if and only to the extent that: (i) the Board of Directors of Seller determines in good faith (after consultation with and based upon the written opinion of its independent financial advisors) that such Acquisition Proposal would, if consummated, result in a transaction materially and 17 significantly more favorable to the shareholders of Seller than this Agreement and that the person or entity making such Acquisition Proposal has the financial means to conclude such transaction on or before the Closing Date (any such materially more favorable Acquisition Proposal is being referred to in this Agreement as a "Superior Proposal"); (ii) prior to furnishing such non-public information to, or entering into discussions or negotiations with, such person or entity, the Board of Directors of Seller determines in good faith (after consultation with and based upon the advice of its outside legal counsel) that the failure to take such action would be materially inconsistent with the fiduciary duties of the Board of Directors to its shareholders under applicable law; (iii) prior to furnishing such non-public information to, or entering into discussions or negotiations with, such person or entity, the Board of Directors receives from such person or entity an executed confidentiality agreement, in a form reasonably satisfactory to Buyer (which, in any event, shall include a restriction on such person or entity from competing with the Business for up to two (2) years, should Buyer acquire the Sale Assets); (iv) prior to furnishing any such non-public information to, or entering into discussions or negotiations with, such person or entity, Seller shall notify Buyer of the identity of such person or entity; (v) Seller shall provide Buyer with a true and complete copy of any Superior Proposal within five (5) days of its receipt and, in any event, prior to any recommendation by the Board of Directors of Seller to its shareholders of said proposal; and (vi) prior to any recommendation by the Board of Directors of Seller to its shareholders of any Superior Proposal, Buyer shall be afforded the opportunity to match its material terms, in which event the Board of Directors of Seller shall recommend to its shareholders that they accept Buyer's offer. 5.4 Shareholder Meeting. Seller shall, in accordance with the requirements of applicable law, its Articles of Incorporation and its Bylaws, take all action as may be necessary, proper or advisable to duly call, give notice of and fix a record date for a meeting of shareholders (which may be a special or annual meeting) to vote on approval on this Agreement and the transactions contemplated hereby (the "Shareholders' Meeting"), to be held as promptly as practicable. As promptly as practicable, Seller shall prepare and file with the Securities and Exchange Commission (the "SEC") a proxy statement (the "Proxy Statement") to be used in connection with the solicitation of proxies for the Shareholders' Meeting, respond to any comments or requests from the SEC, as applicable, and mail the Proxy Statement, together with any materials required to be delivered to Seller's shareholders under applicable law, to shareholders of

Seller in accordance with the requirements of applicable law. Seller represents, warrants and covenants that the Proxy Statement will comply with all requirements of applicable law, including without limitation SEC Regulation 14A and its Organic Documents. Subject to its fiduciary duties in connection with a Superior Proposal, the Board of Directors of Seller shall recommend in the Proxy Statement that the shareholders of Seller approve this Agreement and the transactions contemplated hereby. 18 5.5 Access; Information; Confidentiality; Publicity. (a) Prior to the Closing, Seller shall give Buyer and its representatives full and reasonable access during normal business hours to all of Seller's properties, books, contracts, reports and records including financial information, in each case relating to the Business, in order that Buyer have full opportunity to make such investigation as they desire of the Sale Assets and the Business, and Seller shall furnish Buyer with such information as Buyer may reasonably request in connection therewith. The rights of Buyer under this Section 5.5 shall not be exercised in such a manner as to interfere unreasonably with the ongoing operation of the Business. (b) Between the date of this Agreement and the Closing, the Seller shall (i) keep Buyer reasonably informed of all material operational matters and business developments with respect to the Business, and (ii) furnish Buyer with any information customarily prepared by Seller concerning the financial condition of the Business that the Buyer may request. (c) Subject to the requirements of applicable law, each party shall keep confidential all information obtained by it with respect to the other party hereto in connection with this Agreement and the negotiations preceding this Agreement ("Confidential Information"); provided that, each party hereto may furnish such Confidential Information to its employees, agents and representatives who need to know such Confidential Information (including its financial and legal advisers, its banks and other lenders) (collectively, "Representatives"). Each party hereto shall, and shall cause each of such party's Representatives to, use the Confidential Information solely in connection with the transactions contemplated by this Agreement. If the transactions contemplated hereby are not consummated for any reason, each party shall return to such other party hereto, without retaining a copy thereof, any schedules, documents or other written information obtained from such other party in connection with this Agreement and the transactions contemplated hereby. Notwithstanding anything contained in this Section 5.5, no party shall be required to keep confidential or return any Confidential Information which: (i) is known or available through other lawful sources, not bound by any confidentiality agreement with the disclosing party; (ii) is or becomes publicly known through no fault of the receiving party or its agents; (iii) is required to be disclosed pursuant to an order or request of a judicial or governmental authority (provided the disclosing party is given reasonable prior notice of the order or request and the purpose of the disclosure); or (iv) is developed by

the receiving party independently of the disclosure by the disclosing party. The obligations of the parties under this Section 5.5 shall survive the Closing of this Agreement. (d) No news release or other public announcement pertaining to the transactions contemplated by this Agreement will be made by or on behalf of any party hereto without the prior written approval of the other party (such consent not to be unreasonably withheld or delayed). Notwithstanding the provisions of the preceding sentence, either party hereto or its Affiliates (a "Releasing Party") may, in accordance with its legal obligations, including but not limited to filings permitted or required by the Securities Act of 1933, the Securities and Exchange Act of 1934, the New York Stock Exchange, the National Association of 19 Securities Dealers and other similar regulatory bodies, make (i) such press releases and other public statements and announcements ("Releases") as the Releasing Party deems necessary or appropriate in connection with this Agreement and the transactions contemplated hereby, and (ii) any and all statements the Releasing Party deems in its sole judgment to be appropriate in any and all filings, prospectuses and other similar documents. The Releasing Party shall use reasonable efforts to provide the other parties hereto with a copy of any Releases before any publication of same, provided that, if the content of the Release is, in the sole judgment of the Releasing Party reasonably exercised, substantially similar to the content of a Release previously provided to the other parties, the Releasing Party shall have no obligation to provide the other party with a copy of such Release. The other party may make comments to the Releasing Party with respect to any such Releases provided to them; provided, however, that the Releasing Party is not required to incorporate any such comments into the Releases. 5.6 Cooperation & Inconsistent Actions. Each party shall cooperate fully with each other and its respective counsel and accountants in connection with any actions required to be taken as part of its obligations under this Agreement, and each party will use its reasonable efforts to consummate the transactions contemplated hereby and to fulfill its obligations hereunder; provided, however, that no party shall be required to make any payments to any third party in order to obtain the consent of any such third party. Prior to the Closing, no party shall take any action which is materially inconsistent with its obligations under this Agreement, or that could hinder or delay in any material respect the consummation of the transactions contemplated by this Agreement. 5.7 Tax Returns and Payments. To the extent the failure to file any return, estimate, or report or pay any taxes would result in a Lien on the Sale Assets: (a) All tax returns, estimates, and reports required to be filed by Seller prior to the Closing Date or relating to periods prior to the Closing Date will be timely filed with the appropriate governmental agencies unless valid extensions therefore shall have been obtained. (b) All taxes pertaining to ownership of the Sale Assets or operation of the Business prior to the Closing Date will be timely paid; provided that Seller shall not be required to pay

