

# SECURITIES AND EXCHANGE COMMISSION

## FORM S-1/A

General form of registration statement for all companies including face-amount certificate companies [amend]

Filing Date: **1998-07-22**  
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### FILER

#### **ELECTRONICS BOUTIQUE HOLDINGS CORP**

CIK: **1057746** | IRS No.: **510379406** | State of Incorporation: **DE** | Fiscal Year End: **0131**  
Type: **S-1/A** | Act: **33** | File No.: **333-48523** | Film No.: **98669799**  
SIC: **5734** Computer & computer software stores

Mailing Address  
931 MATLACK ST  
WEST CHESTER PA 19382

Business Address  
931 MATLACK ST  
WEST CHESTER PA 19382  
6104308100

REGISTRATION NO. 333-48523

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

AMENDMENT NO. 5  
TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

ELECTRONICS BOUTIQUE HOLDINGS CORP.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE  
(State or Other Jurisdiction of Incorporation or Organization)

5734  
(Primary Standard Industrial Classification Number)

51-0379406  
(I.R.S. Employer Identification Number)

931 SOUTH MATLACK STREET  
WEST CHESTER, PENNSYLVANIA 19382  
(610) 430-8100  
(Address, Including Zip Code and Telephone Number,  
Including Area Code, of Registrant's Principal Executive Offices)

JOSEPH J. FIRESTONE, PRESIDENT AND CHIEF EXECUTIVE OFFICER  
931 SOUTH MATLACK STREET  
WEST CHESTER, PENNSYLVANIA 19382  
(610) 430-8100  
(Name, Address, Including Zip Code, and Telephone Number,  
Including Area Code, of Agent For Service)

Copies to:

<TABLE>

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<C>

STEPHEN T. BURDUMY, ESQUIRE  
KLEHR, HARRISON, HARVEY, BRANZBURG & ELLERS LLP  
1401 WALNUT STREET  
PHILADELPHIA, PENNSYLVANIA 19102  
(215) 568-6060

MARY A. BERNARD, ESQUIRE  
KING & SPALDING  
1185 AVENUE OF THE AMERICAS  
NEW YORK, NEW YORK 10036  
(212) 556-2100

</TABLE>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

/ / \_\_\_\_\_

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

/ / \_\_\_\_\_

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

SUBJECT TO COMPLETION--DATED JULY 22, 1998

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

PROSPECTUS

6,250,000 Shares

<TABLE>
<S> <C> ELECTRONICS BOUTIQUE HOLDINGS CORP.
[LOGO]
</TABLE>

Common Stock

Of the 6,250,000 shares of common stock, par value \$.01 per share (the "Common Stock"), offered hereby (the "Offering"), 4,375,000 shares are being sold by Electronics Boutique Holdings Corp. (the "Company"), and 1,875,000 shares are being sold by EB Nevada Inc., the Company's parent ("EB Nevada" or the "Selling Shareholder"). The Company will not receive any proceeds from the sale of shares of Common Stock by the Selling Shareholder. See "Principal and Selling Shareholders."

Prior to the Offering, there has been no public market for the Common Stock. The Company intends to apply to have the Common Stock included for quotation in The Nasdaq Stock Market's National Market (the "Nasdaq National Market") under the symbol "ELBO." It is currently anticipated that the initial public offering price will be between \$15.00 and \$17.00 per share. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price.

SEE "RISK FACTORS" ON PAGES 7 TO 11 FOR A DISCUSSION OF CERTAIN MATERIAL FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>
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Table with 5 columns: Price to Public, Underwriting Discounts and Commissions (1), Proceeds to Company (2), Proceeds to Selling Shareholder. Rows: Per Share, Total (3).

(1) The Company, the Selling Shareholder, James J. Kim, the Chairman of the Company, his wife, Agnes C. Kim, and certain trusts established for benefit

of their children (the "Kim Trusts," and, together with James J. and Agnes C. Kim, the "Kim Shareholders") have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Underwriting."

- (2) Before deducting expenses estimated to be \$1,225,000, payable by the Company.
- (3) The Selling Shareholder has granted the several Underwriters a 30-day over-allotment option to purchase up to 937,500 additional shares of Common Stock on the same terms and conditions as set forth above. If all such additional shares are purchased by the Underwriters, the total Price to Public will be \$ , the total Underwriting Discounts and Commissions will be \$ , the total Proceeds to Company will be \$ and the total Proceeds to Selling Shareholder will be \$ . See "Underwriting."
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The shares of Common Stock are offered by the several Underwriters subject to delivery by the Company and the Selling Shareholder and acceptance by the Underwriters, to prior sale and to withdrawal, cancellation or modification of the offer without notice. Delivery of the shares to the Underwriters is expected to be made through the facilities of the Depository Trust Company, New York, New York, on or about , 1998.

PRUDENTIAL SECURITIES INCORPORATED

SALOMON SMITH BARNEY

, 1998

[PHOTOS, MAPS, ETC.]

CERTAIN PERSONS PARTICIPATING IN THE OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK, INCLUDING PURCHASES OF THE COMMON STOCK TO STABILIZE ITS MARKET PRICE, PURCHASES OF THE COMMON STOCK TO COVER SOME OR ALL OF A SHORT POSITION IN THE COMMON STOCK MAINTAINED BY THE UNDERWRITERS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

#### PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS, INCLUDING THE NOTES THERETO, APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, ALL REFERENCES IN THIS PROSPECTUS (I) TO THE "COMPANY" MEAN ELECTRONICS BOUTIQUE HOLDINGS CORP., A DELAWARE CORPORATION ("EB HOLDINGS"), AND ITS SUBSIDIARIES, (II) TO "EB NEVADA" MEAN EB NEVADA, INC., A NEVADA CORPORATION, WHICH IS THE PARENT OF EB HOLDINGS, (III) TO "EB" MEAN THE ELECTRONICS BOUTIQUE, INC., A PENNSYLVANIA CORPORATION, WHICH IS THE SOLE SHAREHOLDER OF EB NEVADA, AND (IV) TO THE COMPANY'S ELECTRONICS BOUTIQUE STORES INCLUDES THE COMPANY'S SIMILARLY-FORMATTED EBX STORES. THE COMPANY'S FISCAL YEAR ENDS ON THE SATURDAY NEAREST JANUARY 31. UNLESS OTHERWISE INDICATED, ALL REFERENCES IN THIS PROSPECTUS TO ANY YEAR REFERS TO THE FISCAL YEAR OF THE COMPANY ENDED OR ENDING IN JANUARY OR FEBRUARY, AS THE CASE MAY BE, OF THE FOLLOWING CALENDAR YEAR (E.G., THE FISCAL YEAR ENDED JANUARY 31, 1998 IS REFERRED TO HEREIN AS "1997"). 1997 AND 1996 CONSISTED OF 52 WEEKS AND 1995 CONSISTED OF 53 WEEKS. UNLESS OTHERWISE INDICATED, THE INFORMATION IN THIS PROSPECTUS ASSUMES THAT THE UNDERWRITERS' OVER-ALLOTMENT OPTION WILL NOT BE EXERCISED.

#### THE COMPANY

The Company believes that it is among the world's largest specialty retailers of electronic games. The Company's primary products are video games and personal computer ("PC") entertainment software, supported by the sale of video game hardware, PC productivity software and accessories. As of May 2, 1998, the Company operated 465 stores in 42 states, Puerto Rico, Canada, Australia and South Korea, primarily under the names Electronics Boutique and Stop 'N Save Software. As of such date, the Company also provided management services for an affiliate of EB, Electronics Boutique Plc ("EB-UK"), which affiliate operated 134 stores and 17 department store-based concessions in the United Kingdom and Ireland. As of May 2, 1998, the Company also managed 37 mall-based WaldenSoftware stores for Borders Group, Inc. The Company's stores are primarily located in high traffic areas in regional shopping malls and average 1,100 square feet in size. The Company believes that its stores generate sales per square foot that are among the highest of any mall-based retailer. The Company plans to open approximately 50 to 55 domestic and 30 to 35 foreign stores in each of 1998 and 1999. The Company's revenues and operating income have grown from \$250.7 million and \$6.3 million, respectively, in 1994, to \$454.0 million and \$20.5 million, respectively, in 1997. Comparable store sales increased 3.5%, 20.8%, 15.3% and 13.0% in 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, respectively.

The electronic game industry is segmented into two primary product platforms: video games and PC entertainment software. This industry has experienced rapid growth in recent years due primarily to the increasing availability of sophisticated, yet affordable, video game hardware systems and

multimedia PCs featuring fast processors, expanded memories, and enhanced graphics and audio capabilities. Total domestic retail sales of video game titles, hardware and accessories were approximately \$5.1 billion in calendar 1997, an increase of approximately 40% over retail sales in the prior year. Domestic sales of PC entertainment software totaled approximately \$1.3 billion in calendar 1997, an increase of approximately 23% over retail sales in the prior year. In addition, the domestic installed base of multimedia PCs has increased from approximately 14 million units in calendar 1995 to approximately 23 million units in calendar 1997.

The Company's core customer is the electronic game enthusiast who demands immediate access to new title releases and who generally purchases more video game titles and PC entertainment software than the average electronic game consumer. The Company believes that it attracts the core game enthusiast due to the Company's: (i) specialty store focus on the electronic game category; (ii) ability to stock sought-after new releases on its stores' shelves immediately after release by publishers; (iii) breadth of product selection; and (iv) knowledgeable sales associates, who are often game enthusiasts themselves and who have extensive knowledge of game titles and features. The Company places significant emphasis on offering its customers immediate access to new releases and has designed its product merchandising strategy and distribution systems to facilitate such access. The Company introduces, on average, 20 new

3

game titles in its stores each week. The Company believes that this FIRST TO MARKET strategy establishes its stores as the logical destination of choice for electronic game enthusiasts. The Company's strict inventory management system enables it to (i) maintain over 2,600 active stock keeping units ("SKUs"), (ii) replenish a large and geographically dispersed store base on a daily basis, and (iii) minimize mark-downs as titles mature. The Company supports its product offerings with a strong commitment to customer service, which the Company believes distinguishes it from its competitors. All sales associates receive extensive training on video game and PC entertainment software products, system requirements and selling techniques.

The Company believes that it was one of the first video game and PC entertainment software specialty retailers to offer a World Wide Website enabling both product review and online purchasing. The Company believes that its customer base and product mix are ideally suited for online retailing. The Company's customers are generally males who are technically proficient, a demographic which has traditionally represented the largest percentage of consumers who make online purchases. Further, the Company's products are recognizable brand name items, which serves to provide online customers with a higher degree of confidence that products purchased will meet expectations. The Company believes that the local market identity provided by its stores is a significant competitive advantage over competing online retailers. In April 1998, the Company began providing customers with a complete product offering, including access to the Company's database of over 4,600 items.

The Company is committed to disciplined store operations, including merchandising, purchasing and distribution, real estate selection, store development, point of sale ("POS") financial reporting, and sales training. The Company believes that this commitment to operational control enables it to operate substantially all of its stores on a profitable basis, quickly identify opportunities to improve store productivity and react to shifts in product pricing and consumer purchasing trends.

The Company was incorporated under the laws of the State of Delaware in March 1998 as a holding company for EB's operating activities. EB was incorporated in the Commonwealth of Pennsylvania in 1977. The Company's principal executive offices are located at 931 South Matlack Street, West Chester, Pennsylvania 19382 and the Company's telephone number is (610) 430-8100.

4

THE OFFERING

<TABLE>	
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Common Stock Offered by the Company.....	4,375,000 shares
Common Stock Offered by the Selling Shareholder.....	1,875,000 shares
Common Stock to be Outstanding after the Offering (1).....	20,169,200 shares
Use of Proceeds by the Company.....	(i) To repay certain outstanding third party indebtedness, (ii) to repay certain obligations owed by the Company to EB, (iii) to repay certain indebtedness owed to an affiliate of the Company, and (iv) for general corporate purposes, including financing new store openings. See "Use

Proposed Nasdaq National Market Symbol..... ELBO  
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(1) Excludes 1,425,000 shares of Common Stock issuable upon exercise of options to be granted immediately prior to the completion of the Offering under the 1998 Equity Participation Plan of the Company (the "Equity Participation Plan"), which have an exercise price equal to the initial public offering price per share. Also excludes an aggregate of 675,000 shares of Common Stock available for the future grant of stock options and other equity securities under the Equity Participation Plan. See "Management--Equity Participation Plan."

#### RISK FACTORS

Investors should consider the material risks involved in connection with an investment in the Common Stock and the impact to investors from various events that could adversely affect the Company's business. See "Risk Factors."

Electronics Boutique-Registered Trademark-, EBX-Registered Trademark- and Stop 'N Save Software-Registered Trademark- are registered trademarks of the Company. Nintendo-Registered Trademark- and N64-Registered Trademark- are registered trademarks of Nintendo Companies Limited ("Nintendo"), Sega-Registered Trademark- and Sega Saturn-Registered Trademark- are registered trademarks of Sega Enterprises ("Sega"), and Sony-Registered Trademark- and Playstation-Registered Trademark- are registered trademarks of Sony Computer Entertainment, Inc. ("Sony").

5

#### SUMMARY CONSOLIDATED AND COMBINED FINANCIAL AND OPERATING DATA (IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA)

<S>	<C>					THIRTEEN WEEKS ENDED	
	1993	1994	1995	1996	1997	MAY 3, 1997	MAY 2, 1998
<CAPTION>	(UNAUDITED)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME DATA:							
Net sales.....	\$ 240,387	\$ 249,552	\$ 268,956	\$ 337,059	\$ 449,180	\$ 83,688	\$ 106,730
Management fees.....	411	1,158	1,905	2,526	4,792	488	571
Total revenues.....	240,798	250,710	270,861	339,585	453,972	84,176	107,301
Cost of goods sold.....	175,865	182,505	199,226	252,813	338,498	61,941	79,520
Gross profit.....	64,933	68,205	71,635	86,772	115,474	22,235	27,781
Operating expenses.....	56,187	56,594	58,989	69,828	87,003	18,201	22,270
Depreciation and amortization.....	4,638	5,324	6,047	6,615	7,997	1,875	2,254
Income from operations.....	4,108	6,287	6,599	10,329	20,474	2,159	3,257
Equity in earnings (loss) of affiliates.....	(118)	(634)	(1,319)	(573)	2,903	(80)	(80)
Interest expense, net.....	1,578	1,727	1,818	1,298	1,380	294	214
Preacquisition loss of subsidiaries (1).....	--	--	--	--	913	296	--
Income before income tax expense.....	2,412	3,926	3,462	8,458	22,910	2,081	2,963
Income tax expense (2).....	391	286	280	550	846	78	113
Net income.....	\$ 2,021	\$ 3,640	\$ 3,182	\$ 7,908	\$ 22,064	\$ 2,003	\$ 2,850
PRO FORMA INCOME DATA:							
Pro forma income before income tax expense.....					\$ 19,909		\$ 2,946
Pro forma income tax provision.....					8,182		1,155
Pro forma net income (3).....					\$ 11,727		\$ 1,791
Pro forma net income per share.....					.74		.11
Pro forma weighted average shares outstanding (4).....					15,794		15,794
OPERATING DATA (5):							
Stores open at beginning of period (6).....	274	311	325	341	390	390	452

Stores open at end of period.....	311	325	341	360	452	393	465
Sales per square foot (7).....	\$ 763	\$ 721	\$ 729	\$ 831	\$ 926	\$ 187	\$ 196
Average sales per store (000s).....	\$ 822	\$ 785	\$ 808	\$ 962	\$ 1,106	\$ 214	\$ 233
Comparable store sales increase (decrease).....	(10.8%)	(6.6%)	3.5%	20.8%	15.3%	43.9%	13.0%
Inventory turnover.....	3.0x	3.6x	3.8x	5.1x	5.3x	1.2x	1.3x

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MAY 2, 1998	
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<C>	<C>
ACTUAL	AS ADJUSTED (4)
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BALANCE SHEET DATA:

Working capital (deficit).....	(\$ 37,776)	\$ 1,999
Total assets.....	140,696	142,612
Total liabilities.....	123,223	102,195
Stockholders' equity.....	17,473	40,417

</TABLE>

(UNAUDITED)  
<C>                    <C>

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- The results of operations of EB Int'l and EB Canada have been consolidated since the beginning of 1997. Preacquisition loss of subsidiaries represents losses in EB Int'l and EB Canada prior to their acquisition by the Company.
  - The predecessors to the Company were taxed as an S Corporation and a partnership. As a result, their taxable income was passed through to their partners and shareholders for federal income tax purposes. Accordingly, the financial statements do not include a provision for federal income taxes. A predecessor to the Company elected to be treated as an S corporation for some states, while remaining subject to corporate tax in other states and, as a result, the financial statements provide for certain state income taxes. See Note 1 of Notes to Consolidated and Combined Financial Statements and Notes to the Unaudited Pro Forma Consolidated Financial Statements.
  - The pro forma net income gives effect to the application of the pro forma income tax expense that would have been reported had the Company's predecessors been corporations subject to federal and all state income taxes for all periods shown and to the retention by EB of certain assets. See Note 1 of Notes to Consolidated and Combined Financial Statements and Notes to the Unaudited Pro Forma Consolidated Financial Statements.
  - Pro forma weighted average shares outstanding is equal to the number of shares which will be outstanding upon completion of the Reorganization. See "Reorganization" and Notes to the Unaudited Pro Forma Consolidated Financial Statements.
  - Does not reflect stores operated by EB-UK and WaldenSoftware for which the Company provides management services. See "Business--Management Services."
  - Stores open at beginning of period reflects, as of February 2, 1997, the consolidation of EB's domestic stores and its international stores.
  - Calculated based on stores open for one year or longer.

RISK FACTORS

An investment in the shares of Common Stock offered hereby involves a high degree of risk. Prospective investors should consider carefully the following risk factors, in addition to the other information contained in this Prospectus, in connection with an investment in the Common Stock offered hereby.

When used in this Prospectus, the words "expect," "estimate," "anticipate," "intend," "predict," "believe," and similar expressions and variations thereof are intended to identify forward-looking statements. Forward-looking statements appear in a number of places in this Prospectus and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things: (i) trends affecting the Company's financial condition or results of operations; (ii) the Company's business and growth strategies; (iii) the use of the net proceeds to the Company of this Offering; and (iv) the declaration and payment of dividends. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results or outcomes may differ materially from those projected in the forward-looking statements as a result of various factors. The accompanying information contained in this Prospectus, including, without limitation, the

information set forth under the headings "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business" identify important factors that could cause such differences.

**DEPENDENCE ON NEW PRODUCT INTRODUCTIONS.** The Company is highly dependent upon the continued introduction of new and enhanced video game and PC hardware and software. The failure of manufacturers to introduce new or enhanced video game systems, a decline in the continued technological development and use of multimedia PCs or the failure of software publishers to develop popular game and entertainment titles for current or future generation game systems or PCs could have a material adverse effect on the Company's results of operations and financial condition.

**VIDEO GAME SYSTEMS AND SOFTWARE PRODUCT CYCLES.** The video game market has historically been cyclical in nature. Following the introduction of new generation systems, sales of new generation hardware and related titles steadily increase, while sales of prior generation hardware and related titles steadily decrease. New generation systems historically have been introduced every four to five years. Sales of prior generation hardware systems historically have peaked in the year of introduction of next generation systems, and sales of prior generation titles historically have peaked in the following year. The failure of the industry's leading video game systems manufacturers to introduce next generation systems, or significant enhancements to existing systems, could lead to a significant decrease in sales of hardware systems and related titles by the Company. Any such decrease could have a material adverse effect on the Company's results of operations and financial condition. See "Business--Products."

**TECHNOLOGICAL OBSOLESCENCE.** The video game and PC industry is subject to rapid technological changes. The failure of the Company to respond quickly to such technological changes and to assess accurately their influence on customer preferences could have a material adverse effect on the Company's results of operations and financial condition. In addition, technological advances, such as the ready availability of games and other entertainment software on the Internet and the ability to down-load such games onto PCs for repeated use, could make the retail sale of video games and PC entertainment software obsolete. Further developments in these technologies or other technologies which expand the ability to access software through other sources could have a material adverse effect on the Company's results of operations and financial condition.

**NEW STORE OPENINGS.** The Company's continued growth will depend, in part, on its ability to open and operate new stores on a profitable basis. The Company currently intends to open approximately 80 to 90 new stores in each of 1998 and 1999. The Company's ability to open new stores on a timely and profitable basis is subject to various contingencies, some of which are beyond the Company's control. These contingencies include the Company's ability to locate suitable store sites, negotiate acceptable lease terms, build-out or refurbish sites on a timely and cost-effective basis, hire, train and retain skilled associates, obtain adequate capital resources and successfully integrate new stores into existing operations. In

7

addition, the management services agreement between EB and EB-UK (the "UK Services Agreement") significantly restricts the Company's ability to open stores in Europe. See "Business--Management Services." There can be no assurance that the Company will be able to achieve its planned expansion or that its new stores will achieve levels of sales and profitability comparable to the Company's existing stores. Failure of the Company to achieve its planned expansion on a profitable basis could have a material adverse effect on the Company's results of operations and financial condition. See "Business--Retail Operations."

**COMPETITION.** The electronic game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. The Company competes with other video game and PC software specialty stores located in malls and other locations, as well as with mass merchants, toy retail chains, mail-order businesses, catalogs, direct sales by software publishers, online retailers, and office supply, computer product and consumer electronics superstores. Increased competition may lead to reduced profit margins on video games and PC entertainment software, which could have a material adverse effect on the Company's results of operations and financial condition. In addition, video games are available for rental from many video stores and cable television providers. Further, there can be no assurance that other methods of distribution will not emerge in the future which would result in increased competition for the Company. Most of the Company's competitors have longer operating histories and significantly greater financial, managerial, creative, sales and marketing and other resources than the Company. The Company also competes with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers. The Company's failure to compete effectively or a decrease in the popularity of video games and PC entertainment software would have a material adverse effect on the Company's results of operations and financial condition. See "Business--Competition."

In addition, the Company's ability to retain its existing customers and



attract new customers depends on numerous factors, some of which are beyond the Company's control. These factors include: (i) the continued introduction of new and enhanced video game and PC hardware and software; (ii) the availability and timeliness of new product releases at the Company's stores; and (iii) the Company's reputation in the industry.

**SEASONALITY AND QUARTERLY RESULTS.** The Company's business is affected by the seasonal patterns common to most retailers. Historically, its highest net sales, management fees and net income have been generated during the fourth quarter, which includes the holiday selling season. During 1997, approximately 44% of the Company's net sales and approximately 94% of the Company's operating income were generated during the fourth quarter. Accordingly, any adverse trend in net sales for such period could have a material adverse effect on the Company's results of operations for the quarter as well as for the entire year. In addition, the Company's results of operations may fluctuate from quarter to quarter depending upon, among other things, the timing of new product introductions and new store openings, net sales contributed by new stores, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays or promotions and changes in the Company's merchandise mix. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Seasonality and Quarterly Results."

**DEPENDENCE ON SUPPLIERS.** The Company purchases a significant amount of products from Nintendo, Sony and Electronic Arts, Inc. ("Electronic Arts") and often receives quantities of certain products disproportionate to its market share from these suppliers upon initial release. During 1997, products purchased from Nintendo, Sony and Electronic Arts accounted for 13.5%, 13.3% and 9.4%, respectively, of the Company's net sales. The Company believes that the loss of any of these companies as a supplier could have a material adverse effect on the Company's results of operations and financial condition. In addition, the Company's financial performance is in large part dependent upon the business terms it obtains from its suppliers, including unit prices, unsold product return policies, advertising and market development allowances, freight charges and payment terms. If the Company is unable to maintain

8

favorable business terms with its suppliers, its results of operations and financial condition could be materially adversely affected.

During 1997, approximately 37% of the Company's product purchases were from domestic distributors of products manufactured overseas, primarily in Asia. To the extent that the Company's distributors rely on overseas sources for a large portion of their products, any event causing a disruption of imports, including the imposition of import restrictions, could have a material adverse effect on the Company's results of operations and financial condition. In addition, in recent months, certain Asian currencies have devalued significantly in relation to the U.S. dollar and financial markets in Asia have experienced significant turmoil. There can be no assurance that the Company's ability to purchase from domestic distributors products manufactured in Asia would not be materially adversely affected by such developments. Trade restrictions in the form of tariffs or quotas, or both, applicable to such products could also affect the importation of such products generally and could increase the cost and reduce the supply of such products available to the Company.

**RISKS OF INTERNATIONAL RETAIL OPERATIONS.** The Company has retail operations in various foreign countries, including Canada, South Korea and Australia, and intends to pursue opportunities that may arise in these and other countries. Net sales in these foreign countries represented 7.3% of the Company's net sales in 1997. The Company is subject to the risks inherent in conducting business across national boundaries, including currency exchange rate fluctuations, currency devaluations, international incidents, military outbreaks, economic downturns, government instability, nationalization of foreign assets, government protectionism and changes in governmental policy, any of which could adversely affect the Company's business in one or more of its international markets. Since substantially all of the Company's operations are domestic, the Company does not believe that currency exchange rate fluctuations would have a material adverse effect on the Company's results of operations and financial condition and, accordingly, does not hedge its risk in this area. The Company intends to monitor its exposure to currency exchange rate fluctuations as it expands its international presence and to reevaluate its hedging strategies as appropriate.

**LEASE EXPIRATIONS AND TERMINATIONS.** As of June 19, 1998, 59 of the Company's stores (12.9% of all stores) were operated under leases with terms that expire in less than one year, including 6 month-to-month leases. In connection with the Reorganization (as defined below), all of the leases have been assigned to the Company by EB. Substantially all of the leases either required the landlord's prior consent to assign or permitted assignment upon satisfaction of certain conditions. EB did not solicit and the Company does not intend to solicit landlord consents for the assignment of the leases in connection with the Reorganization and/or the Offering; accordingly, affected landlords could seek to terminate their leases. There can be no assurance that the Company will be able to maintain its existing store locations as leases expire or are terminated by landlords or that the Company will be able to locate

suitable alternative sites on acceptable terms. The Company's failure to maintain existing store locations or to locate alternative sites could have a material adverse effect on the Company's results of operations and financial condition. See "Business--Properties."

IMPACT OF GENERAL ECONOMIC CONDITIONS. The Company's business is sensitive to consumer spending patterns, which in turn are subject to prevailing economic conditions. Adverse local, regional or national economic conditions may cause shifts in consumer spending that could have a material adverse effect on the Company's results of operations and financial condition.

CONTROL BY KIM SHAREHOLDERS. Upon completion of the Offering, EB Nevada will beneficially own approximately 69.0% of the outstanding shares of Common Stock (64.4% if the Underwriters' over-allotment option is exercised in full). Accordingly, the Kim Shareholders, through their ownership of all of the outstanding capital stock of EB, EB Nevada's sole stockholder, will be able to control the Company, elect all the directors and generally direct the affairs of the Company. See "Management" and "Principal and Selling Shareholders." Under a credit facility with Fleet Capital Corporation ("Fleet"), the Kim Shareholders are obligated to own, directly or indirectly, not less than 25.0% of the issued and outstanding

9

capital stock of the Company. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

DEPENDENCE ON KEY PERSONNEL. The success of the Company will depend on its ability to attract, motivate and retain key management associates for its stores and skilled merchandising, marketing and administrative personnel at the Company's headquarters. In the past, the Company has been successful in maintaining the continuity of its management team, including its executive officers, Joseph J. Firestone, its President and Chief Executive Officer, Jeffrey W. Griffiths, its Senior Vice President of Merchandising and Distribution and John R. Panichello, its Senior Vice President and Chief Financial Officer. However, there can be no assurance that the Company will continue to be successful in attracting and retaining such personnel. The loss of the services of one or more of such persons or other key personnel could have a material adverse effect on the Company's results of operations and financial condition. See "Management."

IMMEDIATE AND SUBSTANTIAL DILUTION. Purchasers of shares of Common Stock in the Offering will experience an immediate and substantial dilution in the net tangible book value of each share of Common Stock of \$14.11 per share based upon an assumed initial public offering price of \$16.00. See "Dilution."

SHARES ELIGIBLE FOR FUTURE SALE. Upon completion of the Offering, the Company will have 20,169,200 shares of Common Stock outstanding. Of those shares, a total of 6,250,000 shares (plus 937,500 additional shares if the Underwriters exercise their over-allotment option in full) will be freely tradeable without restriction or further registration under the Securities Act, unless purchased or held by "affiliates" of the Company as that term is defined in Rule 144 under the Securities Act ("Rule 144"). Substantially all of the remaining shares will be held by EB Nevada, which is an "affiliate" of the Company. Beginning 360 days after the Offering, EB Nevada will be entitled to certain rights with respect to registration of such shares. If exercised, such registration rights could result in such shares being sold in greater amounts than otherwise allowable under Rule 144. See "Description of Capital Stock--Registration Rights" and "Shares Eligible for Future Sale."

Under Rule 144, sales of Common Stock by affiliates of the Company are subject to the volume limitations, manner of sale, and notice requirements of Rule 144. See "Shares Eligible for Future Sale." The Company's executive officers and directors, EB Nevada, the Kim Shareholders and the Company have agreed with the Underwriters that they will not, directly or indirectly, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of any option to purchase or other sale or disposition) of any shares of Common Stock or other capital stock or any securities convertible into, or exercisable or exchangeable for, or any rights to purchase or acquire any shares of Common Stock, or other capital stock of the Company for a period of 360 days after the date of this Prospectus without the prior written consent of Prudential Securities Incorporated, on behalf of the Underwriters, except for options granted pursuant to the Equity Participation Plan. Prudential Securities Incorporated may, in its sole discretion, at any time and without notice, release all or any portion of the shares of Common Stock subject to such lock-up agreements.

Sales of substantial amounts of Common Stock in the public market, or the perception that such sales could occur, could adversely affect the prevailing market price for the Common Stock and could impair the Company's ability to raise capital through a public offering of equity securities. See "Shares Eligible for Future Sale" and "Underwriting."

NO PRIOR MARKET; POSSIBLE VOLATILITY OF STOCK PRICE. Prior to the Offering, there has been no public market for the Common Stock, and there can be no assurance that an active trading market for the Common Stock will develop or continue upon completion of the Offering. The initial public offering price will be determined by negotiations among the Company, the Selling Shareholder and the representatives of the Underwriters. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price. There can be no assurance that after completion of the Offering the market price of the Common Stock will not decline below the initial public offering price. In addition, the stock markets have experienced extreme price and volume fluctuations which may affect the market price

10

of the Common Stock in a manner unrelated or disproportionate to the operating performance of the Company. These market fluctuations may adversely affect the market price of the Common Stock. See "Underwriting."

DISCRETION IN USE OF PROCEEDS. The Company intends to utilize approximately \$17.7 million, representing approximately 27.6%, of the estimated net proceeds to the Company of the Offering, for general corporate purposes, including working capital. Accordingly, the Company will have broad discretion in the application of such net proceeds and an investor will not have the opportunity to evaluate the economic, financial and other relevant information used by the Company in determining how to apply such proceeds. See "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

HOLDING COMPANY STRUCTURE; DIVIDEND RESTRICTIONS. The Company was formed as a holding company to effect the Reorganization and does not have any material assets other than its ownership interests in its subsidiaries and its 99.99% partnership interest in EB Services. The Common Stock will be junior in right of payment to all existing and future liabilities and obligations of the Company and, by virtue of the fact that the Company is a holding company, the Common Stock will be structurally junior in right of payment to all existing and future liabilities and obligations of each of the Company's subsidiaries. The Company has never declared or paid dividends on the Common Stock and does not currently intend to do so. Further, since the operations of the Company are conducted through its subsidiaries, its ability to pay dividends on the Common Stock in any event is dependent on the earnings and cash flow of its subsidiaries.

ANTI-TAKEOVER EFFECTS OF DELAWARE LAW AND CERTAIN CHARTER AND BYLAW PROVISIONS. Certain provisions of the Company's Certificate of Incorporation and Bylaws, as well as the Delaware General Corporation Law, could delay or make more difficult the removal of incumbent directors as well as a merger, tender offer or proxy contest involving the Company, even if such events could be viewed as beneficial by the Company's stockholders. For example, the Board of Directors of the Company is empowered to issue preferred stock in one or more series without stockholder action. Any issuance of this "blank-check" preferred stock could materially limit the rights of holders of the Common Stock and render more difficult or discourage an attempt to obtain control of the Company by means of a tender offer, merger, proxy contest or otherwise. In addition, the Certificate of Incorporation and Bylaws contain a number of provisions which could impede a takeover or change in control of the Company, including, among other things, staggered terms for members of the Board, no cumulative voting, and prohibitions on the taking of any stockholder action by written consent or removing a director other than for cause. The Company is also subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which prohibits the Company from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. The application of Section 203 could have the effect of delaying or preventing a change of control of the Company. See "Description of Capital Stock."

YEAR 2000 COMPLIANCE. The Company uses a significant number of computer software programs and operating systems in its internal operations, including applications used in inventory management, distribution, financial business systems and various administrative functions. To the extent that these software applications contain source code that is unable to interpret appropriately the upcoming calendar year 2000, some level of modification or even possible replacement of such source code or applications will be necessary. The Company is currently modifying its computer software programs and operating systems to make them "Year 2000" compliant and intends to complete its "Year 2000" compliance program in 1998. The Company anticipates spending approximately \$300,000 in connection with its "Year 2000" compliance program. However, there can be no assurance that the costs necessary to update software, or potential systems interruptions, will not exceed such amount and have a material adverse effect on the Company's results of operations or financial condition. See "Business--Management Information Systems."