any such tax so long as the validity thereof shall be contested in good faith by appropriate proceedings and Seller shall have set aside adequate reserves with respect to any such tax. ARTICLE VI CASUALTY Upon the occurrence of any casualty loss, damage or destruction material to the operation of the Business prior to the Closing, Seller shall promptly give Buyer written notice setting forth in detail the extent of such loss, damage or destruction and the cause thereof if known. Seller shall use its reasonable efforts to promptly commence and thereafter to diligently proceed to repair or replace any such lost, damaged or destroyed property. In the event that such repair or replacement is not fully completed prior to the Closing Date, Buyer may elect to (i) postpone the Closing until Seller's repairs have been fully completed, (ii) to consummate the transactions 20 contemplated hereby on the Closing Date, in which event Seller shall assign to Buyer the portion of the insurance proceeds (less all reasonable costs and expenses, including without limitation attorney's fees, expenses and court costs, incurred by Seller to collect such amounts), if any, not previously expended by Seller to repair or replace the damaged or destroyed property, and Buyer shall accept the damaged Sale Assets in their damaged condition, or (iii) to terminate this Agreement. ARTICLE VII CONDITIONS PRECEDENT TO THE OBLIGATION OF BUYER TO CLOSE Buyer's obligation to close the transactions contemplated by this Agreement is subject to the satisfaction, on or prior to the Closing Date, of each of the following conditions, unless waived by Buyer in writing: 7.1 Accuracy of Representations and Warranties. The representations and warranties of Seller contained in this Agreement or any other document shall be complete and correct in all material respects on the Closing Date. 7.2 Performance of Agreement. Seller shall have performed in all material respects all of its covenants, agreements and obligations required by this Agreement and each of the other Transaction Documents to be performed, or complied with, by it on the Closing Date. 7.3 Adverse Proceedings. Buyer shall not be subject to any ruling, decree, order or injunction restraining, imposing material limitations on or prohibiting the consummation of the transactions contemplated hereby; and no litigation, proceeding or other action seeking to obtain any such ruling, decree, order or injunction shall be pending or shall have been threatened in writing. 7.4 Conveyance Free and Clear of Liens. At or prior to the Closing, Seller shall obtain executed releases, in suitable form for filing and otherwise in form and substance reasonably satisfactory to Buyer, of any security interests granted in the Sale Assets and properties as security for payment of loans and other obligations or judgments and of any other Liens on the Sale Assets. At the closing, Seller shall transfer and convey to Buyer all of the Sale Assets free and clear of all Liens. 7.5 Buyer's Satisfaction. All legal matters, documentation or other proceedings incident to the transactions contemplated hereby shall be reasonably satisfactory in form and substance to Buyer; all Consents shall have been obtained or waived in writing, and all

related filings, if any, shall have been made, and all Approvals shall be in full force and effect and Buyer shall have received such copies thereof as it shall have requested; all applicable waiting periods shall have expired without any adverse action being taken by any governmental authority having jurisdiction; and Seller shall have received the approval from its Shareholders for this Agreement and the transaction contemplated hereby. 7.6 Employment of Key Personnel. Buyer shall have entered into employment agreements for certain key employees of the Business listed on Schedule 1.2, to be identified by Buyer in its sole discretion, on terms reasonably acceptable to Buyer. 21 7.7 Shareholder Approval. As set forth in Section 5.4 hereof, Seller shall have received approval from its shareholders of this Agreement and the transaction contemplated hereby. ARTICLE VIII CONDITIONS PRECEDENT TO THE OBLIGATION OF SELLER TO CLOSE Seller's obligation to close the transaction contemplated by this Agreement is subject to the satisfaction, on or prior to the Closing Date, of each of the following conditions, unless waived by Seller in writing: 8.1 Accuracy of Representations and Warranties. The representations and warranties of Buyer contained in this Agreement or any other Transaction Document shall be complete and correct in all material respects on the Closing Date. 8.2 Performance of Agreement. Buyer shall have performed in all material respects all of its covenants, agreements and obligations required by this Agreement and each of the Transaction Documents to be performed, or complied with, by it on the Closing Date. 8.3 Adverse Proceedings. Seller shall not be subject to any ruling, decree, order or injunction restraining, imposing material limitations on or prohibiting the consummation of the transactions contemplated hereby; and no litigation, proceeding or other action seeking to obtain any such ruling, decree, order or injunction shall be pending or shall have been threatened in writing. 8.4 Shareholder Approval. As set forth in Section 5.4 hereof, Seller shall have received approval from its shareholders of this Agreement and the transaction contemplated hereby. ARTICLE IX THE CLOSING 9.1 Closing. The transactions contemplated by this Agreement shall take place (the "Closing") at Buyer's offices in Nashville, Tennessee, or such other place as mutually agreed to by the parties, at 10:00 a.m. Central Time on the date (the "Closing Date") being the first (1st) business day following satisfaction or waiver of the conditions precedent hereunder or such later date as mutually agreed by the parties. Time is of the essence with respect to the Closing. Closing shall be deemed effective as of 12:01 a.m., Central Time, on the Closing Date. 9.2 Seller's Closing Deliveries. At the Closing, Seller shall deliver or cause to be delivered to Buyer, in form and substance reasonably satisfactory to Buyer and its counsel, the following: (a) A bill of sale conveying the Tangible Personal Property to Buyer, duly executed by Seller; (b) An instrument or instruments assigning to Buyer all right, title and interest of Seller in and to the Business Agreements, duly executed