11

REORGANIZATION

The Company was incorporated under the laws of the State of Delaware in March 1998 as a holding company for EB's operating activities. EB was incorporated in the Commonwealth of Pennsylvania in 1977.

#### PRE-REORGANIZATION

Prior to the Reorganization, (i) the Kim Shareholders owned all of the outstanding shares of capital stock of EB and all of the limited partnership interests of EB Services, with EB Services Corp., a company wholly-owned by James J. Kim, as the 1.0% corporate general partner, (ii) EB owned 25.1% of the outstanding shares of capital stock of EB-UK, and (iii) EB owned all of the outstanding shares of capital stock of Electronics Boutique Canada Inc. ("EB Canada") and EB International, Inc. ("EB Int'l").

#### REORGANIZATION

On May 31, 1998, EB (i) transferred certain assets, including its leases, leasehold improvements, inventory, employee contracts, fixed assets and prepaid expenses, subject to all of its liabilities, to Electronics Boutique of America Inc. ("EBOA") in exchange for all of the outstanding shares of capital stock of EBOA, (ii) entered into a two year lease with EBOA for the West Chester distribution center and headquarters, which lease grants EBOA an option to purchase the property for \$6.7 million, and (iii) assigned its intangible assets, including its trademarks and trade names, to Elbo Inc. ("Elbo"), in exchange for all of the outstanding shares of capital stock of Elbo. EB retained (i) all of the outstanding shares of capital stock in its affiliates EBOA, Elbo, EB Int'l and EB Canada (collectively, the "Operating Shares"), (ii) its shares of EB-UK capital stock (which represent 25.1% of the outstanding shares of capital stock of EB-UK), (iii) the West Chester distribution center and headquarters, (iv) approximately \$17.5 million of cash, accounts receivable and cash surrender value of certain split-dollar life insurance policies and (v) approximately \$7.7 million of intercompany receivables. In addition, EBOA joined EB as a party to the Fleet loan documents.

Prior to the completion of the Offering, (i) EB will transfer the Operating Shares and its shares of EB-UK capital stock to EB Nevada in exchange for all of the outstanding shares of capital stock of EB Nevada, (ii) EB Nevada will then contribute the Operating Shares to the Company in exchange for 15,794,100 shares of Common Stock, and (iii) the Company will then acquire from the Kim Shareholders and EB Services Corp., for an aggregate of 100 shares of Common Stock, 99.99% of the partnership interests of EB Services, with EB Services Corp. retaining a 0.01% general partnership interest. The transactions in this and the preceding paragraph have been or will be made pursuant to the terms of certain contribution, assignment and exchange agreements among such entities (the transactions in this and the immediately preceding paragraph are collectively referred to herein as the "Reorganization").

The Reorganization is structured to allow the shareholders of EB to retain both the Company's previously taxed earnings, which exceed book earnings due to timing differences, and the shares of EB-UK capital stock. As a result, the Company's stockholder's equity account after the Reorganization and prior to the completion of the Offering will reflect a deficit of approximately \$23.6 million. The sale by the Company of the 4,375,000 shares of Common Stock offered hereby (at an assumed initial public offering price of \$16.00 per share) will restore the Company's stockholder's equity account to a positive balance of approximately \$40.4 million.

#### POST-REORGANIZATION

After the Reorganization and prior to the completion of the Offering, (i) EB will (A) own cash, accounts receivable, real estate and the cash surrender value of certain split-dollar life insurance policies with an aggregate value equal to the sum of EB's paid in capital, retained earnings and previously taxed but undistributed S Corporation earnings, (B) own all of the outstanding shares of capital stock of EB Nevada and (C) continue to be a party to the UK Services Agreement, which will continue in accordance with its original terms, (ii) EB Nevada will own substantially all of the outstanding shares of Common Stock, and (iii) the Company, through its wholly-owned subsidiaries, will own substantially all of the operating assets and all of the liabilities that were owned by EB prior to the Reorganization. See "Certain Transactions," "Principal and Selling Shareholders" and Notes to the Unaudited Pro Forma Consolidated Financial Statements.

12

Set forth below and on the next page are charts which illustrate the organizational structure of (i) EB prior to the Reorganization and (ii) the Company after the Reorganization and prior to the completion of the Offering.

#### PRE-REORGANIZATION

[LOGO]

13

[LOGO]

14

## USE OF PROCEEDS

The net proceeds to the Company from the sale of the 4,375,000 shares of Common Stock offered by the Company hereby (at an assumed initial public offering price of \$16.00 per share and after deducting underwriting discounts and commissions and estimated Offering expenses) are estimated to be \$64.1 million. The Company will not receive any proceeds from the sale of Common Stock by the Selling Shareholder. See "Principal and Selling Shareholders."

The Company intends to use (i) approximately \$31.7 million of the net proceeds to repay borrowings outstanding under the Company's revolving credit facility with Fleet, (ii) approximately \$7.7 million to repay certain obligations owed by the Company to EB, (iii) approximately \$7.0 million to repay borrowings outstanding to James J. Kim under a demand note between Mr. Kim and EBOA, and (iv) the balance of the net proceeds for general corporate purposes, including financing new store openings. See "Certain Transactions", "Risk Factors--Discretion in Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operation--Liquidity and Capital Resources."

On March 16, 1998, EB entered into a credit agreement with Fleet, pursuant to which Fleet agreed to make available to EB an asset based revolving credit and term loan facility in an amount up to \$50.0 million. Borrowings under this facility bear interest at a per annum rate equal to either LIBOR plus 250 basis points or Fleet's base rate of interest, at EB's option. As of June 11, 1998, EB had approximately \$31.7 million of borrowings outstanding under the revolving credit facility with Fleet, which borrowings bear interest at Fleet's base rate. The revolving credit facility expires and the term loan, if borrowed, is repayable on March 16, 2001. Of such borrowings, EB used \$9.4 million to retire outstanding indebtedness, approximately \$13.9 million to pay dividends to certain of the Kim Shareholders and approximately \$8.4 million for general working capital purposes. See "Reorganization," "Certain Transactions" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

On June 4, 1998, EB loaned \$7.0 million to James J. Kim, who in turn loaned such funds to EBOA. The demand notes reflecting such loans bear interest at the highest prime rate as published in the Wall Street Journal.

Pending application of the net proceeds of the Company from the Offering, the Company intends to invest in short-term, interest-bearing, investment grade securities or guaranteed obligations of the United States government.

## DIVIDEND POLICY

EB Services, which was formed in January 1997, paid a distribution to its partners aggregating \$1.0 million in 1997. EB Services has not paid any distributions to its partners during 1998, but intends to pay a distribution of approximately \$6.1 million of cash and accounts receivable immediately prior to the Reorganization.

Except as described above, the Company has not declared or paid any cash dividends or distributions on its capital stock. Pursuant to the Fleet revolving credit and term loan facility, the Company will not be permitted to declare or pay any dividends or make any other distributions if (i) there is an outstanding default under such facility or (ii) the Company does not have \$3.5 million of availability under such facility. The Company currently intends to retain future earnings, if any, for business use and does not anticipate declaring or paying any dividends on shares of its Common Stock in the foreseeable future. The Board of Directors of the Company intends to review this policy from time to time, after taking into account various factors such as the Company's financial condition, results of operations, current and anticipated cash needs and plans for expansion.

15

## CAPITALIZATION

The following table sets forth the current portion of long-term debt and the capitalization of the Company at May 2, 1998 (i) on an actual basis, (ii) on a pro forma basis to give effect to the Reorganization and (iii) on a pro forma as adjusted basis to give effect to the Reorganization, the sale by the Company of 4,375,000 shares of Common Stock offered hereby (at an assumed initial public offering price of \$16.00 per share) and the application of the estimated net proceeds therefrom. See "Use of Proceeds" and "Reorganization." This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated and Combined

<TABLE>

<CAPTION>

	MAY 2, 1998		
<S>	<C>	<C>	<C>
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
(IN THOUSANDS, EXCEPT FOR SHARE DATA) (UNAUDITED)			
<S>	<C>	<C>	<C>
Current portion of long-term debt.....	\$ 900	\$ 900	\$ 900
Long-term debt.....	2,749	2,749	2,749
Stockholders' equity:			
Preferred stock, \$100.00 par value; 200,000 shares authorized; none issued and outstanding (1).....	--	--	--
Common stock, Class A, \$.10 par value; 5,000 shares authorized; 1,900 shares issued and outstanding (1).....	--	--	--
Common stock, Class B, \$.10 par value; 25,000 shares authorized; 21,000 shares issued and outstanding (1).....	2	--	--
Preferred stock, \$.01 par value; 25,000,000 shares authorized; none issued and outstanding.....	--	--	--
Common stock, \$.01 par value; 100,000,000 shares authorized; none issued and outstanding; 15,794,200 shares issued and outstanding pro forma and 20,169,200 shares issued and outstanding pro forma as adjusted (2).....	--	158	202
Partners' capital of EB Services Company LLP.....	1	--	--
Additional paid-in capital.....	7,584	(22,883)	41,123
Accumulated other comprehensive expense.....	(908)	(908)	(908)
Retained earnings.....	10,793	--	--
Total stockholders' equity (deficit).....	17,472	(23,633)	40,417
Total capitalization.....	\$ 21,121	\$ (19,984)	\$ 44,066

</TABLE>

(1) Represents the capitalization of EB.

(2) Excludes 1,425,000 shares of Common Stock issuable upon exercise of options to be granted immediately prior to the completion of the Offering under the Equity Participation Plan, which have an exercise price equal to the initial public offering price per share. Also excludes an aggregate of 675,000 shares of Common Stock available for the future grant of stock options and other equity securities under the Equity Participation Plan. See "Management--Equity Participation Plan."

16

DILUTION

Purchasers of the Common Stock offered hereby will experience an immediate and substantial dilution in the net tangible book value (total tangible assets minus total liabilities) of the Common Stock from the initial public offering price. At May 2, 1998, the pro forma net tangible book value of the Company was a deficit of \$25.8 million, or a deficit of \$1.64 per share. After giving effect to both the Reorganization and the sale by the Company of 4,375,000 shares of Common Stock offered hereby (at an assumed initial public offering price of \$16.00 per share) and the application of the net proceeds therefrom, the pro forma net tangible book value of the Common Stock would have been \$38.2 million, or \$1.89 per share. This represents an immediate increase in net tangible book value of \$3.53 per share of Common Stock to existing stockholders and an immediate and substantial dilution of \$14.11 per share of Common Stock to new investors purchasing shares of Common Stock in the Offering. The following table illustrates the dilution per share:

<TABLE>

<S>	<C>	<C>
Assumed initial public offering price.....		\$ 16.00
Net tangible book value before the Reorganization.....	\$ .97	
Decrease attributable to the Reorganization.....	2.61	

Net tangible book value after the Reorganization and before the Offering.....	(1.64)
Increase attributable to new investors.....	3.53
Pro forma net tangible book value after the Offering.....	1.89
Dilution to new investors.....	\$ 14.11

</TABLE>

The following table sets forth the number of shares of Common Stock sold by the Company, the total consideration paid to the Company and the average price per share paid by the existing stockholders and by the new investors purchasing shares of Common Stock in the Offering:

<TABLE>  
<CAPTION>

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
<S>	<C>	<C>	<C>	<C>	<C>
Existing stockholders (1) (2).....	15,794,200	78.3%	\$ 3,290	0.0%	\$ 0.0
New investors (2).....	4,375,000	21.7	70,000,000	100.0	16.00
Total.....	20,169,200	100.0%	\$ 70,003,290	100.0%	

</TABLE>

(1) Excludes 1,425,000 shares of Common Stock issuable upon exercise of options to be granted immediately prior to the completion of the Offering under the Equity Participation Plan, which have an exercise price at the initial public offering price per share. Also excludes 675,000 shares of Common Stock available for the future grant of stock options and other equity securities under the Equity Participation Plan. See "Management--Equity Participation Plan."

(2) Sales by the Selling Shareholder will reduce the number of shares of Common Stock held by existing stockholders to 13,919,200 shares or 69.0% of the total number of shares of Common Stock outstanding after completion of the Offering (12,981,700 shares or 64.4% if the Underwriters' over-allotment option is exercised in full), and will increase the number of shares of Common Stock held by new investors to 6,250,000 shares or 31.0% of the total number of shares of Common Stock held by new investors after the Offering (7,187,500 shares or 35.6% if the Underwriters' over-allotment option is exercised in full). See "Principal and Selling Shareholders."

SELECTED CONSOLIDATED AND COMBINED FINANCIAL AND OPERATING DATA  
(IN THOUSANDS, EXCEPT PER SHARE AND OPERATING DATA)

The following table sets forth, for the periods and at the dates indicated, summary consolidated and combined financial and operating data for the Company. The information presented below under the captions "Statement of Income Data" for 1993 through 1997 and "Balance Sheet Data" as of January 29, 1994, January 28, 1995, February 3, 1996, February 1, 1997 and January 31, 1998 is derived from the Company's audited Consolidated and Combined Financial Statements. The Company's audited financial statements for each of the three fiscal years in the period ended, and as of January 31, 1998, are included elsewhere in this Prospectus. The information presented below under the captions "Statement of Income Data" for the thirteen weeks ended May 3, 1997 and May 2, 1998 and "Balance Sheet Data" as of May 2, 1998 are derived from the Company's unaudited financial statements. In the opinion of management, such unaudited financial information contains all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the financial position and results of operations of the Company as of such dates and for such periods. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated and Combined Financial Statements and Notes thereto included elsewhere in this Prospectus.

<TABLE>  
<CAPTION>

						THIRTEEN WEEKS ENDED	
						MAY 3, 1997	MAY 2, 1998
1993	1994	1995	1996	1997			

<S>	(UNAUDITED)						
	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME DATA:							
Net sales.....	\$ 240,387	\$ 249,552	\$ 268,956	\$ 337,059	\$ 449,180	\$ 83,688	\$ 106,730
Management fees.....	411	1,158	1,905	2,526	4,792	488	571
Total revenues.....	240,798	250,710	270,861	339,585	453,972	84,176	107,301
Cost of goods sold.....	175,865	182,505	199,226	252,813	338,498	61,941	79,520
Gross profit.....	64,933	68,205	71,635	86,772	115,474	22,235	27,781
Operating expenses.....	56,187	56,594	58,989	69,828	87,003	18,201	22,270
Depreciation and amortization.....	4,638	5,324	6,047	6,615	7,997	1,875	2,254
Income from operations.....	4,108	6,287	6,599	10,329	20,474	2,159	3,257
Equity in earnings (loss) of affiliates.....	(118)	(634)	(1,319)	(573)	2,903	(80)	(80)
Interest expense, net.....	1,578	1,727	1,818	1,298	1,380	294	214
Preacquisition loss of subsidiaries (1).....	--	--	--	--	913	296	--
Income before income tax expense.....	2,412	3,926	3,462	8,458	22,910	2,081	2,963
Income tax expense (2).....	391	286	280	550	846	78	113
Net income.....	\$ 2,021	\$ 3,640	\$ 3,182	\$ 7,908	\$ 22,064	\$ 2,003	\$ 2,850

PRO FORMA INCOME DATA:			
Pro forma income before income tax expense.....		\$ 19,909	\$ 2,946
Pro forma income tax provision.....		8,182	1,155
Pro forma net income (3).....		\$ 11,727	\$ 1,791
Pro forma net income per share.....		.74	.11
Pro forma weighted average shares outstanding (4).....		15,794	15,794
Supplemental pro forma net income (5).....		\$ 12,178	\$ 2,077
Supplemental pro forma net income per share (5).....		.74	.12
Supplemental pro forma weighted average shares outstanding (5).....		16,357	17,108

18

<TABLE>  
<CAPTION>

<S>	THIRTEEN WEEKS ENDED						
	1993	1994	1995	1996	1997	(UNAUDITED)	
						MAY 3, 1997	
						MAY 2, 1998	
Stores open at beginning of period (7).....	274	311	325	341	390	390	452
Stores open at end of period.....	311	325	341	360	452	393	465
Sales per square foot (8).....	\$ 763	\$ 721	\$ 729	\$ 831	\$ 926	\$ 187	\$ 196
Average sales per store (000s).....	\$ 822	\$ 785	\$ 808	\$ 962	\$ 1,106	\$ 214	\$ 233
Comparable store sales increase (decrease).....	(10.8%)	(6.6%)	3.5%	20.8%	15.3%	43.9%	13.0%
Inventory turnover.....	3.0x	3.6x	3.8x	5.1x	5.3x	1.2x	1.3x

<TABLE>  
<CAPTION>

<S>	BALANCE SHEET DATA:					
	JANUARY 29, 1994	JANUARY 28, 1995	FEBRUARY 3, 1996	FEBRUARY 1, 1997	JANUARY 31, 1998	(UNAUDITED)
						MAY 2, 1998
Working capital (deficit)...	\$ (2,531)	\$ 3,344	\$ (11,038)	\$ 9,893	\$ (17,728)	\$ (37,776)
Total assets.....	80,580	82,900	95,515	139,244	142,791	140,696
Total liabilities.....	68,153	66,833	78,066	118,887	114,392	123,223
Stockholders' equity.....	12,427	16,067	17,449	20,357	28,399	17,473



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- (1) The results of operations of EB Int'l and EB Canada have been consolidated since the beginning of 1997. Preacquisition loss of subsidiaries represents losses in EB Int'l and EB Canada prior to their acquisition by the Company.
  - (2) The predecessors to the Company were taxed as an S Corporation and a partnership. As a result, their taxable income was passed through to their partners and shareholders for federal income tax purposes. Accordingly, the financial statements do not include a provision for federal income taxes. A predecessor to the Company elected to be treated as an S Corporation for some states, while remaining subject to corporate tax in other states and, as a result, the financial statements provide for certain state income taxes. See Note 1 of Notes to Consolidated and Combined Financial Statements and Notes to the Unaudited Pro Forma Consolidated Financial Statements.
  - (3) The pro forma net income gives effect to the application of the pro forma income tax expense that would have been reported had EB and EB Services been corporations subject to federal and all state income taxes for all periods shown and to the retention by EB of certain assets. See Note 1 of Notes to Consolidated and Combined Financial Statements and Notes to the Unaudited Pro Forma Consolidated Financial Statements.
  - (4) Pro forma weighted average shares outstanding is equal to the number of shares which will be outstanding upon completion of the Reorganization. See "Reorganization" and Notes to the Unaudited Pro Forma Consolidated Financial Statements.
  - (5) Supplemental pro forma data assumes the issuance of additional shares to provide proceeds in an amount to pay down the outstanding debt to Fleet at May 2, 1998 of \$21,028,034 and certain debt repaid with the Fleet revolving credit agreement outstanding at January 31, 1998 of \$9,000,000. Interest saving, net of tax, were assumed based on the rates applicable to the specific debt outstanding during each period.
  - (6) Does not reflect stores operated by EB-UK and WaldenSoftware for which the Company provides management services. See "Business--Management Services."
  - (7) Stores open at beginning of period reflects, as of February 2, 1997, the consolidation of EB's domestic stores and its international stores.
  - (8) Calculated based on stores open for one year or longer.

19

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS AND NOTES THERETO INCLUDED ELSEWHERE IN THIS PROSPECTUS.

OVERVIEW

The Company believes that it is among the world's largest specialty retailers of electronic games. The Company's primary products are video games and PC entertainment software, supported by the sale of video game hardware, PC productivity software and accessories. As of May 2, 1998, the Company operated a total of 465 stores in 42 states, Puerto Rico, Canada, Australia and South Korea, primarily under the names Electronics Boutique and Stop 'N Save Software. As of such date, the Company also provided management services for EB-UK, which operated 134 stores and 17 department store-based concessions in the United Kingdom and Ireland. As of May 2, 1998, the Company also managed 37 mall-based WaldenSoftware stores for Borders Group, Inc. The Company is a holding company and does not have any significant assets or liabilities, other than all of the outstanding capital stock of its subsidiaries.

The Company's net sales have increased in each of the last three years as a result of new store openings and sales growth in existing stores. In 1997, the Company opened 71 new stores (17 of which were in foreign markets) and expects to open 80 to 90 new stores in 1998 (30 to 35 of which are expected to be in foreign markets). The Company believes that its success in achieving sales growth and increased profitability is largely due to efficiencies created by its inventory management and distribution systems, store operating efficiencies and its knowledge of its market area and its customers. However, the Company's comparable store sales have experienced significant fluctuations in the past due to, among other things, timing of new product introductions and promotions, adverse weather conditions, shifts in the timing of certain holidays, prevailing economic conditions, changes in merchandise trends, the Company's ability to source merchandise efficiently, and the timing and concentration of store openings. The Company believes the impact of new video game hardware system introductions on comparable store sales is likely to decline in future periods due to improvements in hardware technology and the growing popularity of PC-based games. The Company regularly reviews the performance of each of its

stores and may close or relocate those that are performing inadequately.

Prior to 1997, the Company operated stores in Canada and South Korea with local joint venture partners. In 1997, the Company acquired its joint venture partners' interests in these operations. The results of these foreign operations are consolidated in the Company's financial statements for the entire fiscal year.

Over the past two years, the video game industry has experienced substantial growth due to the introduction of next generation video game hardware systems in the latter part of 1995 and in 1996. Historically, the introduction of a next generation video game hardware system has resulted in increased sales, as the new technology encourages current video game players to update their video game hardware systems and attracts new video game players to purchase their first systems. The increased sales volume, however, is partially offset as video game hardware systems have a lower gross margin than the Company's other products. Following the introduction of next generation video game hardware systems, the market has traditionally experienced growth in the quantity and sophistication of related video game titles. In 1997, the Company reduced its gross margins on these video game titles as well as on PC entertainment titles to increase its overall sales volume.

RESULTS OF OPERATIONS

The following table sets forth certain income statement items as a percentage of total revenues for the periods indicated:

<TABLE>  
<CAPTION>

	THIRTEEN WEEKS ENDED				
	1995	1996	1997	MAY 3, 1997	MAY 2, 1998
<S>	<C>	<C>	<C>	<C>	<C>
Net sales.....	99.3%	99.3%	98.9%	99.4%	99.5%
Management fees.....	0.7	0.7	1.1	0.6	0.5
Total revenues.....	100.0	100.0	100.0	100.0	100.0
Cost of goods sold.....	73.5	74.5	74.6	73.6	74.1
Gross profit.....	26.5	25.5	25.4	26.4	25.9
Operating expenses.....	21.8	20.5	19.1	21.6	20.7
Depreciation and amortization.....	2.2	1.9	1.8	2.2	2.1
Income from operations.....	2.5	3.1	4.5	2.6	3.1
Equity in earnings (loss) of affiliates.....	(0.5)	(0.2)	0.7	(0.1)	(0.1)
Interest expense, net.....	0.7	0.4	0.3	0.4	0.2
Preacquisition loss of subsidiaries.....	0.0	0.0	0.2	0.4	0.0
Income before income tax expense.....	1.3	2.5	5.1	2.5	2.8
State income taxes.....	0.1	0.2	0.2	0.1	0.1
Net income.....	1.2%	2.3%	4.9%	2.4%	2.7%

</TABLE>

THIRTEEN WEEKS ENDED MAY 2, 1998 COMPARED TO THIRTEEN WEEKS ENDED MAY 3, 1997

Net sales increased by 27.5% from \$83.7 million in the thirteen weeks ended May 3, 1997 to \$106.7 million in the thirteen weeks ended May 2, 1998. The increase in net sales was primarily attributable to (i) the opening of 52 net new domestic stores and one new Canadian store, which resulted in a \$9.6 million increase in net sales, (ii) a 13.0% increase in comparable store sales, which resulted in a \$10.6 million increase in net sales, and (iii) the consolidation of \$2.8 million of net sales from the Company's Australian retail operations, which commenced business in the second quarter of 1997.

Management fees increased by 17.0% from \$0.5 million in the thirteen weeks ended May 3, 1997 to \$0.6 million in the thirteen weeks ended May 2, 1998. The increase was primarily attributable to increased fees earned under the UK Services Agreement. See "Business--Managed Stores."

Cost of goods sold increased by 28.4% from \$61.9 million in the thirteen weeks ended May 3, 1997 to \$79.5 million in the thirteen weeks ended May 2, 1998. As a percentage of net sales, cost of goods sold increased from 74.0% in the thirteen weeks ended May 3, 1997 to 74.5% in the thirteen weeks ended May 2, 1998. The increase in cost of goods sold as a percentage of net sales was primarily attributable to increased freight expenses. This increase is the result of the Company's decision to switch its primary freight carrier and reorganize its third-party distribution framework for improved service and merchandise availability at its stores.

Selling, general and administrative expense increased by 22.4% from \$18.2 million in the thirteen weeks ended May 3, 1997 to \$22.3 million in the thirteen weeks ended May 2, 1998. As a percentage of total revenues, selling, general and administrative expense decreased from 21.6% in 1997 to 20.7% in 1998. The \$4.1 million increase was primarily attributable to the increase in the Company's domestic and international store base and the associated increases in store and headquarter operating expenses. The decrease in selling, general and administrative expense as a percentage of total revenues was primarily

21

attributable to an increase in net sales and management fee income without a proportional increase in corporate and store-level overhead.

Depreciation and amortization expense increased by 20.2% from \$1.9 million in the thirteen weeks ended May 3, 1997 to \$2.3 million in the thirteen weeks ended May 2, 1998. This increase was primarily attributable to capitalized expenditures for leasehold improvements and furniture and fixtures for new store openings.

Operating income increased by 50.9% from \$2.2 million in the thirteen weeks ended May 3, 1997 to \$3.3 million in the thirteen weeks ended May 2, 1998. As a percentage of total revenues, operating income increased from 2.6% in 1997 to 3.1% in 1998, as the increase in cost of goods sold as a percentage of total revenues was more than offset by the decline in operating expenses as a percentage of total revenues.

Interest expense, net, decreased by 27.4% from \$0.3 million in the thirteen weeks ended May 3, 1997 to \$0.2 million in the thirteen weeks ended May 2, 1998. The decrease was primarily attributable to the repayment of long-term debt outstanding in 1997.

As a result of all the above factors, the Company's income before income taxes increased by 42.4% from \$2.1 million in the thirteen weeks ended May 3, 1997 to \$3.0 million in the thirteen weeks ended May 2, 1998.

#### 1997 COMPARED TO 1996

Net sales increased by 33.3% from \$337.1 million in 1996 to \$449.2 million in 1997. The increase in net sales was primarily attributable to (i) the opening of 45 net new domestic stores, which resulted in a \$29.0 million increase in net sales, (ii) a 15.3% increase in comparable store sales, which resulted in a \$50.1 million increase in net sales, and (iii) the consolidation of \$33.0 million of net sales from international retail operations, which net sales were fully consolidated as a result of the acquisition of interests of joint venture partners acquired by the Company in 1997.

Management fees increased by 89.7% from \$2.5 million in 1996 to \$4.8 million in 1997. This increase was primarily attributable to the \$2.2 million bonus earned by the Company under the UK Services Agreement. The Company does not anticipate receiving bonus payments under the UK Services Agreement in the future.

Cost of goods sold increased by 33.9% from \$252.8 million in 1996 to \$338.5 million in 1997. As a percentage of net sales, cost of goods sold increased from 75.0% in 1996 to 75.4% in 1997. The increase in cost of goods sold as a percentage of net sales was primarily attributable to the Company's decision to reduce prices for selected electronic game titles in order to increase market share and sales volume.

Selling, general and administrative expense increased by 24.6% from \$69.8 million in 1996 to \$87.0 million in 1997. As a percentage of total revenues, selling, general and administrative expense decreased from 20.5% in 1996 to 19.1% in 1997. The \$17.2 million increase was primarily a result of the increase in the Company's store base and the associated increases in store and headquarter operating expenses. The decrease in selling, general and administrative expense as a percentage of total revenue was primarily attributable to an increase in net sales and management fee income without a proportional increase in corporate and store-level overhead.

Depreciation and amortization expense increased by 20.9% from \$6.6 million in 1996 to \$8.0 million in 1997. This increase was primarily attributable to capitalized expenditures for leasehold improvements and furniture and fixtures for new store openings.

Operating income increased by 98.2% from \$10.3 million in 1996 to \$20.5 million in 1997. As a percentage of total revenues, operating income increased from 3.1% in 1996 to 4.5% in 1997, as the increase in cost of goods sold as a percentage of total revenues was more than offset by the decline in operating expenses as a percentage of total revenues.

22

Equity in earnings of affiliates increased by \$3.5 million from a loss of \$0.6 million in 1996 to earnings of \$2.9 million in 1997. The increase was attributable to a \$3.2 million increase in equity income recorded for the Company's 25.1% investment in EB-UK and the effect of consolidating the Company's equity interests in Canada and Korea beginning in 1997.

Interest expense, net, increased by 6.2% from \$1.3 million in 1996 to \$1.4 million in 1997. The increase was primarily attributable to the inclusion of foreign operation interest expense in 1997, which was partially offset by reduced short-term borrowings and the repayment of long-term debt in 1997.

As a result of all the above factors, the Company's income before income taxes increased by 171% from \$8.5 million in 1996 to \$22.9 million in 1997.

#### 1996 COMPARED TO 1995

Net sales increased by 25.3% from \$269.0 million in 1995 to \$337.1 million in 1996. The increase in net sales was primarily attributable to the opening of 19 net new domestic stores, which resulted in a \$14.3 million increase in net sales and a 20.8% increase in comparable store sales, which resulted in a \$53.8 million increase in net sales. The increase in comparable store sales was primarily a result of a full year of sales of the Sony PlayStation and the Sega Saturn, which were released in calendar year 1995, and the introduction of the Nintendo N64, which was released in the fall of 1996.

Management fees increased by 32.6% from \$1.9 million in 1995 to \$2.5 million in 1996. This increase was primarily attributable to a full year of management fees earned under the UK Services Agreement in 1996 as compared to seven months of management fees earned in 1995, the initial year of the UK Services Agreement.

Cost of goods sold increased by 26.9% from \$199.2 million in 1995 to \$252.8 million in 1996. As a percentage of net sales, cost of goods sold increased from 74.1% in 1995 to 75.0% in 1996. The increase in cost of goods sold as a percentage of net sales was primarily attributable to a greater percentage of the Company's sales mix being generated from video game hardware systems, which have a lower gross margin than the Company's other products.

Selling, general and administrative expense increased by 18.4% from \$59.0 million in 1995 to \$69.8 million in 1996. As a percentage of total revenues, selling, general and administrative expense decreased from 21.8% in 1995 to 20.5% in 1996. The \$10.8 million increase was a result of the increase in the Company's store base and the associated increases in store and headquarter operating expenses. The decrease in selling, general and administrative expense as a percentage of total revenues was primarily attributable to an increase in net sales and management fee income without a proportional increase in corporate and store-level overhead.

Depreciation and amortization expense increased by 9.4% from \$6.0 million in 1996 to \$6.6 million in 1997. This increase was primarily attributable to capitalized expenditures for leasehold improvements and furniture and fixtures for new store openings.

Operating income increased by 56.5% from \$6.6 million in 1995 to \$10.3 million in 1996. As a percentage of total revenues, operating income increased from 2.5% in 1995 to 3.1% in 1996, as the increase in cost of goods sold as a percentage of total revenues was more than offset by the decline in operating expenses as a percentage of total revenues.

Equity in loss of affiliates decreased by \$0.7 million from a loss of \$1.3 million in 1995 to a loss of \$0.6 million in 1996. The decrease was attributable to the increase of equity income recorded for the Company's 25% investment in EB-UK of \$0.7 million, a reduction in the equity loss of the Company's Canadian joint venture of \$0.5 million, and an increase in the equity loss of the Company's Korean joint venture of \$0.5 million.

Interest expense, net, decreased by 28.6% from \$1.8 million in 1995 to \$1.3 million in 1996. This decrease is primarily attributable to reduced short-term borrowings, repayment of long-term debt and an increase in interest income during 1996.

As a result of all the above factors, the Company's income before income taxes increased 144% from \$3.5 million in 1995 to \$8.5 million in 1996.

#### SEASONALITY AND QUARTERLY RESULTS

The Company's business, like that of most retailers, is highly seasonal. A significant portion of the Company's net sales, management fees and profits are generated during the Company's fourth fiscal quarter, which includes the holiday selling season. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other factors, the timing of new product introductions and new store openings, net sales contributed by new

stores, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays or promotions and changes in the Company's merchandise mix. See "Risk Factors--Seasonality and Quarterly Results."

The following table sets forth certain unaudited quarterly income statement information for 1996, 1997 and 1998. The unaudited quarterly information includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

<TABLE>

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<S>	FISCAL QUARTER ENDED									
	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	MAY 4,	AUG. 3,	NOV. 2,	FEB. 1,	MAY 3,	AUG. 2,	NOV. 1,	JAN. 31,	MAY 2,	
	1996	1996	1996	1997	1997	1997	1997	1998	1998	

<CAPTION>

<S>	(DOLLARS IN THOUSANDS, EXCEPT FOR PER SHARE DATA)									
	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Total revenues.....	\$52,413	\$51,392	\$77,046	\$158,734	\$84,176	\$73,394	\$94,239	\$202,163	\$107,301	
Gross profit.....	14,602	14,504	18,702	38,964	22,235	19,087	24,179	49,973	27,781	
Operating income (loss).....	(2,029)	(2,885)	1,067	14,176	2,159	(1,800)	640	19,475	3,257	
Income (loss) before income taxes.....	(2,501)	(3,733)	354	14,338	2,081	(2,303)	576	22,556	2,963	
Net income (loss).....	\$(2,339)	\$(3,490)	\$ 331	\$ 13,406	\$ 2,003	\$(2,252)	\$ 514	\$ 21,799	\$ 2,850	

AS A PERCENTAGE OF TOTAL REVENUES:

Gross profit.....	27.9%	28.2%	24.3%	24.5%	26.4%	26.0%	25.7%	24.7%	25.9%	
Operating income (loss).....	(3.9)	(5.6)	1.4	8.9	2.6	(2.5)	0.7	9.6	3.1	
Income (loss) before income taxes.....	(4.8)	(7.3)	0.5	9.0	2.5	(3.1)	0.6	11.2	2.8	
Net income (loss).....	(4.5%)	(6.8%)	0.4%	8.4%	2.4%	(3.1%)	0.5%	10.8%	2.7%	

</TABLE>

#### LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations through a combination of cash generated from operations and bank debt. The Company generated \$12.3 million, \$37.1 million and \$32.3 million in cash from operations in 1995, 1996 and 1997, respectively. The Company used \$6.8 million of cash from operations during the thirteen weeks ended May 2, 1998. The \$32.3 million of cash generated from operations in 1997 was primarily the result of \$22.1 million of net income, \$5.7 million of non-cash charges to net income, and a \$9.9 million increase in accounts payable and accrued expenses, partially offset by an increase of \$2.5 million in other assets, a \$2.1 million increase in due from affiliates and a \$2.0 million decrease in due to affiliates. The \$4.8 million decrease in cash generated from operations in 1997 as compared to 1996 was primarily attributable to (i) a reduction in accounts payable and accrued expenses of \$16.7 million, (ii) an increase in other assets of \$1.8 million, (iii) a decrease in affiliate payables of \$2.4 million, (iv) an increase in affiliate receivables of \$1.5 million and (v) a decrease in non-cash charges of

24

\$2.6 million. Such amounts were partially offset by an increase in net income of \$14.2 million and a decrease in inventory of \$5.7 million. The \$24.8 million increase in cash generated from operations in 1996 as compared to 1995 was primarily attributable to an increase in accounts payable and accrued expenses of \$20.7 million, an increase in net income of \$4.8 million, an increase in non-cash charges of \$0.9 million and a decrease in receivables from affiliates of \$1.6 million. Such amounts were partially offset by a \$4.4 million increase in inventory.

In 1996, EB Canada entered into a \$4.0 million term loan facility with Cho Hung Bank of Canada. At January 31, 1998, the outstanding balance on this loan was \$3.7 million. The note matures on September 1, 2002 and bears interest at the bank's prime rate plus 0.125%. In 1997, EB Canada entered into a \$1.0 million line of credit with Cho Hung Bank of Canada. At January 31, 1998, there was no outstanding balance on this line of credit. The line of credit expires on November 5, 1998 and bears interest at the bank's prime rate plus 0.125%.

On March 16, 1998, EB entered into a credit agreement with Fleet, pursuant to which Fleet agreed to make available to EB an asset based revolving credit and term loan facility in an amount up to \$50.0 million. The revolving credit facility expires and the term loan, if borrowed, is repayable on March 16, 2001. Interest accrues on borrowings at a per annum rate equal to either LIBOR plus

250 basis points or Fleet's base rate of interest, at EB's option. The revolving credit and term loan facilities are secured by certain assets, including accounts receivable, inventory, fixtures and equipment, and the term loan facility is also secured by EB's West Chester, Pennsylvania property. As of June 11, 1998, EB had approximately \$31.7 million of outstanding borrowings under the revolving credit facility and had not borrowed amounts under the term loan. The borrowings under the revolving credit facility bear interest at Fleet's base rate of interest. In connection with the Reorganization, EBOA joined EB as a party to the Fleet loan documents and the Company intends to guarantee the obligations of EBOA thereunder. See "Reorganization" and "Certain Transactions." The Company intends to use \$31.7 million of its net proceeds of the Offering to repay its obligations to Fleet.

In June 1998, EB loaned \$7.0 million to James J. Kim, who in turn loaned such funds to EBOA for working capital purposes. The demand notes reflecting such loans bear interest at the highest prime rate as published in the Wall Street Journal. The Company intends to use \$7.0 million of its net proceeds of the Offering to repay this obligation to Mr. Kim. See "Use of Proceeds."

A predecessor to the Company made capital expenditures of \$18.5 million in 1997, primarily for opening 71 new stores and to acquire its West Chester, Pennsylvania distribution center, which was previously leased by the predecessor to the Company. See "Certain Transactions." The Company expects to make capital expenditures in 1998 of approximately \$21.1 million, primarily to open approximately 80 to 90 new stores.

The Reorganization is structured to allow shareholders of EB to retain both the Company's previously taxed earnings, which exceed book earnings due to timing differences, and the shares of EB-UK capital stock. As a result, the Company's stockholder's equity account after the Reorganization and prior to the completion of the Offering will reflect a deficit of approximately \$23.6 million. The sale by the Company of the 4,375,000 shares of Common Stock offered hereby (at an assumed initial public offering price of \$16.00 per share) will restore the Company's stockholder's equity account to a positive balance of approximately \$40.4 million. See "Reorganization."

The Company believes that the net proceeds of the Offering, together with cash generated from its operating activities and available bank borrowings, will be sufficient to fund its operations and store expansion programs through the end of 1999.

25

#### IMPACT OF INFLATION

The Company does not believe that inflation has had a material effect on its net sales or results of operations.

#### RECENT ACCOUNTING PRONOUNCEMENT

In March 1998, the AICPA issued Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use." This statement requires that certain costs related to the development or purchase of internal use software be capitalized and amortized over the estimated useful life of the software. This statement also requires that costs related to the preliminary project stage and post-implementation/operation stage of an internal use software development project be expensed as incurred. The Company plans to adopt this Statement for the year ended January 29, 2000, as required.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement provides guidance on accounting for all derivative instruments and hedging activities. The statement concludes that derivative instruments be recognized as assets or liabilities and that fair value is the relevant measure for derivative instruments. Additionally, the statement provides criteria for the determination of hedge accounting. As the Company has not entered into derivative instruments, it does not believe the statement will have a significant impact on its financial statements. To the extent that the Company, in the future, enters into derivative instruments, it will be required to comply with FASB No. 133.

#### YEAR 2000

The Company uses a significant number of computer software programs and operating systems in its internal operations, including applications used in inventory management, distribution, financial business systems and various administrative functions. To the extent that these software applications contain source code that is unable to interpret appropriately the upcoming calendar year 2000, some level of modification or even possible replacement of such source code or applications will be necessary. The Company is currently modifying its computer software programs and operating systems to make them "Year 2000" compliant. The Company anticipates spending approximately \$300,000 in connection with its "Year 2000" compliance programs. However, there can be no assurance that the costs necessary to update software, or potential systems interruptions,

will not exceed such amount and have a material adverse effect on the Company's results of operations or financial condition.

BUSINESS

GENERAL

The Company believes that it is among the world's largest specialty retailers of electronic games. The Company's primary products are video games and PC entertainment software, supported by the sale of video game hardware, PC productivity software and accessories. As of May 2, 1998, the Company operated 465 stores in 42 states, Puerto Rico, Canada, Australia and South Korea, primarily under the names Electronics Boutique and Stop 'N Save Software. As of such date, the Company also provided management services for EB-UK, which operated 134 stores and 17 department store-based concessions in the United Kingdom and Ireland. As of May 2, 1998, the Company also managed 37 mall-based WaldenSoftware stores for Borders Group, Inc. The Company's stores are primarily located in high traffic areas in regional shopping malls and average 1,100 square feet in size. The Company plans to open approximately 50 to 55 domestic and 30 to 35 foreign stores in each of 1998 and 1999. The Company's revenues and operating income have grown from \$250.7 million and \$6.3 million, respectively, in 1994, to \$454.0 million and \$20.5 million, respectively, in 1997. Comparable store sales increased 3.5%, 20.8%, 15.3% and 13.0% in 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, respectively.

The Company's core customer is the electronic game enthusiast who demands immediate access to new title releases and who generally purchases more video game titles and PC entertainment software than the average electronic game consumer. The Company believes that it attracts the core game enthusiast due to the Company's: (i) specialty store focus on the electronic game category; (ii) ability to stock sought-after new releases on its stores' shelves immediately after release by publishers; (iii) breadth of product selection; and (iv) knowledgeable sales associates, who are often game enthusiasts themselves and who have extensive knowledge of game titles and features. The Company places significant emphasis on offering its customers immediate access to new releases and has designed its product merchandising strategy and distribution systems to facilitate such access. The Company introduces, on average, 20 new game titles in its stores per week. The Company believes that this FIRST TO MARKET strategy establishes its stores as the logical destination of choice for electronic game enthusiasts. The Company's strict inventory management system enables it to (i) maintain over 2,600 active SKUs, (ii) replenish its large and geographically dispersed store base on a daily basis, and (iii) minimize mark-downs as titles mature. The Company supports its product offerings with a strong commitment to customer service, which the Company believes distinguishes it from its competitors. All sales associates receive extensive training on video game and PC entertainment software products, system requirements and selling techniques.

INDUSTRY OVERVIEW

The electronic game industry is segmented into two primary product platforms: video games and PC entertainment software.

**VIDEO GAMES.** Video game play requires two components, video game consoles (hardware) and video game titles (software). Video game consoles are specialized processing devices which are connected to a free-standing monitor or, typically, a television set. Video game titles are small cartridges or CD-Roms that are inserted into a video game console. The video game market is dominated by three manufacturers, Nintendo, Sega and Sony, each of which manufactures proprietary hardware (in the form of console systems) and publishes game titles which run on their systems but cannot run on those of its competitors. Third party publishers also produce a wide range of game titles for each of these major hardware systems. Growth in the video game industry has been primarily driven by the periodic introduction of new generations of hardware systems. The current 32/64 bit systems offer highly developed, three dimensional graphics capabilities, speed, and sound effects. Manufacturers have introduced next generation hardware technologies every four to five years. Sales of prior generation video game titles generally peak five years after the introduction of new hardware systems.

Total domestic retail sales of video game titles, hardware and accessories was approximately \$5.1 billion in calendar 1997, an increase of approximately 40% over retail sales in the prior year. This increase was primarily the result of an increased penetration rate of the fourth generation of video game hardware

technology (32/64 bit systems), which was introduced in calendar years 1995 and 1996. As was the case with each prior generation, the introduction of the new hardware technology has led to an increase in the total installed base of the new technology over that of the prior generation. The enhanced technological features of new hardware expand gaming capabilities, thereby encouraging existing players to upgrade their hardware platforms, and simultaneously attracting new video game players to purchase their first systems. Management believes that continued growth in sales of the current generation of hardware

technology and related software will continue in calendar year 1998 and 1999. It is anticipated that the current generation of hardware systems will be replaced by a new generation of systems, beginning with the expected U.S. introduction of a new Sega system called "Dreamcast," which Sega is targeting for release in the fall of 1999. See "Risk Factors--Video Game Systems and Software Product Life Cycles."

**PC ENTERTAINMENT SOFTWARE.** PC entertainment software is generally sold in the form of a CD-Rom and played on multimedia PCs featuring fast processors, expanded memories, and enhanced graphics and audio capabilities. The PC entertainment software industry is more fragmented than the video game industry, with game publishers producing game titles which can be used on most PCs. The market for PC entertainment software has experienced steady growth in recent years, due primarily to the growth in the installed base of multimedia PCs. The domestic installed base of multimedia PCs has increased from approximately 14 million units in calendar 1995 to approximately 23 million units in calendar 1997. Domestic unit sales of PC entertainment software have increased from approximately 23 million units in calendar 1995 to approximately 46 million units in calendar 1997. Domestic retail sales of PC entertainment software totaled approximately \$1.3 billion in calendar 1997, an increase of approximately 23% over retail sales in the prior year. It is anticipated that the recent introduction of multimedia PCs priced at or below \$1,000 will accelerate growth in PC unit sales and broaden the appeal of home PCs as an alternative source of in-home entertainment. Worldwide, the installed base of multimedia PCs as well as sales of PC entertainment software have experienced comparable increases to those experienced domestically.

The typical electronic game consumer is male, between the ages of 14 and 34, and lives in a household with income in excess of \$50,000. Owners of video game hardware systems purchase an average of 3.2 game titles per year. The Company believes that many electronic game players purchase video game titles as well as PC entertainment software. Electronic games are principally sold through retail channels, including mass merchants, toy retail chains, electronics retailers, computer retailers, specialty software retailers, wholesale clubs, and mail order.

#### BUSINESS STRATEGY

The Company seeks to enhance its position as one of the world's premier specialty retailers of video game titles and PC entertainment software.

**BREADTH OF TITLE SELECTION.** The Company offers its customers an extensive selection of video game titles and PC entertainment software at competitive prices. The Company's typical store offers approximately 1,650 titles at any given time from over 120 video game and PC entertainment software vendors. The title selection in each store is continuously updated and tailored to reflect the tastes and buying patterns of the store's local market. The Company carries game titles which are compatible with all major video game hardware systems and PCs. In addition to video game titles and PC entertainment software, the Company offers a complementary line of productivity and educational software and PC and video game accessories and peripheral products, including graphics accelerators, joysticks, memory cards, books and magazines. By offering all major video game hardware systems and providing a broad but focused assortment of electronic game software and accessories, the Company seeks to establish its stores as the logical destination of choice for electronic game enthusiasts.

**IMMEDIATE AVAILABILITY OF NEW RELEASES.** The Company strives to be the first in its markets to offer new video game titles upon their release. New release titles are often preceded by substantial publicity in the form of advertisements and reviews in publications and, increasingly, are promoted through television. This publicity tends to create high levels of demand for new releases among video game enthusiasts, often

28

well in advance of release dates. This demand has afforded the Company an important marketing opportunity to create excitement surrounding its stores. To assure its customers immediate access to new releases, the Company offers its customers the opportunity to purchase video games prior to their release (the "EB Pre-Sell Program") and has established a reserve list (the "EB Reserve List") which guarantees its customers a copy of a new release immediately after its launch. The Company introduces approximately 20 new game titles in its stores each week. The Company believes that its FIRST TO MARKET strategy establishes the Company's stores as the logical destination of choice for electronic game enthusiasts.

**HIGHLY EFFECTIVE INVENTORY MANAGEMENT SYSTEM.** The Company emphasizes strict inventory policies in order to effectively manage over 2,600 SKUs, including video game titles, PC entertainment software, video game consoles, and accessories. The Company has developed a sophisticated inventory management system which enables it to maximize sales of new release titles and avoid markdowns as titles mature. The Company minimizes its inventory risk by: (i) conducting extensive research on new release titles to forecast anticipated daily sell-through; (ii) utilizing POS polling technology to provide daily sales, margin and inventory reports to the Company's merchandising staff; (iii)



managing inventory on a store-by-store basis in order to address local customer merchandise preferences; and (iv) replenishing store-level inventories daily from its fully automated distribution center. The Company introduces an average of 10 new SKUs in its stores each day. As a result of these inventory management initiatives, the Company has been able to achieve desired in-stock positions and increase its inventory turns from 3.8x in 1995 to 5.1x in 1996 to 5.3x in 1997. In addition, the Company's 1997 inventory shortage was less than 0.8% of cost of sales.

**DISCIPLINED STORE OPERATIONS.** The Company's management team exercises significant control over all aspects of its store operations, from product research, purchasing and distribution to real estate selection, store development, POS financial reporting, and sales training. The Company believes that this commitment to operational control enables it to operate substantially all of its stores on a profitable basis, to identify quickly opportunities to improve store productivity and to react to shifts in product pricing and consumer purchasing trends more quickly than its competitors.

**KNOWLEDGEABLE SALES ASSOCIATES.** The Company believes that its knowledgeable sales associates provide the Company with an important competitive advantage over mass merchants, toy retail chains and electronics and computer superstores, all of which compete with the Company, but generally offer much lower levels of customer service in the electronic game category than the Company. All sales associates are given extensive training on video game and PC entertainment software products, system requirements and selling techniques. Many of the Company's sales associates are also electronic game enthusiasts. Training is facilitated through vendor-sponsored EB University seminars, held semi-annually for field management associates, as well as through regularly scheduled in-store seminars conducted by District Training Managers who provide merchandise and sales training to the Company's sales associates. In addition, sales associates are encouraged to learn about their customers' game preferences. With this knowledge, sales associates can introduce customers to a selection of electronic games and accessories which may suit their preferences or enhance the overall game experience. In addition, the Company's sales associates advise customers of pending new releases suited to the customer's expressed interests.

**VALUE PRICING AND AFFINITY PROGRAMS.** In an effort to offer maximum value to its customers and discourage comparison shopping, the Company maintains an everyday low pricing policy and supports this policy with price matching (the "EB Code of Honor Program") and affinity programs. These affinity programs are the Frequent Buyer Card (the "EB-FBC"), the EB Pre-Sell Program, and the EB Reserve List. An extensive selection of merchandise and a high level of customer service complement the Company's everyday low price policy.

#### GROWTH STRATEGY

**DOMESTIC NEW STORE EXPANSION.** The Company plans to expand its domestic retail operations by opening 35 to 40 Electronics Boutique stores and 10 to 15 Stop 'N Save Software stores in both existing and new markets during 1998 and 1999. As of May 2, 1998, the Company had opened 12 domestic stores,

29

had executed leases for an additional 16 domestic stores, and is currently negotiating with landlords with respect to 19 potential domestic stores. The Company's real estate team applies standardized site selection criteria to secure the best location for its stores when entering a new market or expanding within an existing market. The Company believes its store formats can operate profitably in high traffic/high rent malls as well as in lower traffic/lower rent malls and strip shopping centers. This flexibility provides the Company with an extensive selection of locations for future store openings.

**INTERNATIONAL OPPORTUNITIES.** As of May 2, 1998, the Company operated 19 stores in Australia, 27 stores in Canada, five stores in South Korea, and provided management services to an affiliate of EB, EB-UK, which affiliate, as of such date, operated 134 stores and 17 department store-based concessions in the United Kingdom and Ireland. The Company intends to open 15 stores annually in both Australia and Canada during 1998 and 1999. As of May 2, 1998, the Company had opened four stores in Australia, had executed a lease for one store in Canada, and is currently negotiating with landlords with respect to 11 potential stores in Australia and three potential new stores in Canada. The Company believes that its current international presence will enable it to leverage its existing distribution and management infrastructure for further international expansion. See "Risk Factors--New Store Openings and "--Risks of International Retail Operations."

**EXPANSION OF ONLINE RETAILING.** The Company believes that it was one of the first video game and PC entertainment software specialty retailers to offer a World Wide Website enabling both product review and online purchasing. The Company's core game enthusiast customer is technically proficient and, as such, the Company believes that online retailing is a natural extension of its current retail operations. Since the Company believes that its primary distribution center is well configured to enable fulfillment of online orders, the Company provides its own fulfillment function. The Company intends to pursue aggressively strategic alliances with directories, search engines, content

providers, and sites geared toward electronic game players. In April 1998, the Company began providing customers with a complete product offering, including access to the Company's database of over 4,600 items.

STORE PRODUCTIVITY. The Company constantly strives to increase the productivity of its stores by focusing on:

- Inventory Management and Controls. Utilizing its sophisticated POS and inventory management systems, including its fully automated distribution center, the Company seeks to continuously improve the merchandise mix and in-stock positions in its stores, increase inventory turns and drive down shrinkage (which, at less than 0.8% of cost of sales in 1997, the Company believes is among the lowest of mall-based retailers).
- Managing Store Payroll. The Company seeks to optimize store payroll expense by utilizing its sophisticated POS reporting systems to assure the best possible match of sales associate floor coverage to customer traffic. In an effort to further enhance its store payroll strategy, the Company is currently testing a new system which electronically measures store customer traffic throughout the day and provides management with an analysis of sales conversion rates by store and by sales associate. This system will allow management to further improve its on-going sales conversion training.
- Pre-owned Electronic Games. As a result of the proliferation of new titles and the tendency of electronic game players to seek new game challenges after mastering a particular title, a growing market for pre-owned video game titles has evolved in recent years. The Company offers its customers a store credit for their pre-owned video game titles. Sales of pre-owned video game titles generate higher margins than new titles and their availability in the Company's stores tends to attract the Company's core game enthusiast customer. The Company believes that a significant opportunity exists to increase sales of pre-owned game titles and is currently implementing a number of marketing and merchandising programs, coupled with incentives to its sales associates, to increase its participation in the growing market for pre-owned game titles.

RETAIL OPERATIONS

As of May 2, 1998, the Company operated a total of 465 stores in 42 states, Puerto Rico, Canada, Australia and South Korea, primarily under the names Electronics Boutique and Stop 'N Save Software.

STORE FORMATS. Electronics Boutique stores are specialty retail stores that offer video game hardware and game titles, PC entertainment, educational and productivity software and video game and PC accessories. Electronics Boutique stores are primarily located in high traffic areas in regional shopping malls and generally stock over 2,600 SKUs. The typical mall-based Electronics Boutique store is approximately 1,100 square feet, but stores range in size from 450 square feet to 1,500 square feet, with retail sales space encompassing approximately 90% of total square footage. The Company believes that its stores generate sales per square foot that are among the highest of any mall-based retailer.

Stop 'N Save Software stores are generally larger format stores located in urban areas and strip and power shopping centers. The Company's merchandising strategy at its Stop 'N Save Software stores is comparable to its merchandising strategy at its Electronics Boutique stores. The Company opened its first Stop 'N Save Software store in 1995. Stop 'N Save Software stores range in size from 1,250 to 5,000 square feet, with retail sales space encompassing approximately 90% of total square footage. In addition, the Company also operates seven stores that sell sports collectibles and memorabilia under the name Brandywine Sports Collectables ("BC Collectables"). The Company is developing BC Collectables as a new concept, as it believes the customer base of BC Collectables shares many of the same demographic characteristics as the customer base of the Company's Electronics Boutique stores. BC Collectables stores are located in malls and strip and power shopping centers and generally range in size from 1,000 to 5,000 square feet.

The following table sets forth information concerning the number of stores open at the end of the periods indicated:

<TABLE>  
<CAPTION>

	1993 ----- <C>	1994 ----- <C>	1995 ----- <C>	1996 ----- <C>
<S>				
Domestic Stores:				
Electronics Boutique.....	311	325	338	351
Stop 'N Save Software.....	0	0	1	3
BC Collectables.....	0	0	2	6
	---	---	---	---
Total.....	311	325	341	360

Total International Company Stores.....	7	22	23	30
	---	---	---	---
Total Company Stores.....	318	347	364	390
	---	---	---	---
	---	---	---	---

<CAPTION>

	1997
	-----
<S>	<C>
Domestic Stores:	
Electronics Boutique.....	390
Stop 'N Save Software.....	8
BC Collectables.....	7
	---
Total.....	405
Total International Company Stores.....	47
	---
Total Company Stores.....	452
	---
	---

</TABLE>

SITE SELECTION. Company representatives visit numerous mall and power and strip shopping center sites throughout the year in the United States and in several foreign countries in search of suitable store locations. The Company's standardized site selection criteria include, but are not limited to: population demographics; psychographics; traffic count; store-front visibility and presence; adjacencies; competition; lease terms; and accessible parking. The Company believes its store formats can operate profitably in high traffic/high rent malls as well as lower traffic/lower rent malls and shopping centers. The Company, therefore, believes that there is a large selection of locations available for future sites and views lease terms as the most critical element in its selection process. The Company has used its knowledge of its market areas to negotiate favorable lease terms at many of its store locations, which has resulted in lowered occupancy costs. The Company regularly reviews the profitability and prospects of each of its stores and evaluates whether any underperforming stores should be closed or relocated to more desirable locations. The Company will seek to negotiate with landlords to convert desirable WaldenSoftware locations into Company stores when their leases terminate.

STORE ECONOMICS. The Company believes that its store concepts offer attractive unit economics. The Company estimates that the average Electronics Boutique store had net sales of approximately \$1.1 million

31

in 1997. The average cost to open an Electronics Boutique store (exclusive of inventory costs) is \$135,000. These costs include furniture, fixtures, leasehold improvements and equipment. The Company expects such costs to remain constant in 1998. The Company's stores have an average opening inventory of \$95,000. The Company's cost to open an international store is approximately the same in U.S. dollars as the cost to open a domestic store. Historically, the Company's new stores have generated a positive store operating contribution within the first 12 months of operations.

STORE OPERATIONS. The Company's North American stores (in the U.S., Canada, and Puerto Rico) are divided into two geographic regions (East and West), each consisting of an area encompassing approximately 50% of the Company's stores. These regions are supervised by two Field Operations Vice Presidents, 11 Regional Vice Presidents/Directors and 42 District Managers. Each District Manager is responsible for approximately 12 stores. The Company's stores in Australia and South Korea are supervised by a Regional Vice President. The Company has recently instituted a program in the U.S. whereby each region has specialists in sales training, loss prevention and merchandising in an effort to provide on-going education and training to store associates. Each of the Company's stores has a full-time manager and a full-time assistant manager in addition to hourly sales associates, most of whom work part-time. The number of hourly sales associates fluctuates greatly depending on seasonal needs. The Company's domestic stores are open seven days per week and generally ten hours each day. The Company operates its foreign stores in a manner substantially similar to its domestic stores.

MANAGEMENT SERVICES

As of May 2, 1998, the Company provided management services to 188 specialty electronic game stores in the United States, the United Kingdom and Ireland.

EB-UK STORES. The Company provides management services for 134 stores and 17 department store-based concessions in the United Kingdom and Ireland under a contract with EB-UK, a corporation organized under the laws of the United Kingdom (and an affiliate of EB). As of May 2, 1998, EB owned 25.1% of the outstanding shares of capital stock of EB-UK, which stock is listed for trading on the London Stock Exchange. Pursuant to the Reorganization, EB will assign

such shares of capital stock to EB Nevada. See "Reorganization."

EB-UK is one of the leading speciality retailers of electronic games in the United Kingdom and Ireland. EB-UK's business strategy is substantially similar to that of the Company's. EB-UK strives to offer its customers an extensive selection of video games and PC entertainment software, immediate availability of new releases, knowledgeable sales associates, and value pricing and other customer incentive programs. EB-UK also has a highly effective inventory management system and distribution center. EB-UK stores are generally located in "high street" shopping districts.

On October 13, 1995, EB entered into the UK Services Agreement with EB-UK. The UK Services Agreement provides that EB shall provide management services to EB-UK, including assistance with ordering and purchasing inventory, store design and acquisition, advertising, promotion and publicity information and information systems. In exchange, EB-UK is responsible for the payment of fees (payable in cash or EB-UK stock at EB's option), equal to 1.0% of net sales plus a bonus calculated on the basis of net income in excess of a pre-established target set by EB-UK. The UK Services Agreement provides for EB-UK to have a right of first refusal on any business opportunity of which EB becomes aware in Europe (excluding Scandinavia) relating to electronic game retailing. The UK Services Agreement also prohibits EB from competing with EB-UK in the United Kingdom or Ireland during the term of the UK Services Agreement, and for one year after its termination. The UK Services Agreement has an initial term expiring on January 31, 2006. In January 1997, EB assigned its rights and obligations under the UK Services Agreement to EB Services, a partnership in which, after the Reorganization, the Company will own 99.99% of the partnership interests. The stockholders of EB-UK elected Joseph J. Firestone, the Company's President and Chief Executive Officer, and John R. Panichello, the Company's Senior Vice President and Chief Financial Officer, to serve as non-executive Directors of EB-UK.

32

WALDENSOFTWARE STORES. The Company manages 37 WaldenSoftware stores under a management contract with Borders Group, Inc. The WaldenSoftware stores are domestic mall-based stores that offer the same product lines as the Company's Electronics Boutique stores. The Company provides management services to WaldenSoftware in exchange for a fixed fee per store. The Company manages the stores in a manner substantially similar to the Company's Electronics Boutique stores. The Company will seek to negotiate with landlords to convert desirable WaldenSoftware locations into Company stores when their leases terminate.

#### ONLINE RETAILING

The Company believes that it was one of the first electronic game specialty retailers to offer a Website that enables visitors to review a broad selection of products and make purchases online. In 1995, the Company created its Website and, in 1997, the Website was upgraded to offer online purchasing. The Company believes that its customer base and product mix are uniquely suited for online retailing. The Company's customers are generally males who are technically proficient, a demographic which has traditionally represented the largest percentage of consumers who make online purchases. Further, the Company's products are recognizable brand name items, which serves to provide online customers with a higher degree of confidence that products purchased will meet the customer's expectations. In addition, the scope of the Company's store operations enhances the reputation of the Company's Website as a source for products at competitive prices. The Company believes that the local market identity provided by the Company's stores is a significant competitive advantage over competing online retailers.

The Company currently is able to offer over 600 of its most popular electronic game titles and accessory products for sale through its Website. In April 1998, the Company began providing customers with a complete product offering, including access to the Company's database of over 4,600 items. The Company's Website also features colorful product descriptions, new release schedules, vendor promotions and other relevant product information. The Company's Website also serves as a venue for online interaction between electronic game enthusiasts and popular electronic game authors, producers and other notables. The Company continually enhances its Website to broaden its promotional appeal and has recorded a significant increase in the number of visits to the Website. From February through May 1998, the Company recorded nearly 2,056,000 unique visits to its Website, compared to a total of 884,000 unique visits during the 11 months from March 1997 through January 1998. In addition, revenues from the Company's Website in the first eight months of online purchasing (June 1997 through January 1998) were approximately \$399,000, compared to revenues of approximately \$429,000 during the four months from February through May 1998. The Company intends to pursue aggressively strategic alliances with directories, search engines, content providers, and sites geared toward electronic game players. The Company believes that its current in-house distribution facilities afford the Company a competitive advantage by enabling it to fulfill online orders rapidly.

#### PRODUCTS

The Company's primary product line consists of video game titles, PC entertainment software titles, video game hardware systems and related accessory products. The Company also markets selected PC productivity and education software titles. The Company's in-store inventory at any given time consists of

2,600 SKUs. The following table sets forth sales mix, expressed as a percentage of net sales, for the periods indicated:

<TABLE>  
<CAPTION>

	1993	1994	1995	1996	1997
<S>	<C>	<C>	<C>	<C>	<C>
Video Games:					
Video Game Software.....	42%	40%	35%	33%	39%
Video Game Hardware.....	11	10	13	16	9
PC Software:					
PC Entertainment Software.....	16	17	18	20	20
PC Productivity Software.....	13	13	14	10	8
PC Education Software.....	3	4	3	4	4
Accessories and Other:					
Accessories.....	14	15	14	15	17
Other.....	1	1	3	2	3
<b>Total.....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

</TABLE>

VIDEO GAME TITLES AND PC ENTERTAINMENT SOFTWARE. The Company carries over 650 video game titles (excluding pre-owned games) and over 1,000 active PC entertainment software SKUs at any given time. In 1997, the average sales price of a video game title was \$41.50 and the average sales price of a PC entertainment software title was \$29.60. The Company purchases video game titles directly from the leading manufacturers, which include Nintendo, Sega and Sony, as well as a variety of third-party game publishers, such as Electronic Arts, Acclaim Entertainment, Inc. and Midway Home Entertainment, Inc. The Company ranks as one of the larger domestic customers of video game products from these publishers. Within the more fragmented PC entertainment software segment, the Company purchases titles from approximately 90 vendors. The Company markets electronic games across a variety of genres, including Action, Strategy, Adventure/Role Playing, Simulation, Sports, Children's Entertainment and Family Entertainment. The Company maintains a broad selection of popular new release titles, which are defined by the Company as titles which have been available for no more than six weeks from the date of their release.

VIDEO GAME HARDWARE. The Company offers the video game hardware systems of all major manufacturers, including the Sony PlayStation, Nintendo N64 and Sega Saturn. In support of its strategy to be the logical destination of choice for electronic game enthusiasts, the Company aggressively promotes the sale of video game hardware systems. The Company believes that this policy increases store traffic and promotes customer loyalty, leading to increased sales of video game titles, which have higher gross margins. The Company also offers extended service agreements and extensions of manufacturer warranties of the video game systems.

PC EDUCATION AND PRODUCTIVITY SOFTWARE. In addition to its category dominant assortment of video game and PC entertainment software titles, the Company offers a selection of educational, personal productivity and finance software titles. Management believes that these titles also appeal to the electronic game enthusiasts who comprise the Company's core customer base.

ACCESSORIES. In recent years, the growing popularity of electronic games has led to an increase in sales of accessory products, which generally have higher gross margins than hardware and software products. Accessory products enhance the total gaming experience. Presently, the Company's stores offer approximately 500 accessory product SKUs, including 3-D graphics accelerators, memory cards and joysticks. The Company also markets instructional books on the most popular electronic game titles.