by Seller; 22 (c) An instrument or instruments assigning to Buyer all right, title and interest of Seller in and to the Advertiser Agreements, duly executed by Seller; (d) Instruments assigning to Buyer all right, title and interest in and to the Intellectual Property, including, without limitation, all of the domain names used in the Business; (e) The Records; (f) Releases, in suitable form for filing and otherwise in form and substance reasonably satisfactory to Buyer, duly executed and delivered, of any security interests granted in the Sale Assets as security for payment of loans and other obligations and of any other Liens; (g) All Consents and executed estoppel certificates from each lessor, licensor, advertiser, sponsor, customer or other third-party to any Business Agreements or any Advertiser Agreements reasonably deemed material by the Buyer stating, with respect to each such agreement, the following (or in such other form as may be reasonably acceptable to Buyer and its counsel): (i) whether there have been any amendments, modifications or supplements of any kind to such lease or other agreement; (ii) that such agreement is in full force and effect; (iii) the commencement and expiration dates of such agreement; (iv) that no party is in material violation of, or in material default under, such agreement and that no party thereunder has any material claims against Seller or Seller's interest in such agreement; (v) the amount of and the date through which all payments have been made under such agreement; (vi) that no payment has been made for more than one month in advance; (vii) that such other party consents to the assignment of such agreement to Buyer (if such consent is required) and consents to the assignment of any option to purchase if such option is contained in the agreement; and (viii) such other matters as Buyer may reasonably request; (h) A certificate executed by Seller's Secretary certifying consent of the directors and stockholders of Seller to the consummation of the transactions contemplated by this Agreement and authorizing the execution and delivery by Seller of this Agreement and the other Transaction Documents to which Seller is a party (including a certificate of incumbency), the performance by Seller of its obligations hereunder and thereunder and the consummation by it of the transactions contemplated hereby and thereby; (i) A certificate as of a recent date of the corporate existence of Seller under the laws of its jurisdiction of organization, from the Secretary of State (or comparable governmental authority) of such jurisdiction; (j) A certificate as of a recent date of the qualification of Seller to conduct business as a foreign entity in each jurisdiction where it is so qualified as of the Closing Date, from the Secretary of State (or comparable governmental authority) of such jurisdiction; (k) A tax clearance certificate, a tax good standing certificate, a certificate of no tax due, or similar certificate or letter as to Seller, from the Department of Revenue (or comparable governmental authority) in each applicable jurisdiction under (i) and (j) above; 23 (l) A certificate, signed by the Seller, certifying that the conditions specified in Sections 7.1 and Section 7.2 are satisfied as of the

Closing Date; (m) The opinion of Seller's outside corporate counsel, dated the Closing Date, in form and substance reasonably satisfactory to Buyer's counsel, to the effect that: (i) Seller is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, has all requisite corporate power and authority to own its property and to carry on its business, including the Business, as now conducted, and is in good standing and authorized to do business in each jurisdiction in which the failure to be so authorized could reasonably be expected to have a Material Adverse Effect; (ii) Seller has full corporate power and authority to enter into, execute, deliver and carry out the terms of this Agreement and any other agreement relating to or arising out of this Agreement to which it is a party (collectively, "Transaction Document(s)"), and to incur the obligations provided for therein, all of which have been duly authorized by all proper and necessary action and are in full compliance with Seller's articles of incorporation, bylaws and other Organic Documents; (iii) Except as has previously been obtained or performed by Seller, no consent, authorizations or approval of, filing with, notice to, or exemption by, stockholders, board of directors, any governmental authority or any other person (except for those which have been obtained, made or given) is required to authorize, or is required in connection with Seller's execution, delivery and performance of this Agreement or any other Transaction Document, or is required as a condition to the validity or the enforceability of this Agreement or any other Transaction Document against Seller. No provision of any applicable statute, law (including, without limitation, any applicable usury or similar law), rule or regulation of any governmental authority or Seller's Organic Documents will prevent the execution, delivery or performance of, or affect the validity of, this Agreement or any other Transaction Document; (iv) This Agreement and the other Transaction Documents constitute the valid and legally binding obligations of the Seller, enforceable in accordance with their respective terms; and, (v) No proceedings are pending or, to counsel's knowledge, are threatened which may result in the imposition of a Material Adverse Condition upon any of the Sale Assets or on the operation of the Business, other than proceedings affecting the industry in general. (n) The Agreements of Seller and Seller's key officers to refrain from competing with Buyer, as set forth in Section 10.3. (o) A list of any updates to the information on Schedule 3.8. (p) Such additional information and materials as Buyer shall have reasonably requested. 24 9.3 Buyer's Closing Deliveries. At the Closing, Buyer shall deliver or cause to be delivered to Seller, in form and substance reasonably satisfactory to Seller and its counsel, the following: (a) The Purchase Price, as set forth in Article II hereof. (b) The agreement of Buyer assuming the obligations under any Business Agreements being assumed by Buyer. (c) The agreement of Buyer assuming the obligations under the Advertising Agreements. (d) A certificate, signed by the Buyer, certifying that the conditions specified in Section 8.1 and Section

8.2 are satisfied as of the Closing Date; (e) Certified resolutions of the Board of Directors of the Managing Member of Buyer, approving the execution and delivery of this Agreement and each of the other Transaction Documents and authorizing the consummation of the transaction contemplated hereby and thereby. (f) Such additional information and materials as Seller shall have reasonably requested. ARTICLE X CERTAIN POST-CLOSING COVENANTS 10.1 Confidentiality. From and after the Closing, Seller shall, and shall cause its representatives to, hold in strict confidence and, except as required by applicable law, not disclose to others (except its representatives) or use for any reason whatsoever without the prior written consent of Buyer, (i) any information (unless previously known to Seller or any of its affiliates from sources other than Buyer or any of its affiliates or ascertainable from public or published information or trade sources) received by Seller or any of its respective affiliates from Buyer or any of its affiliates concerning Buyer or its affiliates, or (ii) any information (unless ascertainable from public or published information or trade sources) concerning the Sale Assets or the Business, provided that this Section 10.1 shall not be deemed to prohibit any disclosure of such information that is legally required or reasonably necessary for financial or tax reporting purposes. 10.2 Change of Seller's Name. Within ten (10) business days after the Closing Date, Seller shall amend its Organic Documents to provide for the change of its name to a name other than, and one not similar to, "Crosswalk.com" and shall effect such name change in each other jurisdiction in which it is authorized to transact business. Seller shall promptly thereafter deliver to Buyer true and complete copies of the amendment to Seller's Organic Documents, certified by the Secretary of State of the State of Delaware, and of the amendments to Seller's certificates of 25 authority, certified by the Secretary of State of each other jurisdiction in which Seller is authorized to transact business, evidencing such changes of name by Seller. 10.3 Non-Competition (a) Seller agrees that during the period commencing on the Closing Date and continuing thereafter for two (2) years, without Buyer's prior written consent, Seller will not, anywhere within the Territory, either as proprietor, principal, agent, representative, member, manager, employee, partner, shareholder, director, officer, consultant, joint venture or otherwise, (i) become engaged or involved in any business that competes with Buyer in the Business; (ii) induce or attempt to induce any customer, supplier, or employee of the Buyer to reduce, terminate, restrict or otherwise alter its business relationship with the Buyer; or (iii) hire any employee of the Buyer. (b) For the purposes of this Section 10.3, the "Territory" shall mean only the following geographical areas: (i) Davidson County, Tennessee; (ii) the counties of Hamilton, Meigs, McMinn, and Polk in the State of Tennessee; (iii) the State of Tennessee; (iv) Alabama, Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland,

Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming; (v) Each and every county in each and every state in which the Buyer has sold or solicited sales related to the Business; (vi) Each and every county in each and every state in which the Buyer has an office or place of business or in which the Buyer conducts business; (vii) North America; (viii) South America; (ix) England; and (x) the World. 26 The parties intend the above geographical areas to be completely severable and independent, and any invalidity or unenforceability of this Section 10.3 with respect to any one area shall not render this Section 10.3 unenforceable as applied to any one or more of the other areas. (c) Seller acknowledges that Buyer may have no adequate means to protect its rights under this Section 10.3 other than by securing an injunction (a court order prohibiting Seller from violating this Section 10.3). Seller agrees that Buyer may enforce this Section 10.3 by obtaining a preliminary and permanent injunction and any other appropriate equitable relief in any court of competent jurisdiction. Seller acknowledges that Buyer may seek such equitable relief without being obliged to prove actual damages or to post bond or other security. Seller acknowledges that the recovery of damages will not be an adequate means to redress a breach of this Section 10.3, but nothing in this Section 10.3 shall prohibit Buyer from pursuing any remedies in addition to injunctive relief, including recovery of damages. (d) "Blue-Penciling"; Extension; Severability. If any provision or part of this Section 10.3 is held to be unenforceable because of the area, scope of business or duration covered by such provision, the parties hereto agree to modify such provision, or that the court making such determination shall have the power to modify such provision, to reduce the area, scope of business, or duration, as the case may be, or any combination of the foregoing, or to delete specific words or phrases herefrom ("blue-penciling"), and in its reduced or blue-penciled form, such provision shall then be enforceable and shall be enforced. If Seller violates any of the restrictive covenants set forth on this Section 10.3 then the time limitation otherwise applicable shall be extended for a period of time equal to the period of time during which such breach or breaches occurred. The parties intend the above restrictions on competition to be severable completely and independent, and any invalidity or unenforceability of any one or more of such restrictions shall not render invalid or unenforceable any one or more of the other restrictions. (e) Seller shall cause its key officers to individually agree to the terms of this Section 10.3. 10.4 Further Assurances. In addition to the actions, documents and instruments specifically required to be taken or delivered by this Agreement, at the Closing or from time to time thereafter, and without further consideration, the parties hereto shall take such other actions, and

execute and deliver such other documents and instruments, including, without limitation, resale certificates for inventory, as the other party or parties hereto or their respective counsel may reasonably request in order to effectuate and perfect the transactions contemplated by this Agreement. ARTICLE XI SURVIVAL OF REPRESENTATIONS AND WARRANTIES; INDEMNIFICATION 11.1 Survival of Representation and Warranties. All representations and warranties contained in this Agreement or the other Transaction Documents (excluding any employment agreement constituting a Transaction Document) shall survive the Closing for a period of twelve (12) months (the "Survival Period"). No claim with respect to any representation or warranty contained in this Agreement may be brought under this Agreement unless written notice 27 describing in reasonable detail the nature and basis of such claim is given on or prior to the last day of the Survival Period. In the event such notice is given, the right to indemnification with respect thereto under this Article XI shall survive the Survival Period until such claim is finally resolved and any obligations with respect thereto are fully satisfied. Notwithstanding the foregoing, the provisions for survival and the making of claims shall not apply to the covenants and obligations of the parties under this Agreement (unless otherwise expressly provided) and the obligations associated with the Advertiser Agreements, which agreements shall be governed by their own terms. 11.2 Indemnification in General. Buyer and Seller agree that the rights to indemnification and to be held harmless set forth in this Article XI shall, as between the parties hereto and their respective successors and assigns, be exclusive of all rights to indemnification and any other type or form of recourse that such party (or its successors or assigns) would otherwise have by statute, common law or otherwise. 11.3 Indemnification by Seller. (a) Seller shall indemnify and hold harmless Buyer and any officer, director, parent, subsidiary and affiliate thereof with respect to any and all demands, claims, actions, suits, proceedings, assessments, judgments, costs, damages, liabilities and expenses (including reasonable attorneys' fees) relating to or arising out of: (i) Any breach or nonperformance by Seller of any of its representations and warranties and covenants or agreements set forth in this Agreement or any other Transaction Document; or (ii) The ownership or operation of the Business and Sale Assets by Seller prior to the Closing (other than the Assumed Liabilities); or (iii) All other liabilities and obligations of Seller other than the Assumed Liabilities; or (iv) Noncompliance by Seller with the provisions of the Bulk Sales Act, if applicable, in connection with the transactions contemplated by this Agreement. (b) Notwithstanding anything contained herein to the contrary, if Closing occurs, Seller shall not be obligated to indemnify Buyer hereunder unless and until the aggregate amount of all claims, liabilities, damages, losses, costs and expenses exceeds the Threshold Limitation, in which case, Buyer shall then be entitled to indemnification of the entire aggregate amount in excess of the