INVENTORY MANAGEMENT AND DISTRIBUTION

INVENTORY MANAGEMENT. The Company carefully manages its inventory to minimize the risk associated with introducing new products. The Company's merchandising staff evaluates potential products by testing many pre-release samples received from publishers, reading game reviews, interviewing customers and store associates, and studying vendor marketing plans. The Company's centralized merchandising staff also analyzes the EB Pre-Sell Program and EB Reserve List information and other data to estimate initial demand as well as the life cycle for a new release. The Company then uses its new product analyses to plan initial allocations among stores of the total initial purchase of a

newly-released title (which typically ranges from 1,200 to 4,800 units, but has been as low as 500 units and as high as 60,000 units).

Once initial stocking decisions have been made, the Company uses its management information system to measure, on a daily basis, SKU level sales, gross margins and inventory balances. After sales histories for a particular product are compiled, appropriate stock levels are designed for that specific product. Sales levels are continuously monitored by the merchandising staff, which receives sales and inventory reports by SKU on a daily basis through POS polling technology as well as recommended order quantities and product discontinuations from each store. Product shortages and replenishment allocations among stores are then made based on this data. By focusing on inventory turnover, the Company's allocation, traffic, buying, distribution and third party functions operate on a "just in time" replenishment basis.

**DISTRIBUTION.** The Company's primary distribution center is located in West Chester, Pennsylvania, and supports the Company's full product line. The 120,000 square foot facility allows the Company to replenish its stores on a daily basis, thereby reducing inventory levels and increasing inventory turns, while supporting the Company's FIRST TO MARKET new release strategy. The Company's rapid processing capability in its distribution center is facilitated by several advanced inventory management technologies, including paperless picking and radio frequency support. The Company's ability to rapidly process incoming shipments of new release titles quickly and distribute them to all of its stores either that same day or by the next morning enables the Company to meet peak demand.

During peak sales periods, the Company enters into short-term arrangements for additional retail distribution centers to ensure timely restocking of all stores. The Company has also developed a flexible third-party network to provide regional distribution support for all new product releases.

The Company believes that it maintains industry-leading distribution and inventory management systems. The Company believes that these systems promote a level of efficiency in inventory management which affords the Company an important competitive advantage. In addition, when managed effectively, stock balancing and markdown allowances offered selectively by vendors can reduce a portion of the risk associated with carrying inventory. Products that either sell poorly at launch or experience a reduction in sales after a successful launch often can achieve an acceptable rate of sale at a lower price.

#### MARKETING

**IN-STORE PROMOTIONS.** The Company's Electronics Boutique stores are primarily located in high traffic, high visibility areas in regional shopping malls. Accordingly, the Company's marketing efforts are designed to draw mall patrons into the Company's stores through the use of window displays and other attractions visible from the mall concourse. Inside the stores, the Company features selected products through the use of vendor displays, signs, fliers, point of purchase materials and end-cap displays. The Company receives cooperative advertising and market development funds from manufacturers, distributors, software publishers and accessory suppliers to promote their respective products.

**THE EB PRE-SELL PROGRAM AND THE EB RESERVE LIST.** The EB Pre-Sell Program offers the Company's customers the opportunity to purchase video games prior to their release, and the EB Reserve List entitles participants to be placed on a list for notification when a game has arrived in the Company's stores.

35

Customers who participate in the EB Pre-Sell Program pay for a game prior to its release and receive a promotional gift in connection with the purchase (e.g., a t-shirt or a watch). The EB Pre-Sell Program and the EB Reserve List enable the Company's customers to receive a new product on the first day on which it is available in the Company's stores, and are designed to enhance the reputation of the Company's stores as the logical destination of choice for electronic game enthusiasts.

**FREQUENT BUYER CARDS.** Following an initial successful test in Canada, the Company introduced the EB-FBC in the U.S. in July 1997. For an annual fee, a cardholder is entitled to receive discounts on all purchases and to participate in exclusive EB-FBC promotions and events. As of May 2, 1998, over 88,000 EB-FBCs have been sold domestically. The Company is constructing a profile of these cardholders and intends to use this information to develop marketing programs designed specifically to meet cardholder buying needs.

**CATALOGS.** The Company publishes six full color catalogs each year, which range in size from 48 to 100 pages. These catalogs have been fully vendor funded since 1986 and feature a broad array of products. The catalogs are available in the Company's stores and are also mailed to several hundred thousand households from the Company's proprietary customer lists. The catalogs are also inserted in leading industry magazines.

**PRE-OWNED GAMES.** As with music compact discs, video game cartridges have

useful lives of thousands of plays. As a result of the proliferation of new titles and the tendency of electronic game players to seek new game challenges after mastering a particular title, a growing market for pre-owned video game titles has evolved in recent years. The Company offers its customers a store credit for their pre-owned video game titles, which can be applied towards the purchase of new or pre-owned products. The Company then resells the pre-owned video game titles at discount prices, but with gross margins higher than those for new video game titles. The Company believes its wide assortment of pre-owned video game titles distinguishes it from its competitors.

**OTHER MARKETING PROGRAMS.** The Company provides its customers with a liberal return policy. The Company's customers can return opened software products for a full credit within ten days after purchase. In addition, the EB Code of Honor Program discourages comparison shopping, as the Company will match its competitors' prices. Further, the Company maintains an everyday low pricing strategy.

#### MANAGEMENT INFORMATION SYSTEMS

The Company's primary management information system is a customized version of the AS400-based JDA Merchandise Management System. The proprietary enhancements made by the Company to this program enable management to analyze total, comparative and new store sales data at the Company, region, district and store levels. Additional revisions to the program have enhanced analysis of top selling items, new release sales and gross margin item rankings. The Company plans to continue to invest in its management information system by, among other things, upgrading its global financial reporting and analytical capabilities through the implementation of the Lawson Associates, Inc. financial software products. The Company intends to further enhance its management information systems with client server and data warehousing applications geared towards sales analysis and targeted consumer marketing. The Company spent \$1.1 million for information system improvements in 1997 and has budgeted \$1.5 million for 1998 for additional improvements.

The Company has contracted with a third party to upgrade all programs running on the AS400 system to be "Year 2000" compliant, with full implementation targeted for the fourth quarter of 1998. All other Company software and hardware products are being inventoried and updated as necessary. The Company intends to address all potential "Year 2000" problems in 1998 and anticipates spending approximately \$300,000 in connection with its "Year 2000" compliance program. See "Risk Factors--Year 2000 Compliance."

36

#### VENDORS

With the exception of certain personal productivity software titles and accessories, the Company purchases substantially all of its products directly from manufacturers and software publishers. The Company's top 25 vendors accounted for approximately 77% of the Company's purchases in 1997. The Company's largest vendors in 1997 were Nintendo, Sony and Electronic Arts, which accounted for 13.5%, 13.3% and 9.4%, respectively, of the Company's net sales, with no other vendor accounting for more than 5.0% of the Company's software or accessory purchases during that year. The Company believes that maintaining and strengthening its long-term relationships with its vendors is essential to the Company's operations and expansion. The Company has no contracts with trade vendors and conducts business on an order-by-order basis, a practice that is typical throughout the industry. The Company believes that it has very good relations with the vendor community. See "Risk Factors--Dependence on Suppliers."

#### COMPETITION

The electronic game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. The Company believes that key competitive factors are availability of product, ability to procure product in high demand, knowledgeable service, price, reputation, and shopping environment. The Company competes with other video game and PC software stores located in malls, as well as with mass merchants, toy retail chains, mail-order businesses, catalogs, direct sales by software publishers, online retailers, and office supply, computer product and consumer electronics superstores. In addition, video games are available for rental from many video stores and cable television providers. Further, other methods of retail distribution may emerge in the future which would result in increased competition for the Company. Most of the Company's competitors have longer operating histories and significantly greater financial, managerial, creative, sales and marketing and other resources than the Company. The Company also competes with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers. The Company's ability to retain its existing customers and attract new customers depends on numerous factors, some of which are beyond the Company's control. These factors include: the continued introduction of new and enhanced video game and PC hardware and software; the availability and timeliness of new product releases at the Company's stores; and the Company's reputation in the industry. See "Risk Factors-- Competition."

## PROPERTIES

STORE LEASES. All of the Company's stores are leased. The table below sets forth, as of January 31, 1998, the number of the Company's store leases that will expire each year (assuming the lease is not terminated by either party prior to the expiration of the term).

<TABLE>  
<CAPTION>

<S> CALENDAR YEAR IN WHICH LEASE EXPIRES	NUMBER OF LEASES	
	<C> DOMESTIC	<C> INTERNATIONAL
1998.....	56 (1)	4
1999.....	40	2
2000.....	35	0
2001.....	46	3
2002.....	43	3
2003.....	39	11
2004.....	24	19
2005.....	33	4
2006.....	33	0
2007.....	46	1
2008.....	7	0
2009 and thereafter.....	3	0

</TABLE>

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(1) Includes, as of June 19, 1998, five leases which have been subsequently extended, five leases in negotiation and six stores currently leased on a month-to-month basis, of which three leases are pending term renewals.

In general, the Company's leases have an initial term of seven to ten years, with some leases having one or more five to seven year options to extend. See "Risk Factors--Lease Expirations."

HEADQUARTERS. EB owns the Company's headquarters and its primary distribution center, which are located in a single 140,000 square foot building on several acres in West Chester, Pennsylvania. In addition, EB owns four acres adjacent to the distribution center that will allow the Company to expand its operations at the West Chester site as required. Pursuant to the Reorganization, as of May 31, 1998, EBOA, an operating subsidiary of the Company, entered into a lease agreement with EB, pursuant to which EBOA leases the West Chester headquarters and primary distribution center from EB. The lease has a two year term and provides EBOA with an option to purchase the property for \$6.7 million, EB's cost of acquisition. The monthly rent pursuant to such lease is \$50,000. See "Reorganization."

## TRADEMARKS/REGISTRATIONS

Pursuant to the Reorganization, the Company acquired from EB the Electronics Boutique-Registered Trademark-, EBX-Registered Trademark- and Stop 'N Save Software-Registered Trademark- trademarks as well as other registered trademarks and service marks, both in the United States and in certain foreign jurisdictions. See "Reorganization."

The Company believes its marks are valuable and, accordingly, intends to maintain its marks and the related registrations. The Company is not aware of any pending claims of infringement or other challenges to the Company's right to use its marks in the United States or elsewhere. The Company has no patents, licenses, franchises or other concessions which are considered material to its operations.

## ASSOCIATES

As of June 12, 1998, the Company had approximately 3,100 non-seasonal associates, of which approximately 1,700 were employed on a part-time basis. In addition, during the 1997 peak holiday shopping season, the Company hired approximately 650 temporary associates. The Company believes that

its relationship with its associates is very good. None of the Company's associates is represented by a labor union or is a member of a collective bargaining unit.

## LEGAL PROCEEDINGS

The Company is involved from time to time in legal proceedings arising in



the ordinary course of its business. In the opinion of management, no pending proceedings will have a material adverse effect on the Company's results of operations or financial condition.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The Company's executive officers and directors are as follows:

NAME	AGE	POSITION
James J. Kim.....	62	Chairman of the Board
Joseph J. Firestone.....	66	President, Chief Executive Officer and Director
Jeffrey W. Griffiths.....	47	Senior Vice President of Merchandising and Distribution
John R. Panichello.....	36	Senior Vice President and Chief Financial Officer
Dean S. Adler.....	41	Director
Susan Y. Kim.....	35	Director
Louis J. Siana.....	66	Director

James J. Kim. Mr. Kim has served as the Company's Chairman and a Class III Director since March 1998. Mr. Kim founded EB in 1977 and has served as its Chairman since its inception. Mr. Kim has served as Chairman and Chief Executive Officer of Amkor Technology, Inc. ("Amkor") and Amkor Electronics, Inc. ("AEI") since September 1997 and 1968, respectively. In April 1998, AEI merged with and into Amkor. Amkor is a semiconductor packaging and test service company. Mr. Kim also serves as the Chairman of the Anam group of companies, which consists principally of companies in South Korea in the electronics industries. Mr. Kim also serves as the Chairman and Chief Executive Officer of Forte Systems, Inc., ("Forte"), a company which provides information technology services, and is a director of CFM Technologies, Inc., a manufacturer of equipment used in the manufacturing process of semiconductors and flat panel displays.

Joseph J. Firestone. Mr. Firestone has served as the President, Chief Executive Officer and a Class III Director of the Company since March 1998. Mr. Firestone has served as the President of EB since February 1984, and the President and Chief Executive Officer of EB since February 1995. Mr. Firestone has served as the non-executive Chairman of EB-UK since November 1995. Mr. Firestone also serves on the Executive Advisory Board of the Center for Retailing Education and Research of the University of Florida and as a Director of the National Retail Federation. Mr. Firestone earned a B.S. degree in Business and an M.B.A. degree from Long Island University.

Jeffrey W. Griffiths. Mr. Griffiths has served as the Company's Senior Vice President of Merchandising and Distribution since March 1998. Mr. Griffiths has served as EB's Senior Vice President of Merchandising and Distribution since March 1996. From March 1987 to February 1996, Mr. Griffiths served as EB's Vice President of Merchandising and, from April 1984 to February 1987, he served as the Merchandise Manager of EB. Mr. Griffiths serves as the Chairman of the Interactive Entertainment Merchants Association. Mr. Griffiths earned a B.A. degree in History from Albright College and an M.B.A. degree from Temple University.

John R. Panichello. Mr. Panichello has served as the Senior Vice President and Chief Financial Officer of the Company since March 1998. Mr. Panichello has served as the Senior Vice President of Finance of EB and the President of EB's BC Collectables division since March 1997. From March 1996 to February 1997, Mr. Panichello served as EB's Senior Vice President of Finance and, from June 1994 to February 1996, he served as the Vice President and Treasurer of EB. Mr. Panichello served as the President and Chief Executive Officer of Panichello & Company, a certified public accounting firm, from May 1990 to May 1994. Mr. Panichello has served as a director of EB-UK since May 1995. Mr. Panichello earned a B.S. degree in Accounting from West Chester University and an M.B.A. degree in Finance from Drexel University. Mr. Panichello is a Certified Public Accountant. Mr. Panichello is the husband of Susan Y. Kim and the son-in-law of James J. Kim.

Dean S. Adler. Mr. Adler has served as a Class II Director of the Company since March 1998. In March 1997, Mr. Adler formed Lubert/Adler Partners, LP, a limited partnership investing primarily in real estate and real estate-related ventures. For ten years prior thereto, Mr. Adler was a principal and co-head of the private equity group of CMS Companies, which specialized in acquiring operating businesses and real estate within the private equity market. Mr. Adler was also an instructor at The Wharton School of the University of Pennsylvania.

Mr. Adler serves on the Boards of Directors of US Franchise Systems, Inc., Trans World Entertainment Corporation, and Developers Diversified Realty Corporation. Mr. Adler earned a B.S. degree in Finance from The Wharton School of the University of Pennsylvania and a J.D. degree from the University of Pennsylvania Law School.

Susan Y. Kim. Ms. Kim has served as a Class I Director of the Company since March 1998. Ms. Kim served as a Senior District Manager of EB from 1991 to 1992, as EB's Personnel Manager from 1989 to 1991, as a Buyer for EB from 1986 to 1989, and as a Field Manager for EB from 1985 to 1986. Ms. Kim serves as a Director of EB, AEI and Forte. Ms. Kim earned a B.A. degree in Sociology from Hamilton College. Ms. Kim is the daughter of James J. Kim and the wife of John R. Panichello.

Louis J. Siana. Mr. Siana has served as a Class II Director of the Company since March 1998. Mr. Siana is a certified public accountant and a senior partner in the accounting firm of Siana, Carr & O'Conner LLP. Mr. Siana earned a B.S. degree in Accounting from LaSalle University.

Executive officers are elected by, and serve at the discretion of, the Board of Directors.

#### TERMS OF OFFICE AND BOARD COMMITTEES

The Company's Certificate of Incorporation provides that directors of the Company are divided into three classes, as nearly equal in number as possible. The initial term of office of the Class I Directors expires on the day of the first annual meeting of stockholders following the end of 1998; the initial term of office of the Class II Directors expires on the day of the annual meeting of stockholders following the end of 1999; and the initial term of office of the Class III Directors expires on the day of the annual meeting of stockholders following the end of 2000. At each annual meeting of stockholders, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election. Thus, directors stand for election only once in three years. Ms. Kim serves as a Class I director, Messrs. Adler and Siana serves as a Class II directors, and Messrs. Kim and Firestone serve as Class III directors.

The Board of Directors will establish, effective upon completion of the Offering, Audit and Compensation Committees. The members of each Committee are expected to be determined at the first meeting of the Board of Directors following completion of the Offering. All of the members of the Audit Committee and at least a majority of the members of the Compensation Committee will be non-employee directors.

The functions of the Audit Committee will be to recommend annually to the Board of Directors the appointment of the independent public accountants of the Company, discuss and review the scope and the fees of the prospective annual audit, to review the results thereof with the independent public accountants, review and approve non-audit services of the independent public accountants, review compliance with existing major accounting and financial policies of the Company, review the adequacy of the financial organization of the Company, review management's procedures and policies relative to the adequacy of the Company's internal accounting control, and compliance with federal and state laws relating to accounting practices and review and approve (with the concurrence of a majority of the disinterested Directors of the Company) transactions, if any, with affiliated parties.

The functions of the Compensation Committee will be to review and approve annual salaries and bonuses for all officers, review, approve and recommend to the Board of Directors the terms and conditions of the Equity Participation Plan or changes thereto.

#### DIRECTOR COMPENSATION

Upon completion of the Offering, each director who is not an employee of the Company will receive \$1,500 for each meeting of the Board of Directors attended and for each committee meeting attended, as well as reimbursement of all reasonable out-of-pocket expenses incurred in attending such meetings. In consideration for their agreeing to serve as directors of the Company prior to the Offering, Messrs. Adler and Siana will each be granted options under the Equity Participation Plan to purchase 15,000 shares of Common Stock at a price equal to the per share offering price. Such options will vest equally over three years (the "Vesting Period"). In the event that Mr. Adler or Mr. Siana is no longer on the Board at the end of the Vesting Period, their options will be cancelled to the extent not otherwise vested. The Company intends to grant annually, commencing with the 1999 Annual Meeting of Shareholders, to each non-employee director (other than Messrs. Adler and Siana until after the Vesting Period has expired) an option to purchase 2,500 shares of Common Stock at the "fair market value" (as that term is defined in the Company's Equity Participation Plan) of such Common Stock on the date of grant. Prior to completion of the Offering, the Directors were not compensated for their

services.

EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the compensation earned by the Company's President and Chief Executive Officer and the other executive officers of the Company whose salary and bonus was in excess of \$100,000 (the "Named Officers") for 1997:

SUMMARY COMPENSATION TABLE

<TABLE>  
<CAPTION>

NAME AND POSITION	ANNUAL COMPENSATION			ALL OTHER COMPENSATION
	SALARY	BONUS	OTHER (1)	
<S>	<C>	<C>	<C>	<C>
Joseph J. Firestone President, Chief Executive Officer and Director.....	\$ 397,159	\$ 200,000	--	\$ 102,000 (2)
Jeffrey W. Griffiths Senior Vice President of Merchandising and Distribution.....	\$ 218,110	\$ 102,500	--	\$ 2,000 (3)
John R. Panichello Senior Vice President and Chief Financial Officer.....	\$ 169,262	\$ 75,000	--	--

</TABLE>

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- (1) Does not include perquisites and other personal benefits, securities or property if the aggregate amount of such compensation for each of the persons listed did not exceed the lesser of (i) \$50,000 or (ii) ten percent of the combined salary and bonus for such person in 1997.
  - (2) Consists of \$100,000 of deferred compensation and the Company's \$2,000 matching contribution pursuant to its 401(k) defined contribution plan.
  - (3) Consists of the Company's \$2,000 matching contribution pursuant to its 401(k) defined contribution plan.

EMPLOYMENT AGREEMENTS

The Company has entered into employment agreements with Messrs. Firestone, Griffiths and Panichello providing for their employment as Chief Executive Officer, Senior Vice President of Merchandising and Distribution and Senior Vice President and Chief Financial Officer, respectively. The agreements are each for a period of three years and, in some cases, may be extended automatically for additional one year terms, unless terminated by either party in accordance with their terms. The agreements provide for compensation consisting of base salaries of \$500,000, \$242,375 and \$181,500 for

Messrs. Firestone, Griffiths and Panichello, respectively and certain fringe and other employee benefits that are made available to the senior executives of the Company. Immediately prior to completion of the Offering, Messrs. Firestone, Griffiths and Panichello will receive grants under the 1998 Equity Participation Plan of options, which vest equally over three years, to purchase 375,000 shares, 131,250 shares and 112,500 shares, respectively, of Common Stock (at an assumed initial public offering price of \$16.00). In the event that employment is terminated for any reason other than death, disability or "cause" (as defined in the agreement), the executive is entitled to receive his then current base salary for the greater of his remaining term under the employment agreement or a one year period. The agreement also limits certain severance payments to an amount equal to \$100 less than the maximum that could be paid to the executive and deducted by the Company under Section 280G of the Code in the event of termination of employment for any reason other than death, disability or "cause," or is related to a "change in control." In the event of disability, the agreements provide for the continuation of the executive's compensation for a period of one year, or, if greater, the remaining term of the agreement.

EQUITY PARTICIPATION PLAN

Prior to the completion of the Offering, the Board of Directors will adopt and approve the Equity Participation Plan and reserve 2,100,000 shares of Common Stock for stock options and other stock awards to employees of the Company and its subsidiaries and other eligible participants. The principal purpose of the Equity Participation Plan is to provide incentives for officers, employees and consultants of the Company and its subsidiaries through granting of options, restricted stock and other awards (collectively, "Awards"), thereby stimulating their personal and active interest in the Company's development and financial success, and inducing them to remain in the Company's employ. In addition to Awards made to officers, employees or consultants of the Company, the Equity

Participation Plan permits the granting of stock options ("Director Options") to non-employee directors ("Independent Directors").

The Compensation Committee of the Board of Directors (the "Compensation Committee") will administer the Equity Participation Plan with respect to grants and Awards to officers, employees or consultants and the full Board of Directors will administer the Equity Participation Plan with respect to grants of Director Options to Independent Directors. The Compensation Committee will consist of at least two (2) members of the Board, each of whom is a "non-employee director" for purposes of Rule 16b-3 under the Exchange Act and an "outside director" for the purposes of Section 162(m) of the Code. The Equity Participation Plan provides that the Compensation Committee may grant or issue stock options, stock appreciation rights, restricted stock, deferred stock, dividend equivalents, performance awards, stock payments and other stock related benefits, or any combination thereof. The Compensation Committee may grant performance based awards on an individual or group basis. Generally, these Awards will be based upon specific performance targets and may be paid in cash, Common Stock or a combination of both.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

To date, executive compensation has been determined by the Company's Chief Executive Officer, whose compensation has been determined by Mr. Kim. Shortly after completion of the Offering, the Company intends to establish a Compensation Committee of the Board of Directors, a majority of whom will be independent directors.

#### LIMITATIONS ON LIABILITY AND INDEMNIFICATION MATTERS

The Company has adopted provisions in its Certificate of Incorporation that eliminate to the fullest extent permissible under Delaware law the liability of its directors to the Company for monetary damages. Such limitation of liability does not affect the availability of equitable remedies such as injunctive relief. The Certificate of Incorporation provides that the Company shall indemnify its directors and officers, and may indemnify its other employees and agents, to the fullest extent permitted by Delaware law, including

43

in circumstances in which indemnification is otherwise discretionary under Delaware law. The Company has entered into indemnification agreements with its officers and directors containing provisions that may require the Company, among other things, to indemnify the officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers (other than liabilities arising from willful misconduct of a culpable nature) and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

There is no currently pending litigation or proceeding involving a director, officer, employee or other agent of the Company in which indemnification would be required or permitted.

44

#### CERTAIN TRANSACTIONS

In connection with the Reorganization, EB transferred certain of its assets and all of its liabilities to EBOA and its intangible assets to Elbo. Immediately prior to the Offering, EB will transfer the Operating Shares and its shares of EB-UK capital stock to EB Nevada, who in turn will transfer the Operating Shares to the Company in exchange for 15,794,100 shares of Common Stock. The Company will also acquire, pursuant to the Reorganization, 99.99% of the outstanding partnership interests of EB Services from the Kim Shareholders and EB Services Corp. in exchange for an aggregate of 100 shares of Common Stock. Accordingly, the Company will be entitled to the benefits under the UK Services Agreement, while EB will continue to be a party to the agreement, which will continue in accordance with its original terms. The Company will also enter into a registration rights agreement with EB Nevada. See "Description of Capital Stock--Registration Rights."

In September, 1993, EB entered into a joint venture agreement with Eden Electronics, Inc. ("Eden"), a Canadian corporation, with respect to EB Canada. EB Canada was created in order to operate electronic game stores in Canada. In 1996, EB, AEI and Anam Industrial Co., Inc. ("Anam"), a South Korean corporation of which the Kim Shareholders are stockholders, guaranteed the obligations of EB Canada under a \$4.0 million term loan facility from Cho Hung Bank of Canada. The term loan facility matures on September 1, 2002 and bears interest at the bank's prime rate plus 0.125%. In 1997, EB purchased Eden's 50% percent interest in EB Canada for \$727,000. In 1997, EB, AEI and Anam guaranteed the obligations of EB Canada under a \$1.0 million revolving credit facility from Cho Hung Bank of Canada. The revolving credit facility expires on November 5, 1998, bears interest at the bank's prime rate plus 0.125% and is available to fund EB Canada's working capital needs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

In 1995, EB Int'l, a company then owned by John R. Panichello, EB's Senior Vice President and Chief Financial Officer and the son-in-law of Mr. James J. Kim and husband of Ms. Susan Y. Kim, entered into a joint venture agreement with Ssangyong Corporation, a South Korean corporation ("Ssangyong"), and Fine Land Enterprises Ltd., a Hong Kong corporation ("Fine Land"), to operate electronic game stores in South Korea ("EB Korea"). To fund initial operations, EB contributed \$1.0 million on behalf of EB Int'l, Ssangyong contributed \$938,000, and Fine Land contributed \$62,000 to EB Korea. In 1997, EB Int'l purchased Ssangyong's 46.9% joint venture interest and Fine Land's 3.1% joint venture interest for a total of \$611,000, which funds were advanced to EB Int'l by EB. In January 1998, EB purchased all of the outstanding shares of capital stock of EB Int'l from Mr. Panichello for \$1,000, which amount represents Mr. Panichello's capital contribution to EB Int'l. See Note 4 to the Consolidated and Combined Financial Statements.

EB entered into the UK Services Agreement in 1995, and management agreements with EB Canada in 1993, EB Korea in 1995, and Borders Group, Inc. in 1993, pursuant to which the Company provides management, administrative and advertising assistance in exchange for the payment of management fees: (i) by EB-UK equal to 1.0% of net sales, plus a bonus calculated on the basis of net income in excess of a pre-established target set by EB-UK, (ii) by EB Canada equal to 5.0% of the first \$10.0 million of net sales and 4.0% of any net sales in excess of \$10.0 million, (iii) by EB Korea equal to 4.0% of annual net sales subsequent to April 1997 and (iv) by Borders Group, Inc. equal to a fixed dollar amount per store. See "Business--Management Services." In 1997, EB assigned each of the aforementioned agreements to EB Services. Management fees aggregating \$1.9 million, \$2.5 million and \$4.8 million were earned by EB and EB Services during 1995, 1996 and 1997, respectively. The management fees paid by EB Canada and EB Korea will be eliminated in consolidation.

Pursuant to the Reorganization, on May 31, 1998, EBOA, an operating subsidiary of the Company, joined EB as a party to the Fleet loan documents and entered into a lease agreement with EB, pursuant to which EBOA leases the West Chester headquarters and primary distribution center from EB. The lease

45

has a two year term and provides EBOA with an option to purchase the property for \$6.7 million, EB's cost of acquisition. The monthly rent pursuant to such lease is \$50,000. See "Reorganization."

Prior to and in connection with the Reorganization, certain assets have been or will be paid to or retained by EB and the Kim Shareholders. In March 1998, EB and EB Services paid a distribution of \$13.9 million to the Kim Shareholders. Immediately prior to the completion of the Reorganization, EB Services intends to pay a distribution of approximately \$6.1 million to the Kim Shareholders. Pursuant to the Reorganization, EB, which is wholly owned by the Kim Shareholders, will retain (i) the shares of EB-UK capital stock, (ii) the West Chester distribution center and headquarters (which is valued at \$6.7 million), (iii) approximately \$17.5 million of cash, accounts receivable and the cash surrender value of certain split-dollar life insurance policies, and (iv) approximately \$7.7 million of intercompany receivables. See "Pro Forma Consolidated Balance Sheet."

In June 1998, EB loaned \$7.0 million to James J. Kim, who in turn loaned such funds to the Company for working capital purposes. The demand notes reflecting such loans bear interest at the highest prime rate as published in the Wall Street Journal. The Company intends to use \$7.0 million of its net proceeds of the Offering to repay this obligation to Mr. Kim.

The Company has a policy to the effect that any future transactions between it and any of its officers, directors, principal stockholders or the affiliates of the foregoing persons be on terms no less favorable to the Company than could reasonably be obtained in arm's length transactions with independent third parties, and that any such transactions also be approved by the members of the Audit Committee who are disinterested in the transaction.

46

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of the Common Stock outstanding as of the date of this Prospectus, and as adjusted to reflect the sale of the shares of Common Stock offered hereby, by (i) each director of the Company, (ii) each person who is known by the Company to beneficially own 5.0% or more of the outstanding shares of Common Stock, (iii) the Named Officers, (iv) the Selling Shareholder, and (v) all of the Company's executive officers and directors as a group.

<TABLE>  
<CAPTION>

SHARES BENEFICIALLY  
OWNED PRIOR TO

SHARES BENEFICIALLY  
OWNED AFTER

NAME AND ADDRESS OF BENEFICIAL OWNER (1)	THE OFFERING (2)		SHARES BEING OFFERED	THE OFFERING	
	NUMBER	PERCENT		NUMBER	PERCENT
<S>	<C>	<C>	<C>	<C>	<C>
EB Nevada, Inc. (3) (4)..... 2255-A Renaissance Drive, Suite 4 Las Vegas, Nevada 89119	15,794,100	100.0%	1,875,000	13,919,100	69.0%
James J. and Agnes C. Kim (3) (5)..... 931 South Matlack Street West Chester, Pennsylvania 19382	15,794,200	100.0%	1,875,000	13,919,200	69.0%
Joseph J. Firestone (6).....	--	--	--	375,000	1.9%
John R. Panichello (5) (6).....	--	--	--	112,500	*
Jeffrey W. Griffiths (6).....	--	--	--	131,250	*
Dean S. Adler (6).....	--	--	--	15,000	*
Susan Y. Kim (3) (5).....	--	--	--	--	--
Louis J. Siana (6).....	--	--	--	15,000	*
All directors and executive officers% as a group (7 persons) (6) (7).....	--	--	--	648,750	3.2

\* Less than 1.0%.

(1) Unless otherwise noted, the Company believes that all persons named in the above table have sole voting and investment power with respect to the shares beneficially owned by them.

(2) All share information is calculated based upon an assumed initial public offering price of \$16.00 per share.

(3) EB Nevada is a wholly-owned subsidiary of EB, all of the outstanding capital stock of which is owned by the Kim Shareholders, which are James J. Kim, Agnes C. Kim and the Kim Trusts, which are the David D. Kim Trust of December 31, 1987, the John T. Kim Trust of December 31, 1987 and the Susan Y. Kim Trust of December 31, 1987. Each of the Kim Trusts has in common Susan Y. Kim and John F.A. Earley as co-trustees, in addition to a third trustee (John T. Kim in the case of the Susan Y. Kim trust and the John T. Kim trust and David D. Kim in the case of the David D. Kim trust) (the trustees of each trust may be deemed to be the beneficial owners of the shares held by such trust). In addition, the trust agreement for each of these trusts encourages the trustees of the trusts to vote the shares of Common Stock held by them, in their discretion, in concert with James Kim's family. Accordingly, the trusts, together with their respective trustees and James J. and Agnes C. Kim, may be considered a "group" under Section 13(d) of the Exchange Act. This group may be deemed to have beneficial ownership of the shares owned by EB Nevada.

(4) If the overallotment option is exercised in full, the number of shares being offered would be 2,812,500 and the number and percent of shares beneficially owned after the Offering would be 12,981,600 and 64.4%, respectively.

(5) James J. Kim and Agnes C. Kim are the parents of Susan Y. Kim. John R. Panichello and Susan Y. Kim are husband and wife.

(6) Represents (or otherwise includes) shares of Common Stock which may be acquired upon the exercise of options to be granted by the Company under the Equity Participation Plan.

(7) Excludes shares which may be deemed to be beneficially owned by James J. Kim.

47

#### DESCRIPTION OF CAPITAL STOCK

The Company's authorized capital stock consists of 100,000,000 shares of Common Stock and 25,000,000 shares of preferred stock, par value \$.01 per share (the "Preferred Stock"), none of which shares of Preferred Stock are issued and outstanding.

The following description of the Company's capital stock does not purport to be complete and is subject to and qualified in its entirety by the Certificate of Incorporation and the Bylaws, which are included as exhibits to the Registration Statement of which this Prospectus forms a part.

#### COMMON STOCK

Upon completion of the Reorganization, there will be 15,794,200 shares of Common Stock outstanding, substantially all of which will be beneficially owned by EB Nevada.

Holders of Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Holders of Common Stock do not have cumulative voting rights, and, therefore, holders of a majority of the shares voting for the election of directors can elect all of the directors. In such event, the holders of the remaining shares will not be able to elect any directors. See "Risk Factors--Anti-Takeover Effects of Delaware Law and Certain Charter and Bylaw Provisions."

Holders of the Common Stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors out of funds legally available therefor, subject to the terms of any existing or future agreements between the Company and its debtholders. The Company has never declared or paid cash dividends on its capital stock, expects to retain future earnings, if any, for business use, and does not anticipate declaring or paying any cash dividends on shares of its Common Stock in the foreseeable future. See "Dividend Policy." In the event of the liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets legally available for distribution after payment of all debts and other liabilities and subject to the prior rights of any holders of Preferred Stock then outstanding.

#### PREFERRED STOCK

The Company's Board of Directors is authorized to issue 25,000,000 shares of Preferred Stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting a series or the designation of such series, without any further vote or action by the Company's stockholders. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or making more difficult a change in control of the Company and may adversely affect the market price of, and the voting and other rights of, the holders of Common Stock. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock, including the loss of voting control to others. The Company has no current plans to issue any shares of Preferred Stock and no shares are currently outstanding.

#### CERTAIN CERTIFICATE OF INCORPORATION AND BYLAW PROVISIONS

Set forth below is a summary of certain provisions of the Company's Certificate of Incorporation and Bylaws, which could be deemed to have an anti-takeover effect. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the Board of Directors and in the policies formulated by the Board of Directors and to discourage an unsolicited takeover of the Company if the Board of Directors determines that such takeover is not in the best interests of the Company and its stockholders. However, these provisions could also have the effect of discouraging certain attempts to acquire the Company or remove incumbent management even if some or a majority of stockholders

48

deemed such an attempt to be in their best interests. Insofar as EB Nevada and the Kim Shareholders will retain a substantial percentage of the outstanding Common Stock of the Company after the Offering, the Company is not at present expected to be vulnerable to a takeover without the approval of EB Nevada and the Kim Shareholders.

The Company's Certificate of Incorporation provides for a classified Board consisting of three classes as nearly equal in size as the then authorized number of directors constituting the Board of Directors permits. At each annual meeting of stockholders, the class of directors to be elected at such meeting will be elected for a three-year term and the directors in the other two classes will continue in office. Each class shall hold office until the date of the third annual meeting for the election of directors following the annual meeting at which such director was elected, except that the initial terms of Class I, Class II and Class III expire on the date of the annual meeting in 1999, 2000 or 2001, respectively. As a result, approximately one-third of the Board will be elected each year. Under the Delaware General Corporation Law, in the case of a corporation having a classified board, stockholders may remove a director only for cause. This provision, when coupled with provisions of the Certificate of Incorporation and Bylaws authorizing the Board to fill vacant directorships, precludes a stockholder from removing incumbent directors without cause and simultaneously gaining control of the Board of Directors by filling the vacancies created by such removal with its own nominees.

The Bylaws establish an advance notice procedure for the nomination, other than by or at the direction of the Board, of candidates for election as directors as well as for other stockholder proposals to be considered at annual meetings of stockholders. In general, notice must be received by the Company not less than 60 days nor more than 90 days prior to the date of the annual meeting and must contain certain specified information concerning the persons to be nominated or the matters to be brought before the meeting and concerning the stockholder submitting the proposal.

The Certificate of Incorporation provides that no action may be taken by stockholders except at an annual or special meeting of stockholders and prohibits action by written consent in lieu of a meeting. The Certificate of Incorporation also authorizes the officers and directors of the Company, when exercising their respective powers, to consider the interests of other constituencies, including the Company's employees, suppliers, creditors and customers. The Certificate of Incorporation also provides that special meetings of stockholders of the Company may be called only by the Chairman of the Board, the Chief Executive Officer, the President or by a majority of the members of the Board. This provision will make it more difficult for stockholders to take action opposed by the Board. The Certificate of Incorporation also provides that the stockholders may not amend the Bylaws or the aforementioned provisions of the Certificate of Incorporation without the approval of two-thirds of the outstanding capital stock entitled to vote.

#### EFFECT OF DELAWARE ANTI-TAKEOVER STATUTE

The Company is subject to Section 203 of the Delaware General Corporation Law (the "Anti-takeover Law"), which regulates corporate acquisitions. The Anti-takeover Law prevents certain Delaware corporations, including those whose securities are included for quotation in The Nasdaq National Market, from engaging, under certain circumstances, in a "business combination" with any "interested stockholder" for three years following the date that such stockholder became an interested stockholder. For purposes of the Anti-takeover Law, a "business combination" includes, among other things, a merger or consolidation involving the Company and the interested stockholder and the sale of more than 10% of the Company's assets. In general, the Anti-takeover Law defines an "interested stockholder" as an entity or person beneficially owning 15% or more of the outstanding voting stock of the Company and any entity or person affiliated with or controlling or controlled by such entity or person. A Delaware corporation may "opt out" of the Anti-takeover Law with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from amendments approved by the holders

49

of at least a majority of the Company's outstanding voting shares. The Company has not "opted out" of the provisions of the Anti-takeover Law. See "Risk Factors."

#### REGISTRATION RIGHTS

Pursuant to a registration rights agreement between the Company and EB Nevada, EB Nevada was granted the right to demand that the Company register any or all of the 13,919,100 shares of Common Stock held by EB Nevada after completion of the Offering on up to three occasions, at any time commencing 360 days after the effective date of this Prospectus. In addition, EB Nevada has certain "piggy-back" registration rights with respect to such shares of Common Stock. These registrations rights expire four years after the closing of the Offering.

#### TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is First Chicago Trust Company of New York, Jersey City, New Jersey.

50

#### SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the Offering, the Company will have 20,169,200 shares of Common Stock outstanding. Of those shares, a total of 6,250,000 (7,187,500 if the Underwriters' over-allotment option is exercised in full) will be freely tradeable without restriction or further registration under the Securities Act, unless purchased or held by "affiliates" of the Company as that term is defined in Rule 144. Substantially all of the remaining shares are held by EB Nevada, which is an "affiliate" of the Company.

In general, under Rule 144 as currently in effect, any affiliate of the Company who has beneficially owned restricted securities for at least one year would be entitled to sell within any three-month period commencing 90 days after the date of this Prospectus a number of shares that does not exceed the greater of 1.0% of the then outstanding shares of Common Stock (approximately 201,692 shares based upon the number of shares assumed to be outstanding after the Offering) or the reported average weekly trading volume during the four weeks preceding the sale. Sales under Rule 144 are also subject to certain manner of sale restrictions and notice requirements and to the availability of current public information concerning the Company. All shares of Common Stock held by affiliates of the Company (including EB Nevada ) will be eligible for sale commencing one year after the date of this Prospectus pursuant to Rule 144, subject to the restrictions under Rule 144 referred to above and, as described below, subject to the agreement of certain holders of Common Stock to certain restrictions on their ability to sell Common Stock for a period of 360 days



following the consummation of the Offering. See "Underwriting." EB Nevada is entitled to certain rights with respect to the registration of such shares under the Securities Act. See "Description of Capital Stock--Registration Rights."

Pursuant to certain lock-up agreements, the Company, its executive officers and directors, the Kim Shareholders and EB Nevada, have agreed that they will not, without the prior written consent of Prudential Securities Incorporated, on behalf of the Underwriters, directly or indirectly, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of any option to purchase or other sale or disposition) of any shares of Common Stock or any securities convertible into, or exercisable or exchangeable for, any shares of Common Stock, or other similar securities of the Company for a period of 360 days from the date of this Prospectus, except that such agreements do not prevent the Company from granting additional options under the Equity Participation Plan or from issuing shares pursuant to the Equity Participation Plan. After such 360 day period, this restriction will expire and shares permitted to be sold under Rule 144 will be eligible for sale. Prudential Securities Incorporated may, in its sole discretion, at any time and without notice, release all or any portion of the securities subject to such lock-up agreements.

Within 90 days after the date of this Prospectus, the Company intends to file a Registration Statement on Form S-8 covering an aggregate of approximately 2,100,000 shares of Common Stock (including the 1,425,000 shares of Common Stock which will then be subject to outstanding options) that have been reserved for issuance under the Equity Participation Plan. Shares of Common Stock issued upon exercise of options after the effective date of the Form S-8 will be available for sale in the public market, subject to Rule 144 volume limitations applicable to affiliates of the Company and to the lock-up agreements.

Prior to this Offering, there has been no public market for the Common Stock, and no predictions can be made with respect to the effect, if any, that future sales of shares, or the availability of shares for future sale, will have on the prevailing market price for the Common Stock. Sales of substantial amounts of Common Stock in the public market following the Offering, or the perception that such sales may occur, could adversely affect the prevailing market prices for the Common Stock and impair the Company's ability to raise capital through the sale of equity securities. See "Risk Factors--Shares Eligible for Future Sale."

UNDERWRITING

The underwriters named below (the "Underwriters"), for whom Prudential Securities Incorporated and Salomon Brothers Inc are acting as representatives (the "Representatives"), have severally agreed, subject to the terms and conditions contained in the underwriting agreement (the "Underwriting Agreement"), to purchase from the Company and the Selling Shareholder the number of shares of Common Stock set forth opposite their respective names.

<TABLE> <CAPTION>	NUMBER OF SHARES
UNDERWRITER -----	-----
<S>	<C>
Prudential Securities Incorporated.....	
Salomon Brothers Inc.....	
Total.....	6,250,000
	-----

</TABLE>

The Company and the Selling Shareholder are obligated to sell, and the Underwriters are obligated to purchase, all the shares of Common Stock offered hereby, if any are purchased.

The Underwriters, through their Representatives, have advised the Company and the Selling Shareholder that they propose to offer the Common Stock at the initial public offering price set forth on the cover page of this Prospectus; that the Underwriters may allow to selected dealers a concession of \$ per share; and that such dealers may re-allow a concession of \$ per share to certain other dealers. After the public offering, the initial public offering price and the concessions may be changed by the Representatives.

The Selling Shareholder has granted the Underwriters an over-allotment option, exercisable for 30 days from the date of this Prospectus, to purchase in

the aggregate up to 937,500 additional shares of Common Stock at the initial public offering price, less underwriting discounts and commissions, as set forth on the cover page of this Prospectus. The Underwriters may exercise such option solely for the purpose of covering over-allotments incurred in the sale of the shares of Common Stock offered hereby. To the extent such option to purchase is exercised, each Underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number set forth next to such Underwriter's name in the preceding table bears to 6,250,000.

The Underwriters have informed the Company that they do not intend to confirm sales to any accounts over which they exercise authority.

The Company, the Kim Shareholders and the Selling Shareholder have agreed to indemnify the several Underwriters and contribute to losses arising out of certain liabilities, including liabilities under the Securities Act.

The Company, its executive officers and directors, the Kim Shareholders and EB Nevada have agreed not to, directly or indirectly, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of any option to purchase or other sale or disposition) of any shares of Common Stock or other capital stock of the Company or any securities convertible into, or exercisable or exchangeable for, any shares of Common Stock or other capital stock of the Company or any right to purchase or acquire Common Stock or other capital stock of the Company for a period of 360 days after the date of this Prospectus without the prior written consent of Prudential Securities Incorporated, on behalf of the Underwriters, except for options granted pursuant to the Equity Participation Plan. Prudential Securities Incorporated may, in its sole discretion, at any time and without prior notice, release all shares or any portion thereof subject to such lock-up agreements.

52

Prior to the Offering, there has been no public market for the Common Stock. Consequently, the initial public offering price for the Common Stock will be determined through negotiations among the Company, the Selling Shareholder and the Underwriters. Among the factors to be considered in making such determination will be prevailing market conditions, the Company's financial and operating history and condition, its prospects and the prospects of the industry in general, the management of the Company, and the market prices of securities for companies in businesses similar to that of the Company.

In connection with the Offering, certain Underwriters (and selling group members, if any) and their respective affiliates may engage in transactions that stabilize, maintain or otherwise affect the market price of the Common Stock. Such transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M, pursuant to which such persons may bid for or purchase Common Stock for the purpose of stabilizing its market price. The Underwriters also may create a short position for the account of the Underwriters by selling more Common Stock in connection with the Offering than they are committed to purchase from the Selling Shareholder, and in such case may purchase Common Stock in the open market following completion of the Offering to cover all or a portion of such short position. The Underwriters may also cover all or a portion of such short position, up to 937,500 shares of Common Stock, by exercising the Underwriters' over-allotment option referred to previously. In addition, Prudential Securities Incorporated, on behalf of the Underwriters, may impose "penalty bids" under contractual arrangements with the Underwriters whereby it may reclaim from an Underwriter (or any dealer participating in the Offering) for the account of the other Underwriters, the selling concession with respect to Common Stock that is distributed in the Offering but subsequently purchased for the account of the Underwriters in the open market. Any of the transactions described in this paragraph may result in the maintenance of the price for the Common Stock at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph are required and, if they are undertaken, then they may be discontinued at any time.

#### LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Company by Klehr, Harrison, Harvey, Branzburg & Ellers LLP, Philadelphia, Pennsylvania, and for the Underwriters by King & Spalding, New York, New York.

#### EXPERTS

The financial statements as of February 1, 1997 and January 31, 1998 and for the fiscal years ended February 3, 1996, February 1, 1997 and January 31, 1998 included in this Prospectus have been so included in reliance on the report of KPMG Peat Marwick LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

#### ADDITIONAL INFORMATION

The Company has filed with the Commission a Registration Statement of Form S-1 under the Securities Act with respect to the Company's Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. Statements contained in the Prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the Registration Statement and the exhibits and schedules thereto. The information so omitted, including exhibits and schedules, may be obtained from the Commission at its principal office in Washington, D.C. upon the payment of the prescribed fees, or may be examined without charge at the Public Reference Section of the Commission, 450 Fifth Street, N.W., Washington, D.C. 20549-1004, or at the following regional offices of the Commission: 7 World Trade Center, Suite 1300, New York, New York 10048; and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Such materials also may be accessed electronically by means of the Commission's home page on the Internet at <http://www.sec.gov>.

The Company intends to furnish its stockholders with annual reports containing financial statements audited by independent accountants.

THE ELECTRONICS BOUTIQUE GROUP  
INDEX TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

<u>&lt;TABLE&gt;</u> <u>&lt;CAPTION&gt;</u>	<u>PAGE(S)</u> -----
<u>&lt;S&gt;</u>	<u>&lt;C&gt;</u>
Independent Auditors' Report.....	F-2
 FINANCIAL STATEMENTS	
Consolidated and Combined Balance Sheets.....	F-3
Consolidated and Combined Statements of Income.....	F-5
Consolidated and Combined Statements of Stockholders' Equity.....	F-6
Consolidated and Combined Statements of Cash Flows.....	F-7
Notes to Consolidated and Combined Financial Statements.....	F-8
 UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS	
Pro Forma Consolidated Statement of Income for the Year ended January 31, 1998.....	F-18
Pro Forma Consolidated Statement of Income for the Thirteen Weeks ended May 2, 1998.....	F-19
Pro Forma Consolidated Balance Sheet as of May 2, 1998.....	F-20
Notes to the Unaudited Pro Forma Consolidated Financial Statements.....	F-22
<u>&lt;/TABLE&gt;</u>	

INDEPENDENT AUDITORS' REPORT

Board of Directors of  
The Electronics Boutique, Inc. and  
Partners of EB Services Company LLP:

We have audited the accompanying consolidated and combined balance sheets of The Electronics Boutique Group as of February 1, 1997 and January 31, 1998, and the related consolidated and combined statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended January 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated and combined financial statements referred to above present fairly, in all material respects, the financial position of The Electronics Boutique Group as of February 1, 1997 and January 31, 1998, and the results of their operations and their cash flows for each of the years in the

three-year period ended January 31, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Philadelphia, PA

May 7, 1998

F-2

THE ELECTRONICS BOUTIQUE GROUP  
CONSOLIDATED AND COMBINED BALANCE SHEETS

<TABLE>  
<CAPTION>

	FEBRUARY 1, 1997	JANUARY 31, 1998	MAY 2, 1998
<S>	<C>	<C>	<C> (UNAUDITED)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents.....	\$ 44,727,846	\$ 20,639,610	\$ 9,264,474
Account receivable:			
Trade and vendors.....	2,469,164	2,618,382	3,060,155
Other.....	1,784,902	1,754,691	3,567,108
Due from affiliates (notes 6 and 7).....	3,045,224	2,890,554	2,585,544
Merchandise inventories.....	47,239,297	52,973,314	58,765,612
Prepaid expenses.....	2,681,965	2,837,647	3,172,832
Total current assets.....	101,948,398	83,714,198	80,415,725
Property and equipment:			
Leasehold improvements.....	34,783,005	40,226,726	40,643,655
Fixtures and equipment.....	18,161,153	24,884,217	25,583,252
Building.....	--	6,200,950	6,200,950
Land.....	--	632,806	632,806
Construction in progress.....	207,307	556,663	945,906
	53,151,465	72,501,362	74,006,569
Less accumulated depreciation and amortization.....	26,725,475	32,535,305	33,089,952
Net property and equipment.....	26,425,990	39,966,057	40,916,617
Investment in affiliated companies (notes 4, 6 and 7).....	6,813,303	11,025,345	10,945,058
Goodwill and other intangible assets, net of accumulated amortization of \$261,946, \$120,151 and \$217,741 as of February 1, 1997, January 31, 1998 and May 2, 1998, respectively.....	340,866	2,190,766	2,199,425
Other assets.....	3,715,765	5,894,374	6,219,484
Total assets.....	\$ 139,244,322	\$ 142,790,740	\$ 140,696,309

</TABLE>

See accompanying notes to consolidated and combined financial statements.

F-3

THE ELECTRONICS BOUTIQUE GROUP  
CONSOLIDATED AND COMBINED BALANCE SHEETS

<TABLE>  
<CAPTION>

	FEBRUARY 1, 1997	JANUARY 31, 1998	MAY 2, 1998
<S>	<C>	<C>	<C> (UNAUDITED)
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Revolving credit facility (note 2).....	\$ --	\$ --	\$ 21,028,034
Current portion of long-term debt (note 2).....	6,599,996	2,400,396	900,396
Accounts payable.....	71,031,406	83,713,983	84,317,275
Accrued expenses.....	11,985,246	14,545,119	11,383,614
Due to affiliate (note 4).....	1,981,194	--	489
Income taxes payable.....	457,764	782,988	561,730
Total current liabilities.....	92,055,606	101,442,486	118,191,538
Long-term liabilities:			
Notes payable (note 2).....	24,208,345	10,541,149	2,749,530

Deferred rent.....	2,623,537	2,408,579	2,282,561
	-----	-----	-----
	26,831,882	12,949,728	5,031,911
	-----	-----	-----
Total liabilities.....	118,887,488	114,392,214	123,223,449
	-----	-----	-----
Commitments (note 3)			
Stockholders' equity (note 9):			
Preferred stock -- authorized 200,000 shares; \$100.00 par value; no shares issued and outstanding.....	--	--	--
Common stock:			
Class A -- authorized 5,000 shares; \$.10 par value; issued and outstanding 1,900 shares.....	190	190	190
Class B -- authorized 25,000 shares; \$.10 par value; issued and outstanding 21,000 shares.....	2,100	2,100	2,100
Partners' capital of EB Services Company LLP.....	--	1,000	1,000
Additional paid-in capital.....	7,584,365	7,584,365	7,584,365
Accumulated other comprehensive expense.....	--	(1,023,493)	(907,833)
Retained earnings.....	12,770,179	21,834,364	10,793,038
	-----	-----	-----
Total stockholders' equity.....	20,356,834	28,398,526	17,472,860
	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 139,244,322	\$ 142,790,740	\$ 140,696,309
	-----	-----	-----

</TABLE>

F-4

THE ELECTRONICS BOUTIQUE GROUP  
CONSOLIDATED AND COMBINED STATEMENTS OF INCOME

<TABLE>

<CAPTION>

	YEARS ENDED			THIRTEEN WEEKS ENDED	
	FEBRUARY 3, 1996	FEBRUARY 1, 1997	JANUARY 31, 1998	MAY 3, 1997	MAY 2, 1998
<S>	<C>	<C>	<C>	<C>	<C>
				(UNAUDITED)	(UNAUDITED)
Net sales.....	\$268,955,902	\$337,058,946	\$449,179,603	\$83,687,709	\$106,729,814
Management fees.....	1,905,449	2,526,107	4,791,553	487,887	571,367
	-----	-----	-----	-----	-----
Total revenues.....	270,861,351	339,585,053	453,971,156	84,175,596	107,301,181
	-----	-----	-----	-----	-----
Costs and expenses:					
Costs of merchandise sold, including freight.....	199,225,558	252,812,925	338,497,642	61,941,225	79,519,589
Selling, general and administrative (notes 4 and 5).....	58,989,271	69,827,537	87,002,305	18,200,582	22,270,148
Depreciation and amortization (notes 6 and 7).....	6,047,306	6,615,268	7,996,506	1,874,556	2,253,768
	-----	-----	-----	-----	-----
Operating income.....	264,262,135	329,255,730	433,496,453	82,016,363	104,043,505
Equity in earnings (loss) of affiliates	6,599,216	10,329,323	20,474,703	2,159,233	3,257,676
Interest expense, net of interest income of \$819,870, \$1,121,562, and \$1,217,337 in 1996, 1997 and 1998, and \$509,848 and \$337,241 in the thirteen weeks ended May 3, 1997 and May 2, 1998, respectively....	(1,319,417)	(573,462)	2,902,780	(80,287)	(80,287)
Preacquisition loss of subsidiaries.....	1,818,105	1,298,296	1,380,046	294,376	213,870
	--	--	913,028	296,033	--
	-----	-----	-----	-----	-----
Income before income taxes.....	3,461,694	8,457,565	22,910,465	2,080,603	2,963,519
Income taxes.....	280,000	550,000	846,280	77,700	113,300
	-----	-----	-----	-----	-----
Net income.....	\$ 3,181,694	\$ 7,907,565	\$22,064,185	\$ 2,002,903	\$ 2,850,219
	-----	-----	-----	-----	-----
Net income per share (note 13).....	\$ 0.20	\$ 0.50	\$ 1.40	\$ 0.13	\$ 0.18
Supplemental historical pro forma data (unaudited) (note13):					
Income before income taxes.....	\$ 3,461,694	\$ 8,457,565	\$22,910,465	\$ 2,080,603	\$ 2,963,519
Supplemental historical pro forma income taxes.....	1,604,962	3,513,265	9,415,631	855,128	1,160,493
	-----	-----	-----	-----	-----
Supplemental historical pro forma net income.....	\$ 1,856,732	\$ 4,944,300	\$13,494,834	\$ 1,225,475	\$ 1,803,026
	-----	-----	-----	-----	-----
Supplemental historical pro forma net income					

per share.....	\$ 0.12	\$ 0.31	\$ 0.85	\$ 0.08	\$ 0.11
Supplemental historical pro forma weighted average shares outstanding.....	15,794,200	15,794,200	15,794,200	15,794,200	15,794,200
Pro forma data (unaudited) (note 13):					
Pro forma income before income taxes.....			\$19,909,360		\$ 2,945,481
Pro forma income taxes.....			8,182,750		1,154,628
Pro forma net income.....			\$11,726,610		\$ 1,790,853
Pro forma net income per share.....			\$ 0.74		\$ 0.11
Pro forma weighted average shares outstanding.....			15,794,200		15,794,200

</TABLE>

See accompanying notes to consolidated and combined financial statements.

F-5

THE ELECTRONICS BOUTIQUE GROUP

CONSOLIDATED AND COMBINED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

<S>	PREFERRED STOCK		CLASS A COMMON STOCK		CLASS B COMMON STOCK		PARTNERS' CAPITAL OF EB SERVICES COMPANY LLP	ADDITIONAL PAID-IN CAPITAL
	<C> SHARES	<C> AMOUNT	<C> SHARES	<C> AMOUNT	<C> SHARES	<C> AMOUNT	<C>	<C>
Balance, January 29, 1995.....	--	\$ --	1,900	\$ 190	21,000	\$ 2,100	\$ --	\$7,584,365
Net income.....	--	--	--	--	--	--	--	--
Distributions.....	--	--	--	--	--	--	--	--
Balance, February 3, 1996.....	--	--	1,900	190	21,000	2,100	--	7,584,365
Net income.....	--	--	--	--	--	--	--	--
Distributions.....	--	--	--	--	--	--	--	--
Balance, February 1, 1997.....	--	--	1,900	190	21,000	2,100	--	7,584,365
Net income.....	--	--	--	--	--	--	--	--
Distributions.....	--	--	--	--	--	--	--	--
Capital contribution.....	--	--	--	--	--	--	1,000	--
Accumulated other comprehensive expense.....	--	--	--	--	--	--	--	--
Balance, January 31, 1998.....	--	\$ --	1,900	\$ 190	21,000	\$ 2,100	\$ 1,000	\$7,584,365
Net income (unaudited).....	--	--	--	--	--	--	--	--
Distributions (unaudited).....	--	--	--	--	--	--	--	--
Accumulated other comprehensive expense (unaudited).....	--	--	--	--	--	--	--	--
Balance, May 2, 1998 (unaudited).....	--	\$ --	1,900	\$ 190	21,000	\$ 2,100	\$ 1,000	\$7,584,365

<CAPTION>

<S>	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
<C>	<C>	<C>	<C>
Balance, January 29,			

1995.....	\$ --	\$ 8,480,920	\$16,067,575
Net income.....	--	3,181,694	3,181,694
Distributions.....	--	(1,800,000)	(1,800,000)
-----			
Balance, February 3, 1996.....	--	9,862,614	17,449,269
Net income.....	--	7,907,565	7,907,565
Distributions.....	--	(5,000,000)	(5,000,000)
-----			
Balance, February 1, 1997.....	--	12,770,179	20,350,834
Net income.....	--	22,064,185	22,064,185
Distributions.....	--	(13,000,000)	(13,000,000)
Capital contribution.....	--	--	1,000
Accumulated other comprehensive expense.....	(1,023,493)	--	(1,023,493)
-----			
Balance, January 31, 1998.....	\$ (1,023,493)	\$ 21,834,364	\$28,398,526
Net income (unaudited).....	--	2,850,219	2,850,219
Distributions (unaudited).....	--	(13,891,545)	(13,891,545)
Accumulated other comprehensive expense (unaudited).....	115,660	--	115,660
-----			
Balance, May 2, 1998 (unaudited).....	\$ (907,833)	\$ 10,793,038	\$17,472,860
-----			

</TABLE>

See accompanying notes to consolidated and combined financial statements.

F-6

THE ELECTRONICS BOUTIQUE GROUP

CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

	YEARS ENDED			THIRTEEN WEEKS ENDED	
	FEBRUARY 3, 1996	FEBRUARY 1, 1997	JANUARY 31, 1998	MAY 3, 1997	MAY 2, 1998
<S>	<C>	<C>	<C>	<C>	<C>
				(UNAUDITED)	(UNAUDITED)
Cash flows from operating activities:					
Net income.....	\$ 3,181,694	\$ 7,907,565	\$22,064,185	\$ 2,002,903	\$ 2,850,219
Adjustments to reconcile net income to cash provided by operating activities, excluding the effects of acquisitions:					
Depreciation of property and equipment....	5,984,652	6,555,142	7,571,301	1,779,999	2,156,177
Amortization of other assets.....	62,654	60,126	425,205	94,587	177,878
Loss on disposal of property and equipment.....	126,226	1,170,182	620,916	146,492	72,844
Equity in (earnings) loss of affiliates...	832,088	126,975	(2,902,780)	--	--
Loss in investment in affiliated companies.....	487,329	446,487	--	296,033	--
Changes in assets and liabilities:					
Decrease (increase) in:					
Accounts receivable.....	832,871	(471,533)	385,737	(2,767,253)	(2,254,190)
Due from affiliates.....	(2,279,807)	(688,891)	(2,142,774)	(343,453)	(305,010)
Merchandise inventories.....	(1,248,652)	(5,646,658)	95,212	2,196,846	(5,792,298)
Prepaid expenses.....	(594,187)	2,279	(27,311)	169	(335,185)
Other long-term assets.....	(1,871,307)	173,570	(1,641,573)	(559,687)	(440,682)
(Decrease) increase in:					
Accounts payable.....	4,831,833	21,806,206	8,348,016	(13,743,245)	603,292
Accrued expenses.....	1,082,117	4,832,902	1,619,154	(4,124,085)	(3,161,505)
Due to affiliate.....	1,078,808	402,478	(1,981,194)	1,988	489
Income taxes payable.....	(152,377)	455,187	213,047	(363,779)	(221,258)
Deferred rent.....	(15,872)	(74,711)	(368,059)	(108,822)	(126,018)
-----					
Net cash provided by (used in) operating activities.....	12,338,070	37,057,306	32,279,082	(15,491,307)	(6,775,247)
-----					
Cash flows used in investing activities:					
Purchases of property and equipment.....	(6,760,191)	(8,610,265)	(18,470,432)	(1,869,739)	(3,142,589)
Proceeds from disposition of assets.....	5,994	275,722	12,455	1,306	4,454

Net cash from business acquired.....	--	--	2,922,411	--	--
Purchase of investment securities in affiliate.....	(9,340,598)	--	(2,215,933)	--	--
Net cash used in investing activities.....	(16,094,795)	(8,334,543)	(17,751,499)	(1,868,433)	(3,138,135)
Cash flows from financing activities:					
Distributions.....	(1,800,000)	(5,000,000)	(13,000,000)	(1,000,000)	(13,891,545)
Net proceeds from (payments under) revolving credit facility.....	10,000,000	(10,000,000)	--	1,455,222	21,437,687
Proceeds from long-term debt.....	500,000	25,000,000	--	--	--
Repayment of long-term debt.....	(6,091,663)	(1,599,996)	(24,514,276)	(24,999)	(9,291,799)
Capital contribution.....	--	--	1,000	--	--
Net cash provided by (used in) financing activities.....	2,608,337	8,400,004	(37,513,276)	430,233	(1,745,657)
Effects of exchange rates on cash.....	--	--	(1,102,543)	--	283,903
Net increase (decrease) in cash and cash equivalents.....	(1,148,388)	37,122,767	(24,088,236)	(16,929,517)	(11,375,136)
Cash and cash equivalents, beginning of period.....	8,753,467	7,605,079	44,727,846	44,727,846	20,639,610
Cash and cash equivalents, end of period.....	\$ 7,605,079	\$44,727,846	\$20,639,610	\$27,798,329	\$ 9,264,474
Supplemental disclosures of cash flow information:					
Cash paid during the period for:					
Interest.....	\$ 1,820,492	\$ 2,970,932	\$ 2,714,593	\$ 769,699	\$ 261,216
Income taxes.....	\$ 432,377	\$ 89,659	\$ 672,842	\$ 377,106	\$ 328,629

</TABLE>

See accompanying notes to consolidated and combined financial statements.

F-7

THE ELECTRONICS BOUTIQUE GROUP

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Electronics Boutique, Inc. and its subsidiaries (collectively, "EB") are among the world's largest specialty retailers of electronic games. EB's primary products are video games and personal computer entertainment software, supported by the sale of video game hardware, PC productivity software and accessories. EB's subsidiaries include Electronics Boutique Canada, Inc. ("EB Canada"), EB International, Inc., Electronics Boutique Korea, Inc. and Electronics Boutique Australia Pty, Ltd. EB Services Company LLP ("EB Services") provides consulting, management, administrative and advertising assistance under various management service contracts. Within these consolidated and combined financial statements, EB and EB Services are collectively referred to as the EB Group.

The EB Group had 360, 405 and 414 (unaudited) operating retail stores throughout the United States and Puerto Rico at February 1, 1997, January 31, 1998 and May 2, 1998 (unaudited), respectively. In addition, it operated 27 stores in Canada, 5 in South Korea at January 31, 1998 and May 2, 1998 (unaudited) and 15 and 19 (unaudited) stores in Australia at January 31, 1998 and May 2, 1998 (unaudited), respectively. The EB Group also operates a mail order business and sells product via the World Wide Web. Approximately 30%, 36% and 28% of the EB Group's 1996, 1997, and the thirteen weeks ended May 2, 1998 sales, respectively, were generated from merchandise purchased from its three largest vendors.

FISCAL YEAR-END

The fiscal year of the EB Group ends on the Saturday nearest January 31. Accordingly, the financial statements for the years ended February 3, 1996 ("1995") included 53 weeks of operations and the years ended February 1, 1997 ("1996") and January 31, 1998 ("1997") included 52 weeks of operations.

PRINCIPLES OF CONSOLIDATION AND COMBINATION

The consolidated and combined financial statements include the accounts of EB and EB Services. Significant intercompany accounts and transactions have been eliminated in consolidation and combination.

REVENUE RECOGNITION

Retail sales are recognized as revenue at point of sale. Mail order and internet sales are recognized as revenue upon shipment. Management fees are recognized in the period that related services are provided. Sales are recorded net of estimated allowance for sales returns and allowances.



## CASH AND CASH EQUIVALENTS

EB Group considers all highly liquid investments with original maturities of three months or less to be cash equivalents for cash flow purposes.

## MERCHANDISE INVENTORIES

Merchandise is valued at the lower of cost or market. Cost is determined principally by a weighted-average method.