Threshold Limitation. As used in this Agreement, the term "Threshold Limitation" shall mean and refer to the lesser of Ten Thousand Dollars ($10,000) for all claims, liabilities, damages, losses, costs and expenses and Two Thousand Five Hundred Dollars ($2,500) for any individual claim liability, damage, loss, cost or expense. 11.4 Indemnification by Buyer. (a) Buyer shall indemnify and hold harmless Seller and any officer, director and affiliate or subsidiary thereof with respect to any and all demands, claims, actions, suits, 28 proceedings, assessments, judgments, costs, losses, damages, liabilities and expenses (including reasonable attorneys' fees) relating to or arising out of: (i) Any breach or nonperformance by Buyer of any of its representations and warranties (subject to the Survival Period) and covenants or agreements set forth in this Agreement or any other document; or (ii) Liabilities and obligations arising after the Closing under the Assumed Liabilities. (b) Notwithstanding anything contained herein to the contrary, if Closing occurs, Buyer shall not be obligated to indemnify Seller hereunder unless and until the aggregate amount of all claims, liabilities, damages, losses, costs and expenses exceeds the Threshold Limitation, in which case, Seller shall then be entitled to indemnification of the entire aggregate amount in excess of the Threshold Limitation. ARTICLE XII TERMINATION; LIQUIDATED DAMAGES 12.1 Termination. If Closing shall not have previously occurred, this Agreement shall terminate upon the earliest of: (a) the giving of written notice from Seller to Buyer, or from Buyer to Seller, if: (i) Seller gives such termination notice and is not at such time in material default hereunder, or Buyer gives such termination notice and Buyer is not at such time in material default hereunder; and (ii) Either: (A) any of the representations or warranties contained herein of Buyer (if such termination notice is given by Seller), or of Seller (if such termination notice is given by Buyer), are inaccurate in any respect and, individually or in the aggregate, materially adverse to the party giving such termination notice unless the inaccuracy has been induced by or is the result of actions or omissions of the party giving such termination notice or unless the accuracy of such representation or warranty is not a condition to closing; or (B) Any material obligation to be performed by Buyer (if such termination notice is given by Seller) or by Seller (if such termination notice is given by Buyer), including the obligation of Seller to obtain shareholder consent to this transaction pursuant to Section 5.4, is not timely performed unless the lack of timely performance has been induced by or is the result of actions or omissions of the party giving such termination notice; or (C) Any material condition (other than those referred to in foregoing Clauses (A) and (B)) to the obligation to close the transaction contemplated herein of the party giving such termination notice has not been timely satisfied, unless the failure of said 29 condition to be satisfied was induced by the party giving such termination notice with the intended result of terminating the Agreement pursuant to this Clause (C); and (iii) any such

inaccuracy, failure to perform or non-satisfaction of a condition neither has been cured nor satisfied within twenty (20) days after written notice thereof from the party giving such termination notice nor waived in writing by the party giving such termination notice; provided however that such opportunity to cure shall not apply to the failure of a party to perform its obligations set forth in Article IX herein. (b) Written notice from Buyer to Seller that a Triggering Event shall have occurred. As used herein, a "Triggering Event" shall mean any of the following: (i) the Board of Directors of Seller shall have withdrawn or modified its recommendation of this Agreement or shall have resolved or publicly announced its intention to do so; (ii) Seller shall have negotiated with, entered into any agreement with, or consummated or recommend any transaction with, any person other than Buyer or its affiliates, based on a determination regarding a Superior Proposal made pursuant to Section 5.3; (iii) the shareholders of Seller at any time deny approval of this Agreement or the transactions contemplated hereby; (iv) the shareholders of Seller do not approve this Agreement or the transactions contemplated hereby on or before October 30, 2002; or (v) Closing shall not have occur prior to November 1, 2002. 12.2 Obligations Upon Termination. (a) In the event this Agreement is terminated by Seller pursuant to Section 12.1(a)(ii)(A) or Section 12.1(a)(ii)(B), the aggregate liability of Buyer for breach hereunder shall be limited as provided in Section 12.2(b) hereof. In the event this Agreement is terminated by Buyer pursuant to Section 12.1(a)(ii)(A), Section 12.1(a)(ii)(B) or Section 12.1(b) the aggregate liability of Seller shall be limited as provided in Section 12.2(c) hereof. In the event this Agreement is terminated for any other reason, neither party shall have any liability hereunder. (b) If this Agreement is terminated by Seller's giving of valid written notice to Buyer pursuant to Section 12.1(a)(ii)(A) or Section 12.1(a)(ii)(B), Buyer shall pay Seller upon such termination, as liquidated damages and not as penalty, $50,000 (the "Seller's Liquidated Damage Amount") SELLER'S RECEIPT OF THE SELLER'S LIQUIDATED DAMAGE AMOUNT SHALL CONSTITUTE PAYMENT OF LIQUIDATED DAMAGES HEREUNDER AND NOT A PENALTY, AND SHALL BE SELLER'S SOLE REMEDY AT LAW OR IN EQUITY FOR BUYER'S BREACH HEREUNDER IF CLOSING DOES NOT OCCUR. BUYER AND SELLER EACH ACKNOWLEDGE AND AGREE THAT THE SELLER'S LIQUIDATED DAMAGE AMOUNT IS REASONABLE IN LIGHT OF THE ANTICIPATED HARM WHICH WILL BE CAUSED BY BUYER'S BREACH OF THIS AGREEMENT, THE DIFFICULTY OF PROOF OF LOSS, THE INCONVENIENCE AND NON-FEASIBILITY OF OTHERWISE OBTAINING AN ADEQUATE REMEDY, AND THE VALUE OF THE TRANSACTION TO BE CONSUMMATED HEREUNDER. ---------------- --------------- Seller's Initials Buyer's Initials 30 (c) If this Agreement is terminated by Buyer's giving of valid written

notice to Seller pursuant to Section 12.1(a)(ii)(A), Section 12.1(a)(ii)(B) or Section 12.1(b), Seller shall pay Buyer upon such termination, as liquidated damages and not as penalty, $125,000 (the "Buyer's Liquidated Damage Amount") and Seller shall be deemed to have waived any applicable rights restricting, and shall be deemed to have consented to, the employment of any of Seller's employees by Buyer, even if such employees would otherwise be subject to "non-compete agreements" ("Employment Waiver"). BUYER'S RECEIPT OF THE BUYER'S LIQUIDATED DAMAGE AMOUNT AND THE EMPLOYMENT WAIVER SHALL CONSTITUTE PAYMENT OF LIQUIDATED DAMAGES HEREUNDER AND NOT A PENALTY, AND SHALL BE BUYER'S SOLE REMEDY AT LAW OR IN EQUITY FOR SELLER'S BREACH HEREUNDER IF CLOSING DOES NOT OCCUR. BUYER AND SELLER EACH ACKNOWLEDGE AND AGREE THAT THE BUYER'S LIQUIDATED DAMAGE AMOUNT AND THE EMPLOYMENT WAIVER ARE REASONABLE IN LIGHT OF THE ANTICIPATED HARM WHICH WILL BE CAUSED BY SELLER'S BREACH OF THIS AGREEMENT, THE DIFFICULTY OF PROOF OF LOSS, THE INCONVENIENCE AND NON-FEASIBILITY OF OTHERWISE OBTAINING AN ADEQUATE REMEDY, AND THE VALUE OF THE TRANSACTION TO BE CONSUMMATED HEREUNDER. ---------------- ---------------- Seller's Initials Buyer's Initials (d) In any dispute between Buyer and Seller as to the payment of liquidated damages, the prevailing party shall receive, in addition to any liquidated damages that it is entitled, an amount equal to interest on that amount at the rate of 10% per annum, calculated from the date the prevailing party's demand for all or a portion of the liquidated damages. 12.3 Specific Performance. Seller acknowledges that the Sale Assets are of a special, unique, and extraordinary character, and that any breach of this Agreement by Seller could not be compensated for by damages. Accordingly, if Seller shall breach its obligations under this Agreement, Buyer shall be entitled, in addition to any of the remedies that it may have, to enforcement of this Agreement by decree of specific performance or injunctive relief requiring Seller to fulfill its obligations under this Agreement. In any action to equitably enforce the provisions of this Agreement, Seller shall waive the defense that there is an adequate remedy at law or equity and agrees that Buyer shall have the right to obtain specific performance of the terms of this Agreement without being required to prove actual damages, post bond or furnish other security. ARTICLE XIII MISCELLANEOUS 13.1 Payment of Expenses. Each of the parties hereto shall bear its own expenses, including the fees of any attorneys and accountants engaged by such party, in connection with this Agreement and the other Transaction Documents and the consummation of the transactions contemplated herein and therein. 31 13.2 Notices. All notices, demands or other communications given hereunder shall be in