F-8

## THE ELECTRONICS BOUTIQUE GROUP

### NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### (1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost and depreciated or amortized over the estimated useful life of the asset using the straight-line method. The estimated useful lives are as follows:

<TABLE>	<C>
<S>	
Leasehold improvements.....	Lesser of 10 years or the lease term
Fixtures and equipment.....	5 years
Transportation equipment.....	3 years
Building.....	30 years

Included in selling, general and administrative costs for 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, are losses of \$125,000, \$1,170,000, \$556,000 and \$69,000 (unaudited), respectively, primarily related to the write-off of the net book value of property and equipment associated with the closing of five stores in 1995, nine stores in each of 1996 and 1997 and three stores in the thirteen weeks ended May 2, 1998 (unaudited) and the remodeling of several stores each year.

#### DEFERRED REVENUE

The EB Group defers revenue related to the sale of frequent buyer cards which entitle the cardholder to receive discounts on purchases for one year from the date of purchase. Revenue is recognized over the one year period the card is valid based on expected usage.

Amounts received under the EB Group's pre-sell program are recorded as a liability. Revenue is recognized when the customer receives the related product. Certain affinity programs include promotional gifts to customers that are supplied by vendors at no cost to the EB Group.

#### GOODWILL AND OTHER INTANGIBLES

Costs in excess of fair value of net assets acquired are being amortized on a straight-line basis over periods of up to ten years. The EB Group assesses the recoverability of goodwill and other intangibles by determining whether the remaining balance can be recovered through projected cash flows.

#### OTHER ASSETS

Other assets consist principally of life insurance programs for certain key executives and security deposits.

#### COMPUTER SOFTWARE COSTS

The EB Group capitalizes significant costs to acquire management information systems software and significant external costs of system improvements as incurred. Computer software costs are amortized over estimated useful lives of three to five years.

#### RETAINED EARNINGS

Retained earnings, which represent undistributed earnings of Electronics Boutique Plc, totaled approximately \$1,900,000 at January 31, 1998 and May 2, 1998 (unaudited).

F-9

## THE ELECTRONICS BOUTIQUE GROUP

### NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### (1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) LEASING EXPENSES

The EB Group recognizes lease expense on a straight-line basis over the term of the lease when lease agreements provide for increasing fixed rentals. The difference between lease expense recognized and actual payments made is included in deferred rent and prepaid expenses on the balance sheet.

#### PREOPENING COSTS AND ADVERTISING EXPENSE

Preopening and start-up costs for new stores are charged to operations as incurred. Costs of advertising and sales promotion programs are charged to operations, offset by vendor reimbursements, as incurred.

#### VENDOR PROGRAMS

The EB Group receives manufacturer reimbursements for certain training, promotional and marketing activities that offset the expenses of these activities. The expenses and reimbursements are reflected in selling, general and administrative expenses, as incurred or received.

#### FOREIGN CURRENCY

The accounts of the foreign subsidiaries are translated in accordance with Statement of Financial Accounting Standard No. 52, Foreign Currency Translation, which requires that assets and liabilities of international operations be translated using the exchange rate in effect at the balance sheet date. The results of operations are translated using an average exchange rate for the year. The effects of rate fluctuations in translating assets and liabilities of international operations into U.S. dollars are accumulated and reflected as a foreign currency translation adjustment in the statements of stockholders' equity. Transaction gains and losses are included in net income.

Since substantially all of the EB Group's operations are domestic, it currently does not hedge currency exchange rate risk and does not believe that currency exchange rate fluctuations would have a material adverse effect on its results of operations and financial condition.

#### INCOME TAXES

Federal income taxes are payable personally by the stockholders of EB pursuant to an election by EB under Subchapter "S" of the Internal Revenue Code and by the partners of EB Services. Accordingly, no provision has been made for federal income taxes on taxable income of EB or EB Services. EB elected Subchapter "S" status for some states while remaining subject to corporate tax in other states and, as a result, has provided for certain state income taxes.

In accordance with the terms of EB's loan agreements, EB may declare dividends to its stockholders to pay their personal tax liabilities. EB made distributions of \$1,800,000, \$5,000,000, \$12,000,000 and \$13,892,000 (unaudited) to its stockholders for taxes in 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, respectively. EB Services made a \$1,000,000 distribution to its partners in 1997.

The tax basis of the assets and liabilities exceeded their financial reporting basis by approximately \$18,200,000 at February 1, 1997, \$19,737,000 at January 31, 1998 and \$20,332,000 at May 2, 1998, primarily due to differences relating to depreciation, deferred rent, and other nondeductible expenses. State tax provisions have been recorded in the accompanying financial statements based on taxable income. This has

F-10

#### THE ELECTRONICS BOUTIQUE GROUP

#### NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) resulted in an effective state income tax rate in excess of the statutory state rates. EB's foreign subsidiaries had net operating losses of approximately \$4,600,000 (unaudited) at May 2, 1998 available to offset future taxable foreign earnings. No benefit has been reflected in the consolidated and combined financial statements for such operating losses as a valuation allowance has been provided.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

The EB Group's financial instruments are accounts receivable, accounts payable, long-term debt, and certain long-term investments. The carrying value of accounts receivable and accounts payable approximates fair value due to the short maturity of these instruments. The carrying value of long-term debt approximates fair value based on current rates available to the EB Group for debt with similar maturities. The carrying value of life insurance policies included in other assets approximates fair value based on estimates received from insurance companies.

(2) DEBT

The EB Group had available a revolving credit facility allowing for maximum borrowings of \$17,000,000 at February 1, 1997 and January 31, 1998. There were no outstanding amounts at February 1, 1997 and January 31, 1998 on this facility. The EB Group has a second revolving credit facility allowing for maximum borrowings of \$1,000,000 at January 31, 1998. There was no outstanding balance at January 31, 1998 on this facility. The EB Group has available a revolving credit facility with Fleet allowing for maximum borrowings of \$50,000,000 at May 2, 1998. There was \$20,959,000 (unaudited) outstanding on this facility at May 2, 1998.

F-11

THE ELECTRONICS BOUTIQUE GROUP

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

(2) DEBT (CONTINUED)

Long-term debt at February 1, 1997, January 31, 1998 and May 2, 1998 is summarized as follows:

	FEBRUARY 1, 1997	JANUARY 31, 1998	MAY 2, 1998
<S>	<C>	<C>	<C> (UNAUDITED)
Bank term loan; interest payable monthly at the bank's prime rate (8.50% at January 31, 1998). Principal payments of \$500,000 payable semi-annually, with the balance payable July 31, 1999....	\$ 6,000,000	\$ 5,000,000	\$ --
Bank term loan; interest payable monthly at the bank's prime rate (8.50% at January 31, 1998). Five semi-annual principal payments of \$250,000 on every July 1 and February 1, commencing on July 1, 1996 and continuing through July 1, 1998, with the balance payable January 31, 1999.....	4,500,000	4,000,000	--
Term loan; interest payable quarterly at the average LIBOR rate for a three-month period, plus 1.5% (7% at February 1, 1997). Principal payments of \$833,333 payable monthly beginning October 1, 1998 with the balance payable September 30, 2000.....	20,000,000	--	--
Promissory note, maturing on February 1, 2000 with interest and principal payable monthly at 6.00%.....	308,341	208,345	183,346
Bank term loan; interest payable monthly at the U.S. prime rate plus 0.125% (8.625% at January 31, 1998). Principal payments of \$66,700, payable monthly beginning October, 1997 with the balance payable on September 1, 2002.....	--	3,733,200	3,466,400
	30,808,341	12,941,545	3,649,746
Less current installments.....	6,599,996	2,400,396	900,396
	\$ 24,208,345	\$ 10,541,149	\$ 2,749,350

</TABLE>

Certain of the EB Group's revolving credit agreement and term loans are guaranteed by a company affiliated through common ownership, and a stockholder, and are secured by all of the EB Group's assets. The revolving credit agreement and term loans contain restrictive covenants regarding transactions with affiliates, the payment of dividends, and other financial and nonfinancial matters.

Scheduled repayments of long-term debt as of January 31, 1998 are as follows:

	AMOUNT
<S>	<C>
1998.....	\$ 2,400,396
1999.....	8,400,396
2000.....	808,753
2001.....	800,400
2002.....	531,600

</TABLE>

THE ELECTRONICS BOUTIQUE GROUP

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

(3) COMMITMENTS

LEASE COMMITMENTS

At January 31, 1998, the future annual minimum lease payments under operating leases for the following five fiscal years and thereafter were as follows:

<TABLE>  
<CAPTION>

	RETAIL STORE LOCATIONS	DISTRIBUTION FACILITIES	TOTAL LEASE COMMITMENTS
<S>	<C>	<C>	<C>
1998.....	\$ 20,327,567	\$ 128,764	\$ 20,456,331
1999.....	19,131,737	109,358	19,241,095
2000.....	17,179,036	112,617	17,291,653
2001.....	15,552,449	115,104	15,667,553
2002.....	13,656,361	51,620	13,707,981
Thereafter.....	35,264,546	--	35,264,546
	-----	-----	-----
	\$ 121,111,696	\$ 517,463	\$ 121,629,159
	-----	-----	-----

</TABLE>

The total future minimum lease payments include lease commitments for new retail locations not in operation at January 31, 1998, and exclude contingent rentals based upon sales volume and owner expense reimbursements. Contingent rentals were approximately \$3,640,000, \$5,422,000, \$8,132,000 and \$919,000 (unaudited) in 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, respectively.

The terms of the operating leases for the retail locations provide that, in addition to the minimum lease payments, the EB Group is required to pay additional rent to the extent retail sales, as defined, exceed amounts set forth in the lease agreements and to reimburse the landlord for the EB Group's proportionate share of the landlord's costs and expenses incurred in the maintenance and operation of the shopping mall. Rent expense, including contingent rental amounts, was approximately \$25,104,000, \$28,448,000, \$35,138,000 and \$9,219,000 (unaudited) in 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, respectively.

Certain of the EB Group's lease agreements provide for varying lease payments over the life of the leases. For financial statement purposes, rental expense is recognized on a straight-line basis over the original term of the agreements. Actual lease payments are greater than (less than) the rental expense reflected in the statements of operations by approximately (\$210,000), (\$70,000), \$139,000 and (\$126,000) (unaudited) for years 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, respectively.

(4) RELATED-PARTY TRANSACTIONS

INVESTMENT IN EB INTERNATIONAL

As of February 1, 1997, the EB Group had amounts due from an affiliated company (EB International, Inc.) that was wholly-owned by a member of senior management acting on behalf of EB. The amounts advanced to EB International, Inc., were used to acquire a 50% interest in a joint venture which operates a chain of retail stores that sells computer software, video games, accessories, and supplies in South Korea. The amounts advanced for investment in the joint venture totaling \$1,136,000 have been included in the balance sheet as investment in affiliated companies. Prior to 1997, the investment in the joint venture was accounted for under the equity method of accounting and, accordingly, the EB Group's proportionate interest in net income and losses has been reflected in the statements of income. In 1997 EB International acquired the remaining 50% interest in the joint venture with \$611,000 of additional funds

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

(4) RELATED-PARTY TRANSACTIONS (CONTINUED)

provided by EB. The fair value of assets acquired totaled \$3,579,000, while liabilities assumed totaled \$3,497,000 resulting in goodwill of \$529,000 that is being amortized over the expected period of benefit of ten years. Additionally in 1997, EB formally acquired 100% of the capital stock in EB International, whose sole activities were related to the joint venture, from the member of senior management for a nominal amount. The EB Group has consolidated the results of operations of the joint venture since the beginning of 1997. The \$677,000 loss of the joint venture prior to the acquisition of the remaining 50% by EB in 1997 has been included in preacquisition loss of subsidiaries on the consolidated and combined statement of income. The pro forma effect of the acquisition is not material to 1996.

LOANS AND ADVANCES FROM AFFILIATES

During 1995 and 1996, the EB Group borrowed varying amounts from a company affiliated through common ownership. The advances bear interest at the prime rate plus 0.25% (8.50% at February 1, 1997). The EB Group had no outstanding borrowings from affiliates at February 1, 1997, January 31, 1998 and May 2, 1998 (unaudited). Interest expense on affiliate borrowings was approximately \$858,000 and \$250,000 for 1995 and 1996, respectively, and \$0 for 1997 and the thirteen weeks ended May 2, 1998.

TRANSACTIONS WITH AFFILIATES

Insurance and other expenses are paid to an affiliated company through intercompany billings. The amount of these expenses was approximately \$721,000, \$575,000, \$431,000 and \$7,000 (unaudited) for 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, respectively, and is included in selling, general and administrative expenses.

Equity in earnings (loss) of affiliates includes the following:

<TABLE>  
<CAPTION>

<S>	YEARS ENDED		
	<C> FEBRUARY 3, 1996	<C> FEBRUARY 1, 1997	<C> JANUARY 31, 1998
EB International, Inc.....	\$ 79,156	\$ (373,031)	\$ --
EB Canada.....	(566,485)	(73,456)	--
Electronics Boutique Plc.....	(832,088)	(126,975)	2,902,780
	\$ (1,319,417)	\$ (573,462)	\$ 2,902,780

</TABLE>

(5) CONSULTING AGREEMENT

In July 1993, the EB Group entered into a consulting agreement with a business that owns and operates retail stores. The EB Group provides consulting, management, administrative, marketing, and advertising assistance to this retail business. The EB Group received \$744,000, \$641,000, \$633,000 and \$128,000 (unaudited) during 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, respectively, as reimbursement for incremental costs incurred based on a formula as defined. Amounts owed to the EB Group for these items and trade credit at February 1, 1997, January 31, 1998 and May 2, 1998, are included in accounts receivable. Reimbursements offset selling, general and administrative expenses. Based on certain performance criteria as defined, the EB Group can also earn a performance fee. No performance fee was earned during 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998.

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

(6) EB CANADA

In September 1993, EB advanced funds to obtain a 50% interest in a Canadian corporation ("EB Canada") formed for the purpose of selling computer, video games and hand-held entertainment hardware, software, and related peripherals and accessories in shopping malls throughout Canada.

During 1995, EB exchanged the principal amount of an outstanding shareholder

note receivable and accrued interest for 286 shares of nonvoting cumulative preferred stock of EB Canada. The exchange of the shareholder notes receivable for the preferred stock had no impact on the results of operations of the EB Group.

EB had a security interest in certain assets of EB Canada to secure the payment of all management fees, interest, and receivables associated with the sale of merchandise by EB to EB Canada. At February 1, 1997, EB Canada owed EB approximately \$2,017,000 for trade credit, management fees, and other expenses, which is included in due from affiliates.

EB purchased the remaining 50% of EB Canada in October 1997 for \$727,000, resulting in goodwill of \$1,180,000 which is being amortized over the expected period of benefit of ten years, and now owns 100% of EB Canada. The fair value of assets acquired totaled \$3,879,000, while liabilities assumed totaled \$4,332,000 resulting in goodwill of \$1,180,000. The EB Group has consolidated the results of operations of EB Canada since the beginning of 1997. The \$236,000 loss in EB Canada prior to the acquisition of the remaining 50% by EB in 1997 has been included in preacquisition loss of subsidiaries on the consolidated and combined statement of income. The proforma effect of the acquisition is not material to 1996. Prior to 1997, the investment in EB Canada was accounted for under the equity method of accounting and, accordingly, the EB Group's proportionate interest in net income and losses has been reflected in the statements of income. The EB Group has recorded losses in excess of its investment in EB Canada prior to the acquisition of the remaining 50% of approximately \$1,300,000 which is included in investment in affiliated companies as of February 1, 1997.

(7) INVESTMENT IN AFFILIATED COMPANY

In 1995, the EB Group acquired 25 percent of the outstanding shares of Electronics Boutique Plc (formerly Rhino Group Plc). The EB Group accounts for the investment in Electronics Boutique Plc under the equity method, which requires the EB Group to recognize goodwill and 25 percent of the results of operations of Electronics Boutique plc from the date of acquisition in 1995.

The goodwill is being amortized over the expected period of benefit of 10 years. The \$3,200,000 of goodwill from this transaction resulted in amortization expense of \$133,000 in 1995 and \$321,000 in each of 1996 and 1997, and \$80,000 (unaudited) in the thirteen weeks ended May 2, 1998. The carrying value of the investment exceeds the EB Group's 25 percent share of the underlying net assets of Electronics Boutique Plc by the amount of goodwill.

At February 1, 1997, January 31, 1998 and May 2, 1998, the fair market value of the investment was \$21,691,000, \$52,615,000 and \$99,667,000 (unaudited), based on the closing market price quotation of the London Stock Exchange.

In 1995, the EB Group entered into a services agreement with Electronics Boutique Plc to provide consulting, management, training, and advertising assistance. The agreement provides for a fee to be paid to the EB Group based on a formula of 1% of adjusted sales and if budgeted profits are exceeded for the year, a bonus equal to 25% of such excess. For the year ended January 31, 1998, a bonus was earned in the

F-15

THE ELECTRONICS BOUTIQUE GROUP

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

(7) INVESTMENT IN AFFILIATED COMPANY (CONTINUED)

amount of \$2,206,000. The management fee receivable, which is included in due from affiliates, was \$397,000 \$2,826,000 and \$2,361,000 (unaudited) at February 1, 1997, January 31, 1998 and May 2, 1998 (unaudited). Included in management fees for 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998 was \$577,000, \$1,092,000, \$1,953,000 and \$443,000 (unaudited), respectively. Additionally, the agreement provides that the EB Group is to be reimbursed by Electronics Boutique Plc for all reasonable travel and subsistence expenses incurred by employees of the EB Group during their performance of the agreement. At February 1, 1997, January 31, 1998 and May 2, 1998, these amounts were \$435,000, \$52,000 and \$219,000 (unaudited), respectively, and are included in due from affiliates.

Summary financial information for Electronics Boutique Plc, a UK company, as of and for the years ended February 3, 1996, February 1, 1997 and January 31, 1998, are as follows:

<TABLE>  
<CAPTION>

	FEBRUARY 3 1996	FEBRUARY 1 1997	JANUARY 31 1998
<S>	<C>	<C>	<C>
Current Assets.....	\$ 26,061,000	\$ 29,486,000	\$ 49,404,000
Current Liabilities.....	17,816,000	22,201,000	31,338,000

Working Capital.....	8,245,000	7,285,000	18,016,000
Property, Plant, and Equipment, Net.....	11,768,000	13,698,000	15,987,000
Other Assets.....	81,000	80,000	--
Long-Term Debt.....	3,476,000	2,086,000	1,825,000
Stockholders' equity.....	\$ 16,618,000	\$ 18,977,000	\$ 32,178,000
Sales.....	\$ 93,244,000	\$ 116,341,000	\$ 203,596,000
Net income (loss).....	\$ (13,337,000)	\$ 777,000	\$ 12,895,000

</TABLE>

The summary balance sheet amounts have been converted from UK pounds to U.S. dollars at year-end published exchange rates. Summary income statement amounts have been converted using average exchange rates prevailing during the respective periods.

#### (8) EMPLOYEES' RETIREMENT PLAN

The EB Group provides employees with retirement benefits under a 401(k) salary reduction plan. Generally, employees are eligible to participate in the plan after attaining age 21 and completing one year of service. Eligible employees may contribute up to 17% of their compensation to the plan. EB Group contributions are at the EB Group's discretion and may not exceed 15% of an eligible employee's compensation. EB Group contributions to the plan are fully vested for eligible employees with five years or more of service. EB Group contributions under this plan were approximately \$235,000, \$357,000, \$302,000 and \$109,000 (unaudited) in 1995, 1996, 1997 and the thirteen weeks ended May 2, 1998, respectively.

#### (9) STOCKHOLDERS' EQUITY

The capital structure of the EB consists of two classes of common stock, Class A and Class B. The rights, duties and privileges of the Class A and Class B common stock are identical in all aspects except that the Class A shares have voting rights and Class B shares have no voting rights. In addition, preferred stock is authorized that contains a 10% non-cumulative dividend and is non-participating, non-convertible,

F-16

### THE ELECTRONICS BOUTIQUE GROUP

#### NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

#### (9) STOCKHOLDERS' EQUITY (CONTINUED)

non-redeemable and preferred as to the rights of the holders of the Class A and Class B common stock in the event of the liquidation of EB.

#### (10) COMPREHENSIVE INCOME

Effective February 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement requires that all items recognized under accounting standards as components of comprehensive income be reported in an annual financial statement that is displayed with the same prominence as other financial statements. Comprehensive income is computed as follows:

<TABLE>

<CAPTION>

	THIRTEEN WEEKS ENDED	
	MAY 2, 1998	MAY 3, 1997
<S>	<C>	<C>
Net income.....	\$2,850,219	\$2,080,603
Foreign currency translation adjustment.....	115,660	(408,324)
Comprehensive income.....	\$2,965,879	\$1,672,279

</TABLE>

#### (11) SUBSEQUENT EVENTS

In March 1998, EB Holdings' Board of Directors authorized the filing of a Registration Statement on Form S-1 in connection with a planned initial public offering of EB Holdings' common stock.

On March 16, 1998, EB entered into a credit agreement with Fleet, pursuant to which Fleet agreed to make available to EB an asset based revolving credit and term loan facility in an amount up to \$50,000,000. The revolving credit facility expires and the term loan, if borrowed, is repayable on March 16, 2001. Interest accrues on borrowings at a per annum rate equal to either LIBOR plus 250 basis points or Fleet's base rate of interest, at EB's option. The revolving credit and term loan facilities are secured by accounts receivable, inventory, and equipment, and the term loan facility is also secured by the Company's West Chester, Pennsylvania property. The Company intends to use a portion of its net proceeds of the Offering to repay its obligations to Fleet.

(12) EQUITY PARTICIPATION PLAN (UNAUDITED)

Immediately prior to the completion of the Offering, EB Holdings will establish an equity participation plan pursuant to which 2,100,000 shares of common stock will be reserved for future issuance upon the exercise of stock options granted to employees, consultants and directors. The options will be issued at fair value and will vest over the period determined by EB Holdings' Compensation Committee.

(13) PRO FORMA AND SUPPLEMENTAL HISTORICAL PRO FORMA DATA (UNAUDITED)

Net income per share is based on The EB Group's net income as an "S" corporation.

Pro forma data reflects the pro forma adjustments described in the notes to the Unaudited Pro Forma Consolidated Financial Statements on pages F-23 to F-25.

Supplemental historical pro forma data is based on historical income before income taxes of The EB Group, which includes The EB Group's earnings or loss from its investment in Electronics Boutique Plc.

F-17

THE ELECTRONICS BOUTIQUE GROUP

NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS (CONTINUED)

(13) PRO FORMA AND SUPPLEMENTAL HISTORICAL PRO FORMA DATA (UNAUDITED)  
(CONTINUED)

This investment will not be contributed by The EB Group to EB Holdings and its subsidiaries as part of the reorganization transactions and, therefore, will not contribute to EB Holdings' income.

Historical, pro forma and supplemental historical pro forma income per share are calculated using the weighted average number of shares of common stock outstanding during the period, which is based on the number of shares of common stock of EB Holdings that will be outstanding upon the completion of the reorganization transactions, but before the issuance of any shares in the public offering.

Supplemental historical pro forma income taxes are based on the historical income before income taxes calculated as if The EB Group were taxed as a "C" corporation. The difference between the federal statutory income tax rate and the supplemental historical pro forma income tax rate is as follows:

<TABLE>  
<CAPTION>

	YEARS ENDED			THIRTEEN WEEKS ENDED	
	FEBRUARY 3, 1996	FEBRUARY 1, 1997	JANUARY 31, 1998	MAY 3, 1997	MAY 2, 1998
<S>	<C>	<C>	<C>	<C>	<C>
Federal statutory tax rate.....	34.00%	34.00%	35.00%	35.00%	35.00%
State income taxes, net of federal benefit.....	5.98	5.36	3.74	3.74	3.55



Loss of foreign subsidiaries.....	4.78	1.80	0.51	0.51	--
Other.....	1.60	0.38	1.85	1.85	0.61
	-----	-----	-----	-----	-----
Supplemental historical pro forma income tax rate....	46.36%	41.54%	41.10%	41.10%	39.16%
	-----	-----	-----	-----	-----

</TABLE>

F-18

ELECTRONICS BOUTIQUE HOLDINGS CORP.  
PRO FORMA CONSOLIDATED STATEMENT OF INCOME  
FOR THE YEAR ENDED JANUARY 31, 1998

(UNAUDITED)

<TABLE>  
<CAPTION>

	ACTUAL	ADJUSTMENTS	PRO FORMA
<S>	<C>	<C>	<C>
Net sales.....	\$ 449,179,603	\$ --	\$ 449,179,603
Management fees.....	4,791,353	--	4,791,353
	-----	-----	-----
Total revenues.....	453,971,156	--	453,971,156
	-----	-----	-----
Costs and expenses			
Costs of merchandise sold, including freight.....	338,497,642	--	338,497,642
Selling, general and administrative.....	87,002,305	150,000 (a)	87,152,305
Depreciation and amortization.....	7,996,506	(51,675) (b)	7,944,831
	-----	-----	-----
Operating income.....	433,496,453	98,325	433,594,778
Equity in earnings of affiliates.....	20,474,703	98,325	20,376,378
Interest expense, net of interest income.....	2,902,780	2,902,780 (c)	--
Preacquisition loss of subsidiaries.....	1,380,046	--	1,380,046
	913,028	--	913,028
	-----	-----	-----
Income before income taxes.....	22,910,465	3,001,105	19,909,360
Income taxes.....	846,280	7,336,470 (d)	8,182,750
	-----	-----	-----
Net income.....	\$ 22,064,185	\$ 10,740,633	\$ 11,726,610
	-----	-----	-----
Pro forma net income per share.....			\$ 0.74
Pro forma weighted average shares outstanding.....			15,794,200

</TABLE>

F-19

ELECTRONICS BOUTIQUE HOLDINGS CORP.  
PRO FORMA CONSOLIDATED STATEMENT OF INCOME  
FOR THE THIRTEEN WEEKS ENDED MAY 2, 1998  
(UNAUDITED)

<TABLE>  
<CAPTION>

	ACTUAL	ADJUSTMENTS	PRO FORMA
<S>	<C>	<C>	<C>
Net sales.....	\$ 106,729,814	\$ --	\$ 106,729,814
Management fees.....	571,367	--	571,367
	-----	-----	-----
Total revenues.....	107,301,181	--	107,301,181
	-----	-----	-----
Costs and expenses:			
Costs of merchandise sold, including freight	79,519,589	--	79,519,589
Selling, general and administrative.....	22,270,148	150,000 (a)	22,420,148
Depreciation and amortization.....	2,253,768	(51,675) (b)	2,202,093
	-----	-----	-----
Operating income.....	3,257,676	98,325	3,159,351
Equity in loss of affiliates	(80,287)	(80,287) (c)	--
Interest expense, net of interest income.....	213,870	--	213,870
	-----	-----	-----
Income before income taxes.....	2,963,519	18,038	2,945,481
Income taxes.....	113,300	1,041,328 (d)	1,154,628
	-----	-----	-----

Net income.....	\$	2,850,219	\$	1,059,366	\$	1,790,853
Pro forma net income per share.....					\$	0.11
Pro forma weighted average shares outstanding.....						15,794,200

</TABLE>

F-20

ELECTRONICS BOUTIQUE HOLDINGS CORP.

PRO FORMA CONSOLIDATED BALANCE SHEET

AS OF MAY 2, 1998

(UNAUDITED)

<TABLE>  
<CAPTION>

	ACTUAL	ADJUSTMENTS	PRO FORMA
<S>	<C>	<C>	<C>
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 9,264,474	\$ (8,139,347 (e))	\$ 1,125,127
Account receivable:			
Trade and vendors.....	3,060,155	(1,773,476 (e))	1,286,679
Other.....	3,567,108	(3,567,108 (e))	--
Due from affiliates.....	2,585,544	(218,953 (e))	2,366,591
Merchandise inventories.....	58,765,612	--	58,765,612
Deferred tax asset.....	--	3,011,000 (f)	3,011,000
Prepaid expenses.....	3,172,832	--	3,172,832
Total current assets.....	80,415,725	(10,687,884)	69,727,841
Property and equipment:			
Leasehold improvements.....	40,643,655	--	40,643,655
Fixtures and equipment.....	25,583,252	--	25,583,252
Building.....	6,200,950	(6,200,950 (e))	--
Land.....	632,806	(632,806 (e))	--
Construction in progress.....	945,906	--	945,906
	74,006,569	(6,833,756)	67,172,813
Less accumulated depreciation and amortization.....	33,089,952	(103,349 (e))	32,986,603
Net property and equipment.....	40,916,617	(6,730,407)	34,186,210
Investment in affiliated companies.....	10,945,058	(10,945,058 (g))	--
Goodwill and other intangible assets, net of accumulated amortization.....	2,199,425	--	2,199,425
Deferred tax asset.....	--	4,817,000 (f)	4,817,000
Other assets.....	6,219,484	(3,972,082 (e))	2,247,402
Total assets.....	\$ 140,696,309	\$ (27,518,431)	\$ 113,177,878

</TABLE>

F-21

ELECTRONICS BOUTIQUE HOLDINGS CORP.  
PRO FORMA CONSOLIDATED BALANCE SHEET

AS OF MAY 2, 1998

(UNAUDITED)

<TABLE>  
<CAPTION>

	ACTUAL	ADJUSTMENTS	PRO FORMA
<S>	<C>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Revolving credit facility.....	\$ 21,028,034	\$ --	\$ 21,028,034
Current portion of long-term debt.....	900,396	--	900,396
Accounts payable.....	84,317,275	--	84,317,275
Accrued expenses.....	11,383,614	--	11,383,614
Due to affiliate.....	489	7,487,617 (h)	7,488,106
Income taxes payable.....	561,730	--	561,730
Distribution payable.....	--	6,100,000 (i)	6,100,000
Total current liabilities.....	118,191,538	13,587,617	131,779,155

Long-term liabilities:			
Notes payable.....	2,749,350	--	2,749,350
Deferred rent.....	2,282,561	--	2,282,561
	-----	-----	-----
	5,031,911	--	5,031,911
	-----	-----	-----
Total liabilities.....	123,223,449	13,587,617	136,811,066
	-----	-----	-----
Commitments			
Stockholders' equity (deficit):			
Preferred stock -- authorized 200,000 shares; \$100.00 par value; no shares issued and outstanding.....	--	--	--
Common stock:			
Class A -- authorized 5,000 shares; \$.10 par value; issued and outstanding 1,900 shares.....	190	(190 (j))	--
Class B -- authorized 25,000 shares; \$.10 par value; issued and outstanding 21,000 shares.....	2,100	(2,100 (j))	--
Common stock -- authorized 100,000,000 shares; \$.01 par value; pro forma issued and outstanding 15,794,200.....	--	157,942 (j)	157,942
Partners' capital of EB Services Company LLP.....	1,000	--	--
Additional paid-in capital.....	7,584,365	(30,467,662 (k))	(22,883,297)
Accumulated other comprehensive expense.....	(907,833)	--	(907,833)
Retained earnings (deficit).....	10,793,038	(10,793,038 (k))	--
	-----	-----	-----
Total stockholders' equity (deficit).....	17,472,860	(41,106,048)	(23,633,188)
	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 140,696,309	(\$ 27,518,431)	\$ 113,177,878
	-----	-----	-----

</TABLE>

F-22

ELECTRONICS BOUTIQUE HOLDINGS CORP.

NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

In contemplation of the public offering, a series of reorganization transactions that are described in the "Reorganization" section of the prospectus have occurred or will occur. Upon completion and as a result of the reorganization transactions, certain assets will be retained by The Electronics Boutique, Inc. (EB) and, therefore, will not be included in the consolidated balance sheet of Electronics Boutique Holdings Corp. and its subsidiaries at the time of the consummation of the offering. EB will retain the West Chester distribution center and headquarters; cash, receivables and other assets representing the undistributed previously taxed S Corporation earnings, undistributed C Corporation earnings from years prior to 1988 and additional paid in capital of EB; and shares of Electronics Boutique plc. In addition, pursuant to the Reorganization, EB will acquire 99.99% of the outstanding partnership interests of EB Services Company LLP. Accordingly, EB Holdings will be entitled to the benefits under the Services Agreement with Electronics Boutique plc, while EB will continue to be a party to the agreement, which will continue in accordance with its terms.

The Reorganization is structured to allow the shareholders of EB to retain both the Company's previously taxed earnings, which exceed book earnings due to timing differences, and the shares of EB-UK capital stock. As a result, the Company's stockholder's equity account after the Reorganization and prior to the completion of the Offering will reflect a deficit of approximately \$23.6 million. The sale by the Company of the 4,375,000 shares of Common Stock offered hereby (at an assumed initial public offering price of \$16.00 per share) will restore the Company's stockholder's equity account to a positive balance of approximately \$40.4 million.

Prior to the offering EB has been taxed as an S Corporation for federal and certain state income tax purposes resulting in taxable income being passed through to its shareholders. Additionally, EB Services Company LLP, which will become 99.99% owned by EB Holdings in connection with the reorganization, has been taxed as a partnership with its taxable income being passed through to its partners, EB Services Company LLP plans to distribute its previously taxed but undistributed earnings to its partners prior to or contemporaneously with the public offering. Subsequent to the public offering, EB Holdings and its subsidiaries will be subject to tax as a C Corporation.