writing and shall be sufficiently given if delivered by overnight delivery service or sent by registered or certified mail, first class, postage prepaid, or by telegram, facsimile machine or similar written means of communication, addressed as follows (to the extent applicable for such delivery): (a) if to Seller, to: Jon Morgan Amen Properties 303 W. Wall Street, Suite 1700 Midland, Texas 79701 (b) if to Buyer, to: Jonathan L. Block General Counsel Salem Communications Corporation 4880 Santa Rosa Road, Suite 100 Camarillo, California 93012 Facsimile No.: (805) 384-4505 With a copy to: Jim Cumbee, President - Non Broadcast Media Salem Communications Corporation 104 Woodmont Blvd. Nashville, TN 37205 or such other address with respect to any party hereto as such party may from time to time notify (as provided above) to the other party hereto. Any such notice, demand or communication shall be deemed to have been given (i) if so mailed, as of the close of the third business day following the date so mailed, and (ii) if personally delivered or otherwise sent as provided above, on the date received. 13.3 Entire Agreement. This Agreement and the other Transaction Documents, and the schedules and exhibits hereto and thereto, constitute the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede any prior negotiations, agreements, understandings or arrangements between the parties hereto with respect to the subject matter hereof. 13.4 Binding Effect; Benefits. Except as otherwise provided herein, this Agreement and all other Transaction Documents shall inure to the benefit of and be binding upon the parties hereto and their respective successors or assigns. Except to the extent specified herein, nothing in this Agreement, express or implied, shall confer on any person other than the parties hereto 32 and their respective successors or assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement. 13.5 Assignment. This Agreement and any rights hereunder shall not be assignable by either party hereto without the prior written consent of the other party; provided, however, that Buyer may assign its rights and obligations under this Agreement to any affiliate thereof without obtaining Seller's consent. 13.6 Governing Law. This Agreement shall in all respects be governed by and construed in accordance with the internal laws of the State of Tennessee, without giving effect to the conflicts of laws principles thereof. The parties hereby consent and agree to the non-exclusive jurisdiction and to the venue of any federal court for any geographic area which includes Nashville, Tennessee, in any proceedings under this Agreement or any of the other Transaction Documents and hereby waive any objection to any such proceedings based on improper venue or forum non conveniens. The parties hereby further consent and agree to the exercise of personal jurisdiction over them by such courts with respect to any such proceedings and waive any objection to the assertion or exercise of such jurisdiction. 13.7 Amendments and Waivers. No term or provision of this Agreement may be amended, waived, discharged or terminated

orally, but only by an instrument in writing signed by the party against whom the enforcement of such amendment, waiver, discharge or termination is sought. Any waiver shall be effective only in accordance with its express terms and conditions. 13.8 Severability. Any provision of this Agreement which is unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such unenforceability without invalidating the remaining provisions hereof, and any such unenforceability in any jurisdiction shall not invalidate or render unenforceable such provisions in any other jurisdiction. To the extent permitted by applicable law, the parties hereto hereby waive any provision of law now or hereafter in effect which renders any provision hereof unenforceable in any respect. 13.9 Headings. The captions in this Agreement are for convenience of reference only and shall not define or limit any of the terms or provisions hereof 13.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Notwithstanding the execution of each counterpart elsewhere, each counterpart and each Transaction Document shall be deemed executed in Nashville, Tennessee on and as of the date and time of the last signatory. 13.11 References. All references in this Agreement to articles and sections are to articles and sections contained in this Agreement unless a different document is expressly specified. 13.12 Definition of "Knowledge." With respect to any representation or warranty contained in this Agreement which is made to the "knowledge" or "best knowledge" of a party, such terms shall be limited to mean only the knowledge of such party after reasonable inquiry or investigation only of such party's (i) officers, (ii) directors and (iii) employees responsible for the subject matter corresponding to such representation or warranty. {Signatures on the following page.} 33 IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed as of the date first written above. SELLER: BUYER: Crosswalk.com, Inc. OnePlace, LLC By: By: -------------------------------- ------------------------------ Scott Fehrenbacher Jim Cumbee President and CEO President - Non Broadcast Media Salem Communications Corporation Its Managing Member 34 Asset Purchase Agreement Index to Schedules The following is a list of omitted schedules with identification as to their contents. The Company agrees to furnish supplementally, a copy of any of these omitted schedules to the Securities and Exchange Commission upon request. Schedule Description -------- ----------- 1.2 Key Personnel 1.2(a) Personal Items 3.1 Other Jurisdictions 3.4 Consents 3.6 Tangible Personal Property 3.7 Business Agreements 3.8 Advertising Agreements 3.10 List of Names 3.16 List of Products 3.17 Intangible Property 3.18 Interested Persons 3.19 Permits 3.21 Traffic Report 3.22 Financial Schedules 35 ANNEX B [EMERGING GROWTH EQUITIES, LTD. LETTERHEAD] June 27, 2002 The Board of Directors Crosswalk.com, Inc. 4100 Lafayette Center Drive, Suite

110 Chantilly, VA 20151 Members of the Board of Directors: You have requested our opinion as to the fairness, from a financial point of view, of the consideration to be received by Crosswalk.com, Inc. (the "Company") in connection with the proposed sale of substantially all of the assets used, required, useful or otherwise relating to the ownership, development and operation of the Company's Crosswalk.com website (the "Asset Sale") to OnePlace, LLC (the "Purchaser"), a wholly-owned subsidiary of Salem Communications Corporation ("Salem"), pursuant to an Asset Purchase Agreement among the Company, the Purchaser and Salem (the "Agreement"). The aggregate consideration to be paid by the Purchaser to the Company in connection with the proposed Asset Sale will be $4,100,000.00, which will be payable in cash at closing. You have agreed that, for purposes of formulating our opinion, we may assume that (1) the proposed Asset Sale will be consummated in all respects in accordance with the terms of the Agreement (the final version of which has been provided for our review), without waiver, modification or amendment of any term, condition or agreement contained therein, (2) in the course of obtaining the necessary regulatory or third party consents and approvals for the proposed Asset Sale, no limitations, restrictions or conditions will be imposed on the Company or the proposed Asset Sale, and (3) the proceeds to the Company from the proposed Asset Sale will be used to acquire other business assets in order to continue the operation of the Company and will not be distributed to the stockholders of the Company in liquidation of the Company. In connection with our review of the proposed Asset Sale and the preparation of our opinion, we have, among other things: (i) reviewed and analyzed the financial terms of the proposed Asset Sale as stated in the final version of the Agreement proposed to be executed by the Company; (ii) reviewed and analyzed historical publicly available business information and financial results of the Company, including such B-1 information and results contained in the Company's Annual Report filed on Form 10-K for the year ended December 31, 2001 and the Company's Quarterly Report filed on Form 10-QSB for the quarter ended March 31, 2002; (iii) reviewed and analyzed certain other operating and financial information of the Company provided by management of the Company, including the Company's projections as to the future operating and financial performance of the Company for calendar years 2002 through 2003; (iv) discussed with senior executives of the Company certain information relating to the aforementioned items, including the strategic, financial and operational benefits anticipated from the proposed Asset Sale and various other matters which we deemed relevant to our opinion; (v) reviewed and analyzed historical market prices and trading volumes for the Company's Common Stock; (vi) reviewed and analyzed publicly available information regarding selected publicly- traded companies we deemed comparable to the Company and regarding selected business combinations we deemed comparable to the

proposed Asset Sale; (vii) reviewed and analyzed research reports relating to publicly-traded companies we deemed comparable to the Company; (viii)reviewed and analyzed certain other information we deemed relevant for purposes of our opinion concerning the online content and online marketing industry; and (ix) performed such other analyses and reviewed such other information as we deemed appropriate, including trends prevailing in relevant industries and financial markets. We have assumed and relied upon the accuracy and completeness of the financial and other information supplied or otherwise made available to us by the Company or any other party, without independent verification, and have further relied upon the assurances of management of the Company that they are not aware of any facts that would make such information inaccurate or misleading. In arriving at our opinion, we neither performed nor obtained any evaluation or appraisal of the assets or liabilities of the Company, and we did not perform or obtain any evaluation or appraisal of the Company's physical properties and facilities or sales, marketing or service organizations. With respect to the financial projections provided to or otherwise reviewed by or discussed with us, we have assumed that they have been reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of the management of the Company as to the future operating and financial performance of the Company, and we have relied upon each party to advise us promptly if any information previously provided became inaccurate or was required to be updated during the period of our review. In addition to our review and analyses of the specific information set forth above, our opinion herein reflects and gives effect to our assessment of general economic, monetary, market and industry conditions existing and disclosed to us as of the date hereof as they may affect the business and prospects of the Company. It should be understood that subsequent developments or material changes in any of the information or circumstances reviewed or considered by us may affect this opinion, and we do not have any obligation to update, revise or reaffirm this opinion to account for any such developments or changes. B-2 You have not requested that we perform, and we have not performed, an appraisal of the Company's business or assets. You have also not requested that we opine as to, and our opinion does not in any manner address, the Company's underlying business decision to enter into the Agreement or to proceed with or effect the proposed Asset Sale, the structure or tax consequences of the proposed Asset Sale or the availability or advisability of any alternatives to the proposed Asset Sale. We did not structure the proposed Asset Sale or assist in the negotiation of the Agreement. Our opinion is limited to the fairness, from a financial point of view, of the consideration to be received by the Company in connection with the proposed Asset Sale. We express no opinion with respect to any other reasons, legal, business or otherwise, that may support your decision to approve or consummate the proposed Asset Sale. Our opinion rendered herein does not constitute a recommendation

that the Company aprove and consummate the Asset Sale, nor does it constitute a recommendation to any stockholder of the Company as to whether to approve the Asset Sale. It is understood that this letter is for the information of the Board of Directors of the Company in connection with and for the sole purpose of its evaluation of the proposed Asset Sale and is not on behalf of, and shall not confer any rights or remedies upon, any person other than the Board of Directors. Furthermore, this letter should not be construed as creating any fiduciary duty on our part to any party. This opinion may not be used, disclosed or referred to for any other purpose without our prior written consent in each instance, except that this letter may be included in its entirety in any filing made by the Company with the Securities and Exchange Commission with respect to the Asset Sale, so long as this opinion is reproduced in such filing in full and any description of or reference to us or summary of this opinion and the related analysis in such filing is in a form acceptable to us and our counsel. In furnishing this opinion, we do not admit that we are experts within the meaning of the term "experts" as used in the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations promulgated thereunder, nor do we admit that this opinion constitutes a report or valuation within the meaning of Section 11 of the Securities Act. We, as part of our investment banking business, are regularly engaged in the valuation of businesses and their securities in connection with tender offers, mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. We will receive a fee in connection with services provided in rendering our opinion pursuant to our engagement agreement with the Company, which fee is payable upon delivery of this opinion. In addition, the Company has agreed to indemnify us against certain liabilities arising out of our engagement. In the ordinary course of our brokerage business, we or our affiliates may have long or short positions, for our own account or for those of our clients, in the securities of the Company and Salem. B-3 Based on the foregoing and subject to the qualifications stated herein, we are of the opinion that, as of the date hereof, the consideration to be received by the Company in connection with the Asset Sale is fair to the Company from a financial point of view. Very truly yours, EMERGING GROWTH EQUITIES, LTD. /s/ Gregory J. Berlacher Chief Executive Officer B-4 ANNEX C [HOFFMAN, FITZGERALD & SNYDER, P.C. LETTERHEAD] June 24, 2002 Mr. Gary Struzik Chief Financial Officer Crosswalk.com, Inc. 4100 Lafayette Center Drive, Suite 110 Chantilly, Virginia 20151-1214 Re: Net Operating Losses Dear Gary: We have been engaged by Crosswalk.com to assist them in analyzing the availability of the existing net operating loss in the event of a change in ownership, sale of substantially all the assets of the company and a change in the business activity of the company. Internal Revenue Code Section 382 contains the basic rules