The pro forma data presented in the unaudited pro forma consolidated financial statements are included in order to illustrate the effect on the financial statements of The Electronics Boutique Group of the reorganization transactions described above as if such transactions occurred on May 2, 1998 as they relate to the pro forma balance sheet and as of February 2, 1997 and February 1, 1998 as they relate to the pro forma statements of income for the fiscal year ended January 31, 1998 and the thirteen weeks ended May 2, 1998, respectively. The pro forma information is based on the historical financial statements of The Electronics Boutique Group. In the opinion of management, all adjustments have been made that are necessary to present fairly the pro forma

data. The unaudited pro forma consolidated financial statements do not include the effect of issuance of shares upon the consummation of the public offering contemplated in this prospectus.

The pro forma consolidated financial statements should be read in conjunction with the audited consolidated and combined financial statements of The Electronics Boutique Group and the notes thereto. The pro forma consolidated statement of income data are not necessarily indicative of the results that would have been reported had such events actually occurred on the date specified, nor are they indicative of future results.

Pro forma adjustments for the unaudited pro forma consolidated statements of income for the year ended January 31, 1998 and the thirteen weeks ended May 2, 1998 are as follows:

F-23

(a) Represents lease expense for the three months for the West Chester distribution center and headquarters which were purchased by EB in October 1997. The West Chester distribution center and headquarters are being retained by EB.

(b) Represents reduction in depreciation expense for three months for the West Chester distribution center and headquarters which were purchased in October 1997 by EB. The West Chester distribution center and headquarters are being retained by EB.

(c) Represents elimination of the equity in earnings (loss) of investment in Electronics Boutique Plc and goodwill amortization as EB is retaining its shares of Electronics Boutique Plc.

(d) Represents adjustment to record income taxes as if EB and EB Services Company LLP had been taxed as a C Corporation for federal and state income taxes purposes. The difference between the federal statutory income tax rate and the pro forma income tax rate was as follows:

<TABLE>

<CAPTION>

	YEAR ENDED JANUARY 31, 1998	THIRTEEN WEEKS ENDED MAY 2, 1998
	-----	-----
<S>	<C>	<C>
Federal statutory tax rate.....	35.0%	35.0%
State income taxes, net of federal benefit.....	3.7	3.6
Loss of foreign subsidiaries.....	0.5	--
Other.....	1.9	0.6
	---	---
Pro forma income tax rate.....	41.1%	39.2%
	---	---
	---	---

</TABLE>

Pro forma adjustments for the unaudited pro forma consolidated balance sheet as of May 2, 1998 are as follows:

(e) Represents elimination of assets retained by EB representing undistributed previously taxed S Corporation earnings, additional paid in capital, and undistributed C corporation earnings from years prior to 1988 of EB.

(f) Represents effect of cumulative differences between the financial reporting and income tax basis of certain assets and liabilities as a result of the creation of EB Holdings as a C Corporation for federal and state income tax purposes, whereas EB was an S Corporation for federal and certain state tax purposes and EB Services Company LLP was a partnership for federal and state tax purposes. The significant items comprising EB Holdings' pro forma net deferred income tax assets and liabilities as of May 2, 1998 are temporary differences relating to the following:

<TABLE>

<S>

	<C>
Deferred tax assets:	
Inventory capitalized costs.....	\$1,565,000
Accrued expenses.....	1,446,000
Fixed assets.....	3,858,000
Deferred rent.....	847,000
Amortization of goodwill.....	112,000
Foreign net operating loss carryforward.....	1,622,000
	-----
Total gross deferred tax asset.....	9,450,000
Valuation allowance.....	(1,622,000)
	-----
Deferred tax assets.....	\$7,828,000
	-----

</TABLE>

Since EB Holdings does not intend to repatriate the earnings of its foreign subsidiaries, no U.S. deferred income taxes have been recorded on such amounts.

(g) Represents the elimination of the investment in Electronics Boutique Plc as EB will retain its shares of Electronics Boutique Plc.

F-24

(h) Represents payable to EB by EB Holdings for receivables that will be retained by EB representing undistributed previously taxed S Corporation earnings, additional paid in capital, and undistributed C corporation earnings from years prior to 1988 of EB. These were previously intercompany receivables eliminated in the consolidated and combined financial statements of the EB Group.

(i) Represents estimated distribution of previously taxed partnership earnings to the partners of EB Services Company LLP.

(j) Represents adjustment to reflect common stock of EB Holdings outstanding upon the reorganization transactions.

(k) Represents the elimination of retained earnings and additional paid in capital as a result of the reorganization transactions.

F-25

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, THE SELLING SHAREHOLDER OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY ANY SECURITIES IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

UNTIL , 1998 (25 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE REGISTERED SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

<TABLE>

<S>

<C>

TABLE OF CONTENTS

	PAGE
Prospectus Summary.....	3
Risk Factors.....	7
Reorganization.....	12
Use of Proceeds.....	15
Dividend Policy.....	15
Capitalization.....	16
Dilution.....	17
Selected Consolidated and Combined Financial and Operating Data.....	18
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	20
Business.....	27
Management.....	40
Certain Transactions.....	45
Principal and Selling Shareholders.....	47
Description of Capital Stock.....	48
Shares Eligible for Future Sale.....	51
Underwriting.....	52
Legal Matters.....	53
Experts.....	53
Additional Information.....	53
Index to Consolidated and Combined	

6,250,000 Shares

[LOGO]

Common Stock

-----  
P R O S P E C T U S  
-----

PRUDENTIAL SECURITIES INCORPORATED  
SALOMON SMITH BARNEY

, 1998

-----  
PART II  
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the various expenses expected to be incurred in connection with the Offering. All amounts are estimates except the Commission Registration Fee, the NASD Filing Fee and the NASDAQ National Market Fee.

<TABLE>	
<S>	
Commission Registration Fee.....	<C> \$ 43,255
NASD Filing Fee.....	15,163
NASDAQ National Market Fee.....	94,000
EDGAR and Printing Expenses.....	150,000
Legal Fees and Expenses.....	500,000
Accounting Fees and Expenses.....	250,000
Blue Sky Fees and Expenses.....	5,000
Transfer Agent's Fees and Expenses.....	10,000
Directors and Officers Insurance Premiums.....	100,000
Miscellaneous Expenses.....	14,327
	-----
Total.....	\$1,225,000
	-----
</TABLE>	

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145 of the Delaware General Corporation Law permits a corporation to include in its charter documents, and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification beyond that specifically provided by the current law.

The Company's Certificate of Incorporation provides for the indemnification of directors to the fullest extent permissible under Delaware Law.

The Company's Bylaws provide for the indemnification of officers, directors and third parties acting on behalf of the Company if such person acted in good faith and in a manner reasonably believed to be in and not opposed to the best interest of the Company, and, with respect to any criminal action or proceeding, the indemnified party had no reason to believe his conduct was unlawful.

The Company has entered into indemnification agreements with its directors and executive officers in addition to the indemnification provided for in the Company's Bylaws, and intends to enter into indemnification agreements with any new directors and executive officers in the future.

The form of Underwriting Agreement filed as an Exhibit hereto provides for the indemnification of the Company's directors and officers in certain circumstances as provided therein.

The Company intends to procure insurance, which would afford officers and directors insurance coverage for losses arising from claims based on breaches of duty, negligence, error and other wrongful acts, including liabilities under the Securities Act.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

In 1998, an aggregate of 100 shares of Common Stock were issued to the Kim Shareholders and EB Services Corp. in exchange for 99.99% of the outstanding partnership interests of EB Services, and 15,794,100 shares of common stock were issued to EB Nevada in exchange for the Operating Shares. Such issuances were

II-1

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits:

<TABLE> <S>	<C>	<C>
	1.1	Form of Underwriting Agreement
*	3.1	Certificate of Incorporation of the Company
*	3.2	Bylaws of the Company
*	4.1	Specimen Stock Certificate
	5.1	Opinion of Klehr, Harrison, Harvey, Branzburg & Ellers LLP
*	10.2	Form of Indemnification Agreement for Directors and Officers of the Company
*	10.3	Form of 1998 Equity Participation Plan of the Company
*	10.4	Services Agreement, dated October 13, 1995, by and between EB and EB-UK (f/k/a Rhino Group Plc)
*	10.5	Loan and Security Agreement, dated March 16, 1998, by and between EB and Fleet Capital Corporation
	10.6	Joinder Agreement by and between EBOA and Fleet Capital Corporation
*	10.7	Form of Employment Agreement by and between the Company and Joseph J. Firestone
*	10.8	Form of Employment Agreement by and between the Company and John R. Panichello
*	10.9	Form of Employment Agreement by and between the Company and Jeffrey W. Griffiths
*	10.10	Assignment, Bill of Sale, and Assumption Agreement, dated May 31, 1998, by and between EB and EBOA
*	10.11	Form of Registration Rights Agreement between the Company and EB Nevada
*	10.12	Form of Demand Note by and between James J. Kim and EBOA
*	10.13	Assignment of Trademarks, dated May 31, 1998, by and between EB and Elbo
	10.14	Addendum to Assignment of Trademarks by and between EB and Elbo
	10.15	Form of Agreement of Lease by and between EB and EBOA
	10.16	Agreement and Bill of Sale, dated as of July 13, 1998, by and between the Company and
</TABLE>		and

II-2

<TABLE> <S>	<C>	<C>
		EB Nevada
	10.17	Agreement and Consent to Assignment and Assumption of Partnership Interests, dated as of July 13, 1998
**	11.1	Statement re computation of per share earnings
**	12.1	Statement re computation of ratios
	21.1	Subsidiaries of the Company
	23.1	Consent of KPMG Peat Marwick LLP
	23.2	Consent of Klehr, Harrison, Harvey, Branzburg & Ellers LLP (included in Exhibit 5.1)
*	25.1	Powers of Attorney
*	27.1	Financial Data Schedule
</TABLE>		

\* Previously filed

\*\* Not applicable

II-3

(b) Consolidated Financial Statement Schedules

None

ITEM 17. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The Registrant further undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

The Registrant undertakes to provide to the underwriter at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

II-4

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Borough of West Chester, Commonwealth of Pennsylvania, on July 21, 1998.

ELECTRONICS BOUTIQUE HOLDINGS CORP.

By: /s/ JOSEPH J. FIRESTONE

Joseph J. Firestone,  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below on July 21, 1998 by the following persons in the capacities indicated:

<TABLE>  
<CAPTION>

SIGNATURE

TITLE

<C>

<S>

/s/ JAMES J. KIM\*

Chairman of the Board

James J. Kim



/s/ JOSEPH J. FIRESTONE  
-----  
Joseph J. Firestone  
  
/s/ DEAN S. ADLER\*  
-----  
Dean S. Adler  
  
/s/ SUSAN Y. KIM\*  
-----  
Susan Y. Kim  
  
/s/ LOUIS J. SIANA\*  
-----  
Louis J. Siana  
  
/s/ JOHN R. PANICHELLO\*  
-----  
John R. Panichello

President, Chief Executive Officer and Director  
(Principal Executive Officer)  
  
Director  
  
Director  
  
Director  
  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

</TABLE>

\*By: /s/ JOSEPH J. FIRESTONE  
-----  
Joseph J. Firestone  
(ATTORNEY-IN-FACT)

ELECTRONICS BOUTIQUE HOLDINGS CORP.

6,250,000 (1)

Common Stock

UNDERWRITING AGREEMENT

July \_\_, 1998

PRUDENTIAL SECURITIES INCORPORATED  
SMITH BARNEY INC.

As Representatives of the several Underwriters  
c/o Prudential Securities Incorporated  
One New York Plaza  
New York, New York 10292

Dear Ladies and Gentlemen:

Electronics Boutique Holdings Corp., a Delaware corporation (the "Company"), and EB Nevada Inc., the Company's parent and the selling securityholder (the "Selling Securityholder"), hereby confirm their agreement with the several underwriters named in Schedule 1 hereto (the "Underwriters"), for whom you have been duly authorized to act as representatives (in such capacities, the "Representatives"), as set forth below. If you are the only Underwriters, all references herein to the Representatives shall be deemed to be to the Underwriters.

1. Securities. Subject to the terms and conditions herein contained, the Company and the Selling Securityholder propose to issue and sell to the several Underwriters an aggregate of 6,250,000 shares (the "Firm Securities") of the Company's common stock, par value \$.01 per share ("Common Stock"), of which 4,375,000 shares will be issued and sold by the Company

(1) Plus an option to purchase from the Selling Securityholder up to 937,500 additional shares to cover over-allotments.

(the "Company's Firm Securities") and 1,875,000 shares will be sold by the Selling Securityholder (the "Selling Securityholder's Firm Securities"). The Selling Securityholder also proposes to sell to the several Underwriters not more than 937,500 additional shares of Common Stock if requested by the Representatives as provided in Section 3 of this Agreement. Any and all shares of Common Stock to be purchased by the Underwriters pursuant to such option are referred to herein as the "Option Securities," and the Firm Securities and any Option Securities are collectively referred to herein as the "Securities."

Reorganization. On or as of May 31, 1998, The Electronics Boutique, Inc. ("EB") (i) transferred certain assets, including its leases, leasehold improvements, inventory, employee contracts, fixed assets and prepaid expenses, subject to all of its liabilities, to Electronics Boutique of America Inc. ("EBOA") in exchange for all of the outstanding shares of capital stock of EBOA, (ii) entered into a two-year lease with EBOA for the West Chester, Pennsylvania distribution center and headquarters (the "Distribution Center"), which lease grants EBOA an option to purchase the Distribution Center for \$6.7 million and (iii) assigned its intangible assets, including trademark and tradenames, to Elbo Inc. ("Elbo") in exchange for all of the outstanding shares of capital stock of Elbo. EB retained (i) all of the outstanding shares of capital stock of EBOA, Elbo, EB International, Inc. and Electronics Boutique of Canada, Inc. (collectively, the "Operating Shares"), (ii) its shares of Electronics Boutique plc ("EB-UK"), an affiliate of the Company organized under the laws of the United Kingdom, (iii) the Distribution Center and (iv) \$17.5 million of cash, accounts receivable and cash surrendered value of certain split-dollar life insurance policies.

Immediately prior to completion of the sale of the Securities, (i) EB will transfer the Operating Shares and its shares of EB-UK to the Selling Securityholder in exchange for all of the outstanding shares of capital stock of the Selling Securityholder, (ii) the Selling Securityholder will contribute the Operating Shares to the Company in exchange for 15,794,100 shares of Common Stock and (iii) the Company will acquire from the Kim Shareholders (as defined in the Prospectus) and EB Services Corp. ("EB Services Corp."), for an aggregate of 100 shares of Common Stock, 99.99% of the outstanding partnership interests of EB Services Company, LLP ("EB Services"), with EB Services Corp. retaining a 0.01% general partnership interest. The transactions described in this and the preceding paragraph (collectively, the "Reorganization") have been or will be made pursuant to the terms of certain contribution, assignment and exchange agreements (collectively, the "Reorganization Agreements") among EB, EBOA, Elbo, EB Services Corp., EB Services, the Selling Securityholder (collectively, the "Affiliated Entities") and the Kim Shareholders.

## 2. Representations and Warranties of the Company.

(a) The Company represents and warrants to, and agrees with, each of the several Underwriters and the Selling Securityholder that:

-2-

(i) A registration statement on Form S-1 (File No. 333-48523) with respect to the Securities, including a prospectus subject to completion, has been filed by the Company with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"), and one or more amendments to such registration statement may have been so filed. After the execution of this Agreement, the Company will file with the Commission either (A) if such registration statement, as it may have been amended, has been declared by the Commission to be effective under the Act, either (1) if the Company relies on Rule 434 under the Act, a Term Sheet (as hereinafter defined) relating to the Securities, that shall identify the Preliminary Prospectus (as hereinafter defined) that it supplements containing such information as is required or permitted by Rules 434, 430A and 424(b) under the Act or (2) if the Company does not rely on Rule 434 under the Act, a prospectus in the form most recently included in an amendment to such registration statement (or, if no such amendment shall have been filed, in such registration statement), with such changes or insertions as are required by Rule 430A under the Act or permitted by Rule 424(b) under the Act, and in the case of either clause (A) (1) or (A) (2) of this sentence as have been provided to and approved by the Representatives prior to the execution of this Agreement, or (B) if such registration statement, as it may have been amended, has not been declared by the Commission to be effective under the Act, an amendment to such registration statement, including a form of prospectus, a copy of which amendment has been furnished to and approved by the Representatives prior to the execution of this Agreement. The Company may also file a related registration statement with the Commission pursuant to Rule 462(b) under the Act for the purpose of registering certain additional Securities, which registration shall be effective upon filing with the Commission. As used in this Agreement, the term "Original Registration Statement" means the registration statement initially filed relating to the Securities, as amended at the time when it was or is declared effective, including all financial schedules and exhibits thereto and including any information omitted therefrom pursuant to Rule 430A under the Act and included in the Prospectus (as hereinafter defined); the term "Rule 462(b) Registration Statement" means any registration statement filed with the Commission pursuant to Rule 462(b) under the Act (including the Registration Statement and any Preliminary Prospectus or Prospectus incorporated therein at the time such Registration Statement becomes effective); the term "Registration Statement" includes both the Original Registration Statement and any

Rule 462(b) Registration Statement; the term "Preliminary Prospectus" means each prospectus subject to completion filed with the Registration Statement or any amendment thereto (including the prospectus subject to completion, if any, included in the Registration Statement or any amendment thereto at the time it was or is declared effective); the term "Prospectus" means:

(A) If the Company relies on Rule 434 under the Act, the Term Sheet relating to the Securities that is first filed pursuant to Rule 424(b) (7) under the Act, together with the Preliminary Prospectus identified therein that such Term Sheet supplements;

-3-

(B) if the Company does not rely on Rule 434 under the Act, the prospectus first filed with the Commission pursuant to Rule 424(b) under the Act; or

(C) if the Company does not rely on Rule 434 under the Act and if no prospectus is required to be filed pursuant to Rule 424(b) under the Act, the prospectus included in the Registration Statement,

and the term "Term Sheet" means any term sheet that satisfies the requirements of Rule 434 under the Act. Any reference herein to the "date" of a Prospectus that includes a Term Sheet shall mean the date of such Term Sheet.

(ii) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus. When any Preliminary Prospectus dated July 6, 1998 or any later date was filed with the Commission it (A) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of, the Act and the rules and regulations of the Commission thereunder and (B) did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. When the Registration Statement or any amendment thereto was or is declared effective, it (A) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply in all material respects with the requirements of the Act and the rules and regulations of the Commission thereunder and (B) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading. When the Prospectus or any Term Sheet that is a part thereof or any amendment or supplement to the Prospectus is filed with the Commission pursuant to Rule 424(b) (or, if the Prospectus or part thereof or such amendment or

supplement is not required to be so filed, when the Registration Statement or the amendment thereto containing such amendment or supplement to the Prospectus was or is declared effective) and on the Firm Closing Date and any Option Closing Date (both as hereinafter defined), the Prospectus, as amended or supplemented at any such time, (A) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply in all material respects with the requirements of, the Act and the respective rules and regulations of the Commission thereunder and (B) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing provisions of this paragraph (ii) do not apply to statements or omissions made in any Preliminary Prospectus, the Registration Statement or any amendment thereto or the Prospectus or any amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives specifically for use therein.

-4-

(iii) If the Company has elected to rely on Rule 462(b) and the Rule 462(b) Registration Statement has not been declared effective (A) the Company has filed a Rule 462(b) Registration Statement in compliance with and that is effective upon filing pursuant to Rule 462(b) and has received confirmation of its receipt and (B) the Company has given irrevocable instructions for transmission of the applicable filing fee in connection with the filing of the Rule 462(b) Registration Statement, in compliance with Rule 111 promulgated under the Act or the Commission has received payment of such filing fee.

(iv) The Company and each of its subsidiaries and Affiliated Entities have been duly organized and are validly existing as corporations under the laws of their respective jurisdictions and are duly qualified to transact business as foreign corporations and are in good standing under the laws of all other jurisdictions where the ownership or leasing of their respective properties or the conduct of their respective businesses requires such qualification, except where the failure to be so qualified does not amount to a material liability or disability to the Company and each of its subsidiaries, taken as a whole.

(v) Except as otherwise described in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) the Company and each of its subsidiaries have full power (corporate and other) to own or lease their respective properties and conduct their respective businesses, and the Company has full power (corporate and other) to enter into this Agreement and to carry out all the terms and provisions

hereof to be carried out by it.

(vi) The Company has an authorized, issued and outstanding capitalization as set forth in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus). All of the issued shares of capital stock of the Company (including but not limited to the Securities being sold by the Selling Securityholder) have been duly authorized and validly issued and are fully paid and nonassessable. The Firm Securities and Option Securities have been duly authorized and at the Firm Closing Date or the related Option Closing Date (as the case may be), after payment therefor in accordance herewith, will be validly issued, fully paid and nonassessable. No holders of outstanding shares of capital stock of the Company are entitled as such to any preemptive or other rights to subscribe for any of the Securities, and no holder of securities of the Company has any right which has not been fully exercised or waived to require the Company to register the offer or sale of any securities owned by such holder under the Act in the public contemplated by this Agreement.

(vii) The issued and outstanding shares of capital stock of each of the Company's subsidiaries have been duly authorized and validly issued and are fully paid and nonassessable and are owned beneficially by the Company free and clear of security interests, liens, encumbrances or claims.

-5-

(viii) Except for the shares of capital stock of each of the subsidiaries listed on Exhibit 21.1 to the Registration Statement, the Company does not, directly or indirectly, own any shares of stock or any other equity securities of any corporation or have any equity interest in any firm, partnership, association or other entity, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(ix) The capital stock of the Company conforms to the description thereof contained in the Prospectus or, if the Prospectus is not in existence, the most recent Preliminary Prospectus.

(x) The consolidated financial statements and schedules of the Company and its consolidated subsidiaries included in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) fairly present the financial position of the Company and its consolidated subsidiaries and the results of operations and changes in financial condition as of the dates and periods therein specified. Such financial statements and schedules have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods

involved (except as otherwise noted therein). The selected consolidated financial data set forth under the caption "Selected Consolidated Financial and Operating Data" in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) fairly present, on the basis stated in the Prospectus (or such Preliminary Prospectus), the information included therein.

(xi) KPMG Peat Marwick LLP, who have audited certain financial statements of the Company and its consolidated subsidiaries and delivered their report with respect to the audited consolidated and combined financial statements and schedules included in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), are independent public accountants as required by the Act and the applicable rules and regulations thereunder.

(xii) The execution and delivery of this Agreement have been duly authorized by the Company, and this Agreement has been duly executed and delivered by the Company and is the valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws affecting the rights and remedies of creditors generally and subject to general principles of equity whether in a court of law or equity.

(xiii) The execution and delivery of the Reorganization Agreements to which the Company and the Affiliated Entities are parties have been duly authorized by the Company and the Affiliated Entities, as the case may be, and the Reorganization Agreements have been duly executed and delivered by the Company, the Affiliated

-6-

Entities and the Kim Shareholders and are the valid and binding agreements of the Company, the Affiliated Entities and the Kim Shareholders, enforceable against the Company, the Affiliated Entities and the Kim Shareholders in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws affecting the rights and remedies of creditors generally and subject to general principles of equity whether in a court of law or equity. The Reorganization has been consummated on the terms and conditions set forth in the Prospectus.

(xiv) No legal or governmental proceedings are pending to which the Company or any of its subsidiaries is a party or to which the property of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the



Prospectus and are not described therein (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), and, no such proceedings have been threatened against the Company or any of its subsidiaries or with respect to any of its properties; and no contract or other document is required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) or filed as required.

(xv) The issuance, offering and sale of the Securities being issued and sold by the Company to the Underwriters pursuant to this Agreement, the compliance by the Company with the other provisions of this Agreement and the consummation of the other transactions contemplated hereby and the consummation by the Company and the Affiliated Entities of the Reorganization do not (A) require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as have been obtained, such as may be required under state securities or blue sky laws and, if the registration statement filed with respect to the Securities (as amended) is not effective under the Act as of the time of the execution hereof, such as may be required (and shall be obtained as provided in this Agreement) under the Act or (B) except as otherwise described in the Registration Statement or the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), conflict with or result in a breach or violation of any terms and provisions of, or constitute a default under, any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of its properties are bound, or the charter documents or bylaws of the Company or any of its subsidiaries or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to the Company or any of its subsidiaries, except, with respect to the Reorganization, any such conflict, breach, violation or default that would not have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company and its subsidiaries.

-7-

(xvi) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), (A) neither the Company nor any of its subsidiaries has sustained any material loss or interference with its business or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding and there has not been any material

adverse change, or any development involving a prospective material adverse change, in the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company or any of its subsidiaries; (B) neither the Company nor its subsidiaries, if applicable, has incurred any material liability or obligation, direct or contingent, nor entered into any material transaction, not in the ordinary course of business; (C) neither the Company nor any of its subsidiaries has purchased any of its outstanding capital stock, or declared, paid or otherwise made any dividend or distribution of any kind on its capital stock; and (D) there has not been any material change in the capital stock, short-term debt or long-term debt of the Company and its consolidated subsidiaries, except in each case of this paragraph (xvi) as described in or contemplated by the Prospectus or, if the Prospectus is not in existence, the most recent Preliminary Prospectus.

(xvii) The Company has not, directly or indirectly, (A) taken any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities or (B) since the filing of the Registration Statement (1) sold, bid for, purchased or paid anyone any compensation for soliciting purchases of, the Securities or (2) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the sale of Securities by the Selling Securityholder under this Agreement).

(xviii) The Company and each of its subsidiaries have good and marketable title in fee simple to all items of real property and marketable title to all personal property owned by each of them, in each case free and clear of any security interests, liens, encumbrances, claims and other defects, except such as do not materially and adversely affect the value of such property and do not interfere with the use made or proposed to be made of such property by the Company or any such subsidiary and any real property and buildings held under lease by the Company or any such subsidiary are held under valid, subsisting and enforceable leases, with such exceptions as are not material and do not interfere with the use made or proposed to be made of such property and buildings by the Company or any such subsidiary, in each case of this paragraph (xviii) except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xix) No labor dispute with the employees of the Company or any of its subsidiaries exists or, to the best of the Company's knowledge, is threatened or imminent

that would have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company and its subsidiaries, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xx) The Company and its subsidiaries own or possess, or can acquire on reasonable terms, all material patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently used by them in connection with their respective businesses, and neither the Company nor any such subsidiary has received any notice of, or has any reasonable belief that its use constitutes, an infringement of or conflict with asserted rights of any third party with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company or such subsidiary, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxi) The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the business in which they are engaged; neither the Company nor any such subsidiary has been refused any insurance coverage sought or applied for; and the neither Company nor any such subsidiary has reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company and its subsidiaries, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxii) The Company and its subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct its business except where failure to possess such certificates, authorizations and permits would not have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company or any of its subsidiaries, and neither the Company nor any such subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the condition (financial or otherwise), management, business prospects, net

worth or results of operations of the Company and its subsidiaries, except

-9-

as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxiii) The Company will conduct its operations in a manner that will not subject it to registration as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and consummation of the transactions herein contemplated will not cause the Company to become an investment company subject to registration under the Investment Company Act.

(xxiv) The Company and its subsidiaries have filed all foreign, federal, state and local tax returns that are required to be filed or have requested extensions thereof (except in any case in which the failure so to file would not have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company or any of its subsidiaries and have paid all taxes required to be paid by them and any other assessment, fine or penalty levied against them, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus) or except as would not otherwise have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company and its subsidiaries.

(xxv) Neither the Company nor any of its subsidiaries is in violation of any federal or state law or regulation relating to (A) the environment or hazardous or toxic substances or wastes, pollutants or contaminants or to the storage, handling or transportation of hazardous or toxic materials ("Environmental Laws") or (B) occupational safety and health and the Company and its subsidiaries have received all permits, licenses or other approvals required of it under applicable federal and state Environmental Laws and occupational safety and health laws and regulations to conduct their respective businesses, and the Company and each such subsidiary is in compliance with all terms and conditions of any such permit, license or approval, except for any such violation of law or regulation, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals which would not, singly or in the aggregate, have a material adverse effect on the condition (financial or otherwise), management, business prospects, net

worth or results of operations of the Company and its subsidiaries, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus). Neither the Company nor any of its subsidiaries has any pending or, to the best of the Company's knowledge, threatened environmental or occupational safety and health claims against it nor are there circumstances with respect to any property or operations of the Company or any such subsidiary that could reasonably be anticipated to form the basis of a claim against the Company under any Environmental Laws or occupational health and safety laws and regulations which, singly

-10-

or in the aggregate, would have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company and its subsidiaries, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxvi) Each certificate signed by any officer of the Company in his or her capacity as such and delivered to the Representatives or counsel for the Underwriters shall be deemed to be a representation and warranty by the Company to each Underwriter as to the matters covered thereby.

(xxvii) The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (A) transactions are executed in accordance with management's general or specific authorizations; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxviii) Except as disclosed in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), no default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective properties is bound, except any such default that would not have a material adverse effect on the condition (financial or

otherwise), management, business prospects, net worth or results of operations of the Company and its subsidiaries.

(xxix) Except as disclosed in the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus), there are no outstanding (A) securities or obligations of the Company or any of its subsidiaries convertible into or exchangeable for any capital stock of the Company or any such subsidiary, (B) warrants, rights or options to subscribe for or purchase from the Company or any such subsidiary any such capital stock or any such convertible or exchangeable securities or obligations or (C) obligations of the Company or any such subsidiary to issue any shares of capital stock, any such convertible or exchangeable securities or obligations, or any such warrants, rights or options.

(xxx) The Company has not distributed and, prior to the later of (A) the Firm Closing Date and (B) the completion of the distribution of the Securities, will not distribute any offering material in connection with the offering and sale of the Securities

-11-

other than the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus, or any materials, if any, permitted by the Act.

(xxxii) The Company and its subsidiaries have complied with all provisions of Section 517.075, Florida Statutes (Chapter 92-198, Laws of Florida) to the extent such provisions are applicable to the Company and its subsidiaries.

(xxxiii) No subsidiary of the Company is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distribution on such subsidiary's capital stock, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary's property or assets to the Company or any other subsidiary of the Company, except as described in or contemplated by the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(xxxiiii) All offers and sales of the Company's capital stock prior to the date hereof were at all relevant times exempt from the registration requirements of the Act, and were the subject of an available exemption from the registration requirements of all applicable state securities or blue sky laws.

(b) The Selling Securityholder represents and warrants to, and agrees with, each of the several Underwriters that:

(i) The Selling Securityholder has been duly organized and is validly existing as a corporation under the laws of its jurisdiction of incorporation and is duly qualified to transact business as a foreign corporation and is in good standing under the laws of all other jurisdictions where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified does not amount to a material liability or disability to the Selling Securityholder.

(ii) Such Selling Securityholder has full power and authority (corporate and other) to enter into this Agreement and to sell, assign, transfer and deliver to the Underwriters the Securities to be sold by such Selling Securityholder hereunder in accordance with the terms of this Agreement; and this Agreement has been duly executed and delivered by such Selling Securityholder and is the valid and binding agreement of such Selling Securityholder, enforceable against such Selling Securityholder in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws affecting the rights and remedies of creditors generally and subject to general principles of equity whether in a court of law or equity.

-12-

(iii) Such Selling Securityholder has full power and authority (corporate and other) to enter into the Reorganization Agreements to which it is a party; and such Reorganization Agreements have been duly executed and delivered by such Selling Securityholder and are the valid and binding agreements of such Selling Securityholder, enforceable against such Selling Securityholder in accordance with their terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws affecting the rights and remedies of creditors generally and subject to general principles of equity whether in a court of law or equity.

(iv) Such Selling Securityholder has duly executed and delivered a power of attorney and custody agreement (with respect to such Selling Securityholder, the "Custody Agreement") in the form heretofore delivered to the Representatives, appointing James J. Kim, Joseph J. Firestone, John R. Panichello, and each of them as such Selling Securityholder's attorney-in-fact (the "Attorneys-in-Fact") with authority to execute, deliver and perform this Agreement on behalf of the Selling Securityholder and appointing First Chicago Trust Company of New York, as custodian thereunder (the "Custodian"). Certificates in negotiable form, endorsed in blank or accompanied by blank stock powers duly executed, with signatures appropriately guaranteed, representing the Securities to be sold by such Selling Securityholder hereunder have been deposited with the Custodian pursuant to the Custody Agreement for the purpose of delivery pursuant

to this Agreement. Such Selling Securityholder has full power and authority (corporate and other) to enter into the Custody Agreement and to perform its obligations under the Custody Agreement. The Custody Agreement has been duly executed and delivered by such Selling Securityholder and, assuming due authorization, execution and delivery by the Custodian, is the valid and binding agreement of such Selling Securityholder, enforceable against such Selling Securityholder in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws affecting the rights and remedies of creditors generally and subject to general principles of equity whether in a court of law or equity.

(v) Such Selling Securityholder agrees that each of the Securities represented by the certificates held in custody under the Custody Agreement is subject to the interests of the Underwriters hereunder, that the arrangements made for such custody, the appointment of the Attorneys-in-Fact and the right, power and authority of the Attorneys-in-Fact to execute and deliver this Agreement, to agree on the price at which the Securities (including the Selling Securityholder's Securities) are to be sold to the Underwriters, and to carry out the terms of this Agreement, are to the extent provided in the Custody Agreement irrevocable and that the obligations of the Selling Securityholder hereunder shall not be terminated, except as provided in this Agreement or the Custody Agreement, by any act of the Selling Securityholder, by operation of law or otherwise.