surrounding the use of net operating losses by a ""loss" corporation. Section 382(a) states the general rule that there are limitations in the amount of net operating loss that may be utilized by a "loss" corporation subsequent to any ownership change. Subsection (b) describes the limitation imposed in the event of an ownership change, and subsection (g) describes what constitutes an ownership change. These subsections, together with the underlying regulations, provide the rules that must be met in order to determine whether an ownership change has occurred. In summary, Section 382 and the regulations thereunder place limits on the utilization of the net operating loss of a "loss" corporation when there has been a significant change in ownership over a limited time period. Specifically, if during the three year period ending on the date of an owner shift the total change in ownership among five percent owners has exceeded 50%, the net operating loss in existence as of the date of change is limited. There are very specific rules describing who is a five percent (5%) owner and when the test must be performed. Assuming a limitation, the rules mandate that the amount of the net operating loss that can be deducted in any one tax year will be limited to the product of the long term tax-exempt rate times the fair market value of C-1 Page 2 the company at the date of the ownership change. There are specific rules dealing with the allocation of the net operating loss in a year of change between the pre-change and post-change part of the tax year. However, the first test is to determine whether a change has occurred. We have reviewed the historical five percent ownership change spreadsheet you prepared and are comfortable with the assumptions used in its preparation and the ultimate conclusion that an ownership change did take place at the time of the Wike transaction on August 13, 1999. As a result, the net operating loss that existed at December 31, 1998 ($5,077,839), plus the pro-rata portion of the net operating loss generated during 1999 ($12,163,328) will be limited by Section 382. The total net operating loss subject to the annual limitation is $12,575,781 ($5,077,839 + 225/365x$12,163,328). As such, the maximum amount of net operating loss that can be utilized in any one subsequent tax year will be limited to $3,170,283 (the FMV of $61,202,383 x 5.18%). Assuming there is sufficient income for the net operating loss to offset, it will take at least four years to utilize the limited net operating loss. In addition to the limitations described above, subsection (c) states that the annual limitation will be reduced to zero if the new loss corporation does not continue the business enterprise of the old loss corporation (the business continuity test). This requirement is addressed in regulation section 1.368 -1. Under the regulation the business continuity test is met if the new loss corporation either continues a significant line of business of the old loss corporation or utilizes a significant portion of the old loss corporation's historic assets. Both tests are facts and circumstances test and the courts have been relatively liberal in applying the test. The most recent change in shareholders did not result in a change in ownership under Code

Section 382. Therefore, the most recent ownership change occurred on August 13, 1999, and the two-year period for meeting the business continuity test expired in 2001. Since the business operations of Crosswalk.com, Inc. did not substantially change it is our belief that the business continuity test has been met and the annual limitation of $3,170.283 is still in effect and has not otherwise been reduced. C-2 Page 3 The ability to utilize the existing net operating loss, subject to the annual limitation, in the event of a future ownership change will be dependent on how the Internal Revenue Service and/or the courts evaluate the proposed change in business strategy from the continuity of business enterprise requirement. Crosswalk.com's ability to continue using significant historical business assets is unsettled on the proposed plan to acquire income producing properties and utilize the net operating losses against the future income. We cannot predict the Company's ability to comply with the business continuity requirements as herein stated, given the event of a future ownership change. Therefore, future ownership changes must be planned appropriately in order to avoid the impact of Subsection 382(c). Sincerely, HOFFMAN, FITZGERALD & SNYDER, P.C. /s/ Gary P. Fitzgerald, MSAT, CPA, PFS, ABV, CVA C-3 CROSSWALK.COM, INC. 4100 LAFAYETTE CENTER DR. SUITE 110 CHANTILLY, VA 20151 PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF CROSSWALK.COM INC. FOR A SPECIAL MEETING OF STOCKHOLDERS ON SEPTEMBER 19, 2002 The undersigned hereby constitutes and appoints James G. Buick and Scott Fehrenbacher, and each of them, his true and lawful agents and proxies with full power of substitution in each, to represent the undersigned at a Special Meeting of Stockholders to be held at the Company's corporate offices at 4100 Lafayette Center Dr., Suite 110, Chantilly, Virginia, at 10:30 a.m., local time, on Thursday, September 19, 2002, and at any adjournments thereof, on all matters coming before said meeting. PLEASE MARK YOUR VOTES AS IN THIS EXAMPLE: /X/ 1. APPROVAL OF THE $4.1 MILLION CASH SALE OF SUBSTANTIALLY ALL OF THE ASSETS, USED, REQUIRED, USEFUL OR OTHERWISE RELATING TO THE OWNERSHIP, DEVELOPMENT AND OPERATIONS OF THE CROSSWALK.COM WEBSITE, PURSUANT TO THE ASSET PURCHASE AGREEMENT, DATED AS OF AUGUST 19, 2002, BY AND AMONG CROSSWALK.COM, INC. AND ONEPLACE, LLC, A WHOLLY OWNED SUBSIDIARY OF SALEM COMMUNICATIONS CORPORATION, IN THE FORM OF ANNEX A ATTACHED TO THE PROXY STATEMENT/PROSPECTUS FOR [ ] AGAINST [ ] ABSTAIN [ ] 2. APPROVAL OF THE BUSINESS PLAN OF AMEN PROPERTIES FOR [ ] AGAINST [ ] ABSTAIN [ ] 3. APPROVAL OF AN AMENDMENT TO THE COMPANY'S CERTIFICATE OF INCORPORATION TO CHANGE THE NAME OF THE COMPANY TO AMEN PROPERTIES FOR [ ]

AGAINST [ ] ABSTAIN [ ] 4. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the Special Meeting. This proxy, when properly executed, will be voted in the manner directed herein by the undersigned stockholder. If no direction is made, this proxy will be voted FOR all of the Proposals. (Continue and to be signed on the other side.) (Continued from the other side.) TO ASSURE YOUR REPRESENTATION AT THE SPECIAL MEETING, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY THE UNDERSIGNED ACKNOWLEDGES RECEIPT OF THE ACCOMPANYING NOTICE OF SPECIAL MEETING OF STOCKHOLDERS AND PROXY STATEMENT FOR THE SEPTEMBER 19, 2002 SPECIAL MEETING OF STOCKHOLDERS Stockholder Signature(s): ________________________ __________________________ Date: ______________________________ Stockholder Printed Name(s): _____________________ __________________________ Please sign your name exactly as it appears hereon. Joint owners must each sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title as it appears thereon. If a corporation, please sign in full corporate name as President or other authorized officer. If a partnership, please sign in partnership name by authorized person.