-13-

(vi) Such Selling Securityholder is the lawful record and beneficial owner of the Securities to be sold by such Selling Securityholder hereunder and upon sale and delivery of, and payment for, such Securities as provided herein, the Selling Securityholder will convey good and marketable title to such Securities, free and clear of any security interests, liens, encumbrances, claims or other defects.

(vii) Such Selling Securityholder has not, directly or indirectly, (A) taken any action designed to cause or result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities or (B) since the filing of the Registration Statement (1) sold, bid for, purchased or paid anyone any compensation for soliciting purchases of, the Securities or (2) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the sale of Securities by such Selling Securityholder under this Agreement).



(viii) The sale by such Selling Securityholder of Securities pursuant hereto is not prompted by any adverse information concerning the Company that is not set forth in the Registration Statement or the Prospectus (or, if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(ix) The sale of the Securities to the Underwriters by such Selling Securityholder pursuant to this Agreement, the compliance by such Selling Securityholder with the other provisions of this Agreement and the Custody Agreement and the consummation of the other transactions contemplated hereby and the consummation by such Selling Securityholder of the transactions contemplated by the Reorganization Agreements do not (A) require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as has been obtained, such as may be required under state securities or blue sky laws and, if the registration statement filed with respect to the Securities (as amended) is not effective under the Act as of the time of execution hereof, such as may be required (and shall be obtained as provided in this Agreement) under the Act or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under any indenture, mortgage, deed of trust, lease or other material agreement or instrument to which such Selling Securityholder is a party or by which such Selling Securityholder or any of such Selling Securityholder's properties are bound, or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to such Selling Securityholder.

(x) To the extent that any statements or omissions are made in the Registration Statement, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company by such Selling Securityholder specifically for use therein,

-14-

such information in the Preliminary Prospectus, the Registration Statement or the Prospectus and any amendments or supplements thereto, when they become effective or are filed with the Commission, as the case may be, did and will conform in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading. Such Selling Securityholder has reviewed the Prospectus (or if the Prospectus is not in existence, the most recent Preliminary Prospectus) and the Registration Statement, and the information regarding such Selling Securityholder set forth therein under the

caption "Principal and Selling Shareholders" is complete and accurate.

(xi) Such Selling Securityholder has not distributed and, prior to the later of (A) the Firm Closing Date and (B) the completion of the distribution of the Securities, will not distribute any offering material in connection with the offering and sale of the Securities other than the Registration Statement or any amendment thereto, any Preliminary Prospectus and the Prospectus or any supplement or amendment thereto, or any materials, if any permitted by the Act.

3. Purchase, Sale and Delivery of the Securities.

(a) On the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, the Company agrees to issue and sell to, and the Selling Securityholder agree to sell to, each of the Underwriters, and each of the Underwriters, severally and not jointly, agrees to purchase from the Company and the Selling Securityholder at a purchase price of \$\_\_\_\_\_ per share, the number of Firm Securities set forth opposite the name of such Underwriter in Schedule 1 hereto. The Company's Firm Securities shall consist of 4,375,000 shares of Common Stock and the Selling Securityholder's Firm Securities shall consist of 1,875,000 shares of Common Stock. The number of Firm Securities to be purchased by each Underwriter from the Company and each Selling Securityholder shall be as nearly as practicable in the same proportion to the total number of Firm Securities being sold by the Company and each Selling Securityholder (with the number of shares to be sold by each Selling Securityholder being set forth opposite such Selling Securityholder's name in Schedule 2 hereto) as the total number of Firm Securities to be purchased by such Underwriter bears to the total number of Firm Securities to be purchased by the Underwriters hereunder. One or more certificates in definitive form for the Firm Securities that the several Underwriters have agreed to purchase hereunder, and in such denomination or denominations and registered in such name or names as the Representatives request upon notice to the Company and the Selling Securityholder at least 48 hours prior to the Firm Closing Date, shall be delivered by or on behalf of the Company and the Selling Securityholder to the Representatives for the respective accounts of the Underwriters, against payment by or on behalf of the Underwriters of the purchase price therefor by wire transfer payable in same-day funds (the "Wired Funds") to the account of the Company in the case of the Company's Firm Securities and to the order of the Custodian in the case of the

-15-

Selling Securityholder's Firm Securities. Such delivery of and payment for the Firm Securities shall be made at the offices of King & Spalding, 1185 Avenue of the Americas, New York, New York 10036-4003 at 9:30 A.M., New York City time, on July\_\_\_, 1998; or at such other place, time or date as the Representatives and the Company may agree upon or as the Representatives may determine pursuant to Section 9 hereof, such time and date of delivery against payment being herein referred to as the "Firm Closing Date". The Company and the Selling

Securityholder will make such certificate or certificates for the Firm Securities available for checking and packaging by the Representatives at the offices of the Company's transfer agent or registrar or of Prudential Securities Incorporated in New York, New York at least 24 hours prior to the Firm Closing Date.

(b) For the purpose of covering any over-allotments in connection with the distribution and sale of the Firm Securities as contemplated by the Prospectus, the Selling Securityholder hereby grants to the several Underwriters an option to purchase, severally and not jointly, the Option Securities. The purchase price to be paid for any Option Securities shall be the same price per share as the price per share for the Firm Securities set forth above in paragraph (a) of this Section 3. The option granted hereby may be exercised as to all or any part of the Option Securities from time to time within thirty days after the date of the Prospectus (or, if such 30th day shall be a Saturday or Sunday or a holiday, on the next business day thereafter when the Nasdaq Stock Market's National Market (the "Nasdaq National Market") is open for trading). The Underwriters shall not be under any obligation to purchase any of the Option Securities prior to the exercise of such option. The Representatives may from time to time exercise the option granted hereby by giving notice in writing or by telephone (confirmed in writing) to the Selling Securityholder setting forth the aggregate number of Option Securities as to which the several Underwriters are then exercising the option and the date and time for delivery of and payment for such Option Securities. Any such date of delivery shall be determined by the Representatives but shall not be earlier than two business days or later than five business days after such exercise of the option and, in any event, shall not be earlier than the Firm Closing Date. The time and date set forth in such notice, or such other time on such other date as the Representatives and the Selling Securityholder may agree upon or as the Representatives may determine pursuant to Section 9 hereof, is herein called the "Option Closing Date" with respect to such Option Securities. Upon exercise of the option as provided herein, the Selling Securityholder shall become obligated to sell to each of the several Underwriters, and, subject to the terms and conditions herein set forth, each of the Underwriters (severally and not jointly) shall become obligated to purchase from the Company, the same percentage of the total number of the Option Securities as to which the several Underwriters are then exercising the option as such Underwriter is obligated to purchase of the aggregate number of Firm Securities, as adjusted by the Representatives in such manner as they deem advisable to avoid fractional shares. If the option is exercised as to all or any portion of the Option Securities, one or more certificates in definitive form for such Option Securities, and payment therefor, shall be delivered on the related Option Closing Date in the manner, and upon the terms and conditions, set forth in paragraph (a) of this Section 3 with respect to the sale of the Firm Securities, except that reference therein to

the Firm Securities and the Firm Closing Date shall be deemed, for purposes of this paragraph (b), to refer to such Option Securities and Option Closing Date,

respectively.

(c) The Company and the Selling Securityholder hereby acknowledge that the wire transfer by or on behalf of the Underwriters of the purchase price for any Securities does not constitute the closing of a purchase and sale of the Securities. Only execution and delivery of a receipt for Securities by the Underwriters indicates completion of the closing of a purchase of the Securities from the Company and the Selling Securityholder. Furthermore, in the event that the Underwriters wire funds to the Company and the Selling Securityholder prior to the completion of the closing of a purchase of the Securities, the Company and the Selling Securityholder hereby acknowledge that until the Underwriters execute and deliver a receipt for the Securities, by facsimile or otherwise, the Company and the Selling Securityholder will not be entitled to the Wired Funds and shall return the Wired Funds to the Underwriters as soon as practicable (by wire transfer of same-day funds) upon demand. In the event that the closing of a purchase of the Securities is not completed and the Wired Funds are not returned by the Company and the Selling Securityholder to the Underwriters on the same day the Wired Funds were received by the Company and the Selling Securityholder, the Company and the Selling Securityholder agree to pay to the Underwriters in respect of each day the Wired Funds are not returned by it, in same-day funds, interest on the amount of Wired Funds in an amount representing the Underwriters' cost of financing as reasonably determined by Prudential Securities Incorporated. Upon satisfactory receipt of the Securities by the Underwriters in accordance with all the terms of this Agreement and the compliance by the Company and the Selling Securityholder with all terms of this Agreement to be performed on or before the Closing Date, the Underwriters shall execute the receipt described above for the Securities.

(d) It is understood that either of you, individually and not as one of the Representatives, may (but shall not be obligated to) make payment on behalf of any Underwriter or Underwriters for any of the Securities to be purchased by such Underwriter or Underwriters. No such payment shall relieve such Underwriter or Underwriters from any of its or their obligations hereunder.

4. Offering by the Underwriters. Upon your authorization of the release of the Firm Securities, the several Underwriters propose to offer the Firm Securities for sale to the public upon the terms set forth in the Prospectus.

5. Covenants of the Company and the Selling Securityholder.

(a) The Company covenants and agrees with each of the Underwriters that:

(i) The Company will use its best efforts to cause the Registration Statement, if not effective at the time of execution of this Agreement, and any amendments thereto to become effective as promptly as possible. If required, the Company will file the Prospectus or any Term Sheet that constitutes a part thereof and any amendment or

supplement thereto with the Commission in the manner and within the time period required by Rules 434 and 424(b) under the Act. During any time when a prospectus relating to the Securities is required to be delivered under the Act, the Company (A) will comply with all requirements imposed upon it by the Act and the rules and regulations of the Commission thereunder to the extent necessary to permit the continuance of sales of or dealings in the Securities in accordance with the provisions hereof and of the Prospectus, as then amended or supplemented, and (B) will not file with the Commission the Prospectus, Term Sheet or the amendment referred to in the second sentence of Section 2(a)(i) hereof, any amendment or supplement to such Prospectus, Term Sheet or any amendment to the Registration Statement or any Rule 462(b) Registration Statement of which the Representatives previously have been advised and furnished with a copy for a reasonable period of time prior to the proposed filing and as to which filing the Representatives shall not have given their consent, which consent shall not have been unreasonably withheld. The Company will prepare and file with the Commission, in accordance with the rules and regulations of the Commission, promptly upon request by the Representatives or counsel for the Underwriters, any amendments to the Registration Statement or any Rule 462(b) Registration Statement or amendments or supplements to the Prospectus that may be necessary or advisable in connection with the distribution of the Securities by the several Underwriters, and will use its best efforts to cause any such amendment to the Registration Statement to be declared effective by the Commission as promptly as possible. The Company will advise the Representatives, promptly after receiving notice thereof, of the time when the Registration Statement or any amendment thereto has been filed or declared effective or the Prospectus or any amendment or supplement thereto has been filed and will provide evidence reasonably satisfactory to the Representatives of each such filing or effectiveness.

(ii) The Company will advise the Representatives, promptly after receiving notice or obtaining knowledge thereof, of (A) the issuance by the Commission of any stop order suspending the effectiveness of the Original Registration Statement or any Rule 462(b) Registration Statement or any amendment thereto or any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, (B) the suspension of the qualification of the Securities for offering or sale in any jurisdiction, (C) the institution, threatening or contemplation of any proceeding for any such purpose or (D) any request made by the Commission for amending the Original Registration Statement or any Rule 462(b) Registration Statement, for amending or supplementing any Preliminary Prospectus or the Prospectus or for additional information. The Company will use its best efforts to prevent the issuance of any such stop order and, if any such stop order is issued, to obtain the withdrawal thereof as promptly as possible.

(iii) The Company will arrange for the qualification of the Securities for offering and sale under the securities or blue sky laws of such jurisdictions as the Representatives may designate and will continue such qualifications in effect for as long

-18-

as may be necessary to complete the distribution of the Securities; provided, however, that in connection therewith the Company shall not be required to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction.

(iv) If, at any time prior to the later of (A) the final date when a prospectus relating to the Securities is required to be delivered under the Act or (B) the Option Closing Date, any event occurs as a result of which the Prospectus, as then amended or supplemented, would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if for any other reason it is necessary at any time to amend or supplement the Prospectus to comply with the Act or the rules or regulations of the Commission thereunder, the Company will promptly notify the Representatives thereof and, subject to Section 5(a)(i) hereof, will prepare and file with the Commission, at the Company's expense, an amendment to the Registration Statement or an amendment or supplement to the Prospectus that corrects such statement or omission or effects such compliance.

(v) The Company will, without charge, provide (A) to each of the Representatives and counsel for the Underwriters a signed copy of the registration statement originally filed with respect to the Securities and each amendment thereto and any Rule 462(b) Registration Statement (in each case including exhibits thereto), (B) to each other Underwriter, a conformed copy of such registration statement or any Rule 462(b) Registration Statement and each amendment thereto (in each case without exhibits thereto) and (C) so long as a prospectus relating to the Securities is required to be delivered under the Act, as many copies of each Preliminary Prospectus or the Prospectus or any amendment or supplement thereto as the Representatives may reasonably request; without limiting the application of clause (C) of this sentence, the Company, not later than (1) 6:00 PM, New York City time, on the date of determination of the public offering price, if such determination occurred at or prior to 10:00 AM, New York City time, on such date or (2) 2:00 PM, New York City time, on the business day following the date of determination of the public offering price, if such determination occurred after 10:00 AM, New York City time, on such date, will deliver to the Underwriters, without charge, as many copies of the Prospectus and any amendment or supplement thereto as the Representatives may reasonably request for purposes of confirming

orders that are expected to settle on the Firm Closing Date.

(vi) The Company, as soon as practicable, will make generally available to its securityholders and to the Representatives a consolidated earnings statement of the Company and its subsidiaries that satisfies the provisions of Section 11(a) of the Act and Rule 158 thereunder.

(vii) The Company will apply the net proceeds from the sale of the Securities as set forth under "Use of Proceeds" in the Prospectus.

-19-

(viii) The Company will not, directly or indirectly, without the prior written consent of Prudential Securities Incorporated, on behalf of the Underwriters, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of any option to purchase or other sale or disposition) of any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock or other capital stock of the Company, or any right to purchase or acquire Common Stock or other capital stock of the Company for a period of 360 days after the date hereof, except (A) pursuant to this Agreement and (B) for issuances of options pursuant to stock option plans and employment agreements in existence on the date hereof or as disclosed in the Prospectus (or if the Prospectus is not in existence, the most recent Preliminary Prospectus).

(ix) The Company will not, directly or indirectly, (A) take any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities or (B) (1) sell, bid for, purchase, or pay anyone any compensation for soliciting purchases of, the Securities or (2) pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the sale of Securities by the Selling Securityholder under this Agreement).

(x) If at any time during the 25-day period after the Registration Statement becomes effective or the period prior to the Option Closing Date, any rumor, publication or event relating to or affecting the Company or its subsidiaries shall occur as a result of which in your reasonable opinion the market price of the Common Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after notice from you

advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of, and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(xi) The Company will obtain the agreements described in Section 7(h) hereof from all persons other than the Selling Securityholder prior to the Firm Closing Date.

(xii) The Company will cause the Securities to be issued and sold by it to be duly included for quotation on the Nasdaq National Market prior to the Firm Closing Date. The Company will ensure that the Securities remain included for quotation on the Nasdaq National Market or will be listed on a national exchange following the Firm Closing Date for a period of at least two years.

-20-

(xiii) During a period of five years from the effective date of the Registration Statement, the Company will furnish to you and, upon request, to each of the other Underwriters, without charge, (A) copies of all reports or other communications (financial or other) furnished to securityholders, (B) as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange and (C) such additional publicly available information concerning the business and financial condition of the Company and its subsidiaries, if any, as you may reasonably request.

(xiv) If the Company elects to rely on Rule 462(b), the Company shall both file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) and pay the applicable fees in accordance with Rule 111 promulgated under the Act by the earlier of (A) 10:00 P.M. Eastern time on the date of this Agreement and (B) the time confirmations are sent or given, as specified by Rule 462(b)(2).

(b) The Selling Securityholder covenants and agrees with each of the Underwriters that:

(i) Such Selling Securityholder will not, directly or indirectly, without the prior written consent of Prudential Securities Incorporated, on behalf of the Underwriters, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of any option to purchase or other sale or disposition) of any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, Common Stock or other capital stock of the Company, or any right to purchase or acquire Common Stock or other capital stock of the Company for a period of 360



days after the date hereof, except (A) pursuant to this Agreement or (B) as consented to in writing by Prudential Securities Incorporated.

(ii) Such Selling Securityholder will not, directly or indirectly, (A) take any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities or (B) (1) sell, bid for, purchase, or pay anyone any compensation for soliciting purchases of, the Securities or (2) pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the sale of Securities by the Selling Securityholder under this Agreement).

(iii) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Internal Revenue Code of 1986, as amended, with respect to the transactions herein contemplated, such Selling Securityholder agrees to deliver to the Representatives prior to or on the Firm Closing Date a properly completed and

-21-

executed United States Treasury Department Form W-8 or W-9 (or other applicable form or statement specified by the Treasury Department regulations in lieu thereof).

6. Expenses. The Company will pay all costs and expenses incident to the performance of the obligations of the Company and the Selling Securityholder under this Agreement, whether or not the transactions contemplated herein are consummated or this Agreement is terminated pursuant to Section 12 hereof, including all costs and expenses incident to (a) the printing or other production of documents with respect to the transactions, including any costs of printing the registration statement originally filed with respect to the Securities and any amendment thereto, any Rule 462(b) Registration Statement, any Preliminary Prospectus and the Prospectus and any amendment or supplement thereto, this Agreement and any blue sky memoranda, (b) all arrangements relating to the delivery to the Underwriters of copies of the foregoing documents, (c) the fees and disbursements of the counsel, the accountants and any other experts or advisors retained by the Company, (d) preparation, issuance and delivery to the Underwriters of any certificates evidencing the Securities, including transfer agent's and registrar's fees and the Custodian's fees, (e) the qualification of the Securities under state securities and blue sky laws, including filing fees and reasonable fees and disbursements of counsel for the Underwriters relating thereto, (f) the filing fees of the Commission and the National Association of Securities Dealers, Inc. relating to the Securities, (g) any listing of the Securities on the Nasdaq National Market, (h) any meetings with prospective investors in the Securities (other than as shall have been

specifically approved by the Representatives to be paid for by the Underwriters) and (i) advertising relating to the offering of the Securities (other than as shall have been specifically approved by the Representatives to be paid for by the Underwriters). Any transfer taxes imposed on the sale of the Securities to the several Underwriters will be paid by the Company and the Selling Securityholder pro rata. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 7 hereof is not satisfied, because this Agreement is terminated pursuant to Section 12 hereof (other than Section 12(a)(v) hereof) or because of any failure, refusal or inability on the part of the Company or the Selling Securityholder to perform all obligations and satisfy all conditions on its part to be performed or satisfied hereunder other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters upon demand for all reasonable out-of-pocket expenses (including reasonable counsel fees and disbursements) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities. The Company and the Selling Securityholder shall not in any event be liable to any of the Underwriters for the loss of anticipated profits from the transactions covered by this Agreement.

7. Conditions of the Underwriters' Obligations. The obligations of the several Underwriters to purchase and pay for the Firm Securities shall be subject, in the Representatives' sole discretion, to the accuracy of the representations and warranties of the Company and the Selling Securityholder contained herein as of the date hereof and as of the Firm Closing Date, as if made on and as of the Firm Closing Date, to the accuracy of the statements of the Company's officers made pursuant to the provisions hereof, to the performance by the Company and the

-22-

Selling Securityholder of its covenants and agreements hereunder and to the following additional conditions:

(a) If the Original Registration Statement or any amendment thereto filed prior to the Firm Closing Date has not been declared effective as of the time of execution hereof, the Original Registration Statement or such amendment and, if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement shall have been declared effective not later than the earlier of (i) 11:00 A.M., New York time, on the date on which the amendment to the registration statement originally filed with respect to the Securities or to the Registration Statement, as the case may be, containing information regarding the initial public offering price of the Securities has been filed with the Commission and (ii) the time confirmations are sent or given as specified by Rule 462(b)(2) or, with respect to the Original Registration Statement, such later time and date as shall have been consented to by the Representatives; if required, the Prospectus or any Term Sheet that constitutes a part thereof and any amendment or supplement thereto shall have been filed with the Commission

in the manner and within the time period required by Rules 434 and 424(b) under the Act; no stop order suspending the effectiveness of the Registration Statement or any amendment thereto shall have been issued, and no proceedings for that purpose shall have been instituted or threatened or, to the knowledge of the Company or the Representatives, shall be contemplated by the Commission; and the Company shall have complied with any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise).

(b) The Representatives shall have received an opinion, dated the Firm Closing Date, of Klehr, Harrison, Harvey, Branzburg & Ellers LLP, counsel for the Company, to the effect that:

(i) The Company, EBOA and Elbo have been duly organized and are validly existing as corporations in good standing under the laws of their respective jurisdictions and are duly qualified to transact business as foreign corporations and are in good standing under the laws of all other jurisdictions where the ownership or leasing of their respective properties or the conduct of their respective businesses requires such qualification, except where the failure to be so qualified would not have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company and its subsidiaries.

(ii) Except as disclosed in the Prospectus, the Company and each of the Company's domestic subsidiaries listed in Exhibit 21.1 to the Registration Statement (the "Domestic Subsidiaries") have the corporate power to own or lease their respective properties and conduct their respective businesses as described in the Registration Statement and the Prospectus, and the Company has the corporate

-23-

power to enter into this Agreement and to carry out all the terms and provisions hereof to be carried out by it.

(iii) The Company has an authorized, issued and outstanding capitalization as set forth in the Prospectus; all of the issued shares of capital stock of the Company (including but not limited to the Securities being sold by the Selling Securityholder) have been duly authorized and validly issued and are fully paid and nonassessable, have been issued in compliance with all applicable federal and state securities laws and were not issued in violation of or subject to any statutory or, to such counsel's knowledge, contractual preemptive rights or other rights to subscribe for or purchase securities; the Securities being issued and sold by the Company have been duly authorized by all necessary corporate action of the Company and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be validly issued, fully

paid and nonassessable; the Securities have been duly listed for trading on the Nasdaq National Market; no holders of outstanding shares of capital stock of the Company are entitled as such to any preemptive or other rights to subscribe for any of the Securities; and, except as disclosed in the Prospectus, no holders of securities of the Company are entitled to have such securities registered under the Registration Statement.

(iv) (A) the issued and outstanding shares of capital stock of each of the Domestic Subsidiaries have been duly authorized and validly issued and are fully paid and nonassessable and, to the knowledge of such counsel, are owned beneficially by the Company free and clear of security interests, liens, encumbrances or claims and (B) to the knowledge of such counsel, other than the subsidiaries and the entities of the Company listed in exhibit 21.1 to the Registration Statement (the "Subsidiaries"), the Company does not directly or indirectly own any shares of stock or any other equity securities of any corporation or have any direct or indirect equity interest in any firm, partnership, association or other entity, which corporation, firm, partnership, association or other entity would, individually or when aggregated with all such other corporations, firms, partnerships, associations or other entities, be considered a "significant subsidiary" within the meaning of Rule 1-02 of Regulation S-X under the Act.

(v) The capital stock of the Company conforms as to legal matters in all material respects to the description thereof contained in the Prospectus under the caption "Description of Capital Stock," and the statements set forth under the headings "Reorganization" and "Business - Legal Proceedings" in the Prospectus, insofar as such statements constitute a summary of the legal matters, documents and proceedings referred to therein, provide a fair summary of such legal matters, documents and proceedings.

-24-

(vi) The execution and delivery of this Agreement have been duly authorized by all necessary corporate action of the Company, and this Agreement has been duly executed and delivered by the Company.

(vii) The execution and delivery of the Reorganization Agreements to which the Company and the Affiliated Entities are parties have been duly authorized by the Company and the Affiliated Entities, as the case may be, and the Reorganization Agreements have been duly executed and delivered by the Company, the Affiliated Entities and the Kim Shareholders and are the valid and binding agreements of the Company, the Affiliated Entities and the Kim Shareholders, enforceable against the Company, the Affiliated Entities and the Kim Shareholders in accordance with their respective terms, except as such enforceability

may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally and subject to general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity). The Reorganization has been consummated on the terms and conditions set forth in the Prospectus.

(viii) To such counsel's knowledge, (A) no legal or governmental proceedings are pending to which the Company or any of the Subsidiaries is a party or to which the property of the Company or any of the Subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not described therein, no such proceedings have been threatened against the Company or any of the Subsidiaries or with respect to any of their respective properties and (B) all contracts or other documents required by Item 601 of Regulation S-K to be filed as exhibits to the Registration Statement have been so filed.

(ix) Except as disclosed in the Prospectus and except with respect to the UK Services Agreement as to which such counsel need express no opinion, the issuance, offering and sale of the Securities being issued and sold by the Company to the Underwriters pursuant to this Agreement, the compliance by the Company with the other provisions of this Agreement and the consummation of the transactions herein contemplated do not (A) require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as have been obtained and such as may be required under state securities or blue sky laws or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, (1) any indenture, mortgage, deed of trust, lease or other agreement or instrument filed as an exhibit to the Registration Statement or any other material agreement otherwise known to such counsel to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries or any of their respective properties

-25-

are bound, (2) the charter documents or by-laws of the Company or any of the Subsidiaries, or (3) any statute, rule or regulation, or any judgment, decree or order of any court or other governmental authority or any arbitrator known to such counsel, and applicable to the Company or any of the Subsidiaries.

(x) To the knowledge of such counsel, (A) the Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses, the

absence of which could have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company and the Subsidiaries, and (B) neither the Company nor any of the Subsidiaries has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company and the Subsidiaries, except, in all cases, as described in or contemplated by the Prospectus.

(xi) The Registration Statement is effective under the Act; any required filing of the Prospectus, or any Term Sheet that constitutes a part thereof, pursuant to Rules 434 and 424(b) has been made in the manner and within the time period required by Rules 434 and 424(b); and, to such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement or any amendment thereto has been issued, and no proceedings for that purpose have been instituted or, to the knowledge of such counsel, are contemplated or threatened by the Commission.

(xii) The registration statement originally filed with respect to the Securities and each amendment thereto, any Rule 462(b) Registration Statement and the Prospectus (in each case other than the financial statements and other financial information contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act and the rules and regulations of the Commission thereunder.

(xiii) The Company is not an "investment company" under the Investment Company Act, and consummation of the transactions herein contemplated will not cause the Company to become an investment company subject to registration under the Investment Company Act.

(xiv) To such counsel's knowledge, except as disclosed in the Prospectus, there are no outstanding (A) securities or obligations of the Company

-26-

convertible into or exchangeable for any capital stock of the Company, (B) warrants, rights or options to subscribe for or purchase from the Company any such capital stock or any such convertible or exchangeable securities or obligations, or (C) obligations of the Company to issue any shares of capital stock, any such convertible or exchangeable securities or obligations, or any such warrants, rights or options.

(xv) If the Company elects to rely on Rule 434, the Prospectus is

not "materially different," as such term is used in Rule 434, from the prospectus included in the Registration Statement at the time of its effectiveness or any effective post-effective amendment thereto (including such information that is permitted to be omitted pursuant to Rule 430A).

Such counsel shall also state that they have participated in conferences with officers and representatives of the Company at which the contents of the Prospectus and the Registration Statement and related matters and documents were discussed. The limitations inherent in the review of factual and other matters included in or contemplated by the Prospectus and the Registration Statement and the character of determinations involved in the registration process are such, however, that such counsel does not make any warranty or representation concerning, or assume any responsibility for, the accuracy, completeness or fairness of the statements contained in the Prospectus and the Registration Statement (other than as set forth in Section 7(b)(v) hereof). Based upon and subject to the foregoing, nothing has come to such counsel's attention which would lead them to believe that (A) the Registration Statement (other than the financial statements, including the notes thereto, and schedules and other financial and statistical data included therein, as to which they express no belief nor render any opinion), as of its effective date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, and (B) the Prospectus (other than the financial statements, including the notes thereto, and schedules and other financial and statistical data included therein, as to which they express no belief nor render any opinion), as of its date or the date of such opinion, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

In rendering any such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deems proper, on certificates of responsible officers of the Company and public officials.

References to the Registration Statement and the Prospectus in this paragraph (b) shall include any amendment or supplement thereto at the date of such opinion.

-27-

(c) The Representatives shall have received an opinion, dated the Firm Closing Date, of Fladgate Fielder to the effect that:

(i) Except as disclosed in the Prospectus, the issuance, offering and sale of the Securities being issued and sold by the Company to the Underwriters pursuant to this Agreement, the compliance by the Company

with the other provisions of this Agreement and the consummation of the other transactions herein contemplated do not conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, the UK Services Agreement.

(d) The Representatives shall have received an opinion, dated the Firm Closing Date of, Klehr, Harrison, Harvey, Branzburg & Ellers LLP, counsel for the Selling Securityholder, to the effect that:

(i) Such Selling Securityholder has been duly incorporated and is validly existing as a corporation under the laws of its jurisdiction of incorporation and has the corporate power to own, lease and operate its properties and to execute, deliver and perform this Agreement and the Custody Agreement.

(ii) Such Selling Securityholder has full corporate power and authority to enter into this Agreement and the Custody Agreement. Such Selling Securityholder has duly authorized, executed and delivered this Agreement and the Custody Agreement, and the Custody Agreement constitutes the valid and binding agreement of such Selling Securityholder enforceable against such Selling Securityholder in accordance with its respective terms, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally and subject to general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

(iii) Such Selling Securityholder has full corporate power and authority to enter into the Reorganization Agreements to which it is a party; and such Reorganization Agreements have been duly executed and delivered by such Selling Securityholder and are the valid and binding agreements of such Selling Securityholder, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar laws now or hereafter in effect relating to creditors' rights generally and subject to general principles of equity (regardless of whether enforceability is considered in a proceeding at law or in equity).

(iv) Immediately prior to the delivery of the Securities being sold by such Selling Securityholder, such Selling Securityholder was the sole registered

owner of such Securities and, upon registration of such Securities in the names of the purchasers thereof or their



nominees, assuming that such purchasers purchased such Securities in good faith without notice of any adverse claims as defined in Section 8-102 of the Uniform Commercial Code in effect in the state of New York, such purchasers will have acquired all the rights of such Selling Securityholder in such Securities free of any adverse claim, any lien in favor of the Company or restrictions on transfer imposed by the Company.

(v) Except as disclosed in the Prospectus and except with respect to the UK Services Agreement as to which such counsel need express no opinion, the sale of the Securities to the Underwriters by such Selling Securityholder pursuant to this Agreement, the compliance by the Selling Securityholder with the other provisions of this Agreement and the Custody Agreement and the consummation of the other transactions herein contemplated do not (A) require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as has been obtained and such as may be required under state securities or blue sky laws or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under any indenture, mortgage, deed of trust, lease or other material agreement or instrument to which a Selling Securityholder is a party or by which a Selling Securityholder or any of such Selling Securityholder's properties are bound, or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator known to such counsel applicable to such Selling Securityholder.

In rendering any such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deems proper, on certificates of responsible officers of the Company, the Selling Securityholder and public officials.

References to the Registration Statement and the Prospectus in this paragraph (d) shall include any amendment or supplement thereto at the date of such opinion.

(e) The Representatives shall have received an opinion, dated the Firm Closing Date, of King & Spalding, counsel for the Underwriters, with respect to the issuance and sale of the Firm Securities, the Registration Statement, the Prospectus and such other related matters as the Representatives may reasonably require, and the Company shall have furnished to such counsel such documents as they may reasonably request for the purpose of enabling them to pass upon such matters.

(f) The Representatives shall have received from KPMG Peat Marwick LLP a letter or letters dated, respectively, the date hereof and the Firm Closing Date, in form and substance satisfactory to the

(i) they are independent accountants with respect to the Company and its consolidated subsidiaries within the meaning of the Act and the applicable rules and regulations thereunder;

(ii) in their opinion, the audited consolidated and combined financial statements and schedules of the Company included in the Registration Statement and the Prospectus comply in form in all material respects with the applicable accounting requirements of the Act and the related published rules and regulations;

(iii) on the basis of (A) a reading of the interim consolidated and combined financial data for the period from the date of the latest balance sheet included in the Registration Statement and the Prospectus to the date of the latest available interim consolidated financial data, (B) a reading of the minute books of the shareholders, the board of directors and any committees thereof of the Company and its consolidated subsidiaries, from February 1, 1998 through a date not more than five days prior to the date of such letter, and (C) inquiries of certain officials of the Company and its consolidated subsidiaries who have responsibility for financial and accounting matters, nothing came to their attention that caused them to believe that:

(Y) at the date of the latest available interim consolidated financial data and at a specific date not more than five business days prior to the date of such letter, there was any change in long-term or short-term debt of the Company and its consolidated subsidiaries or any decreases in net current assets (working capital) or shareholders' equity of the Company and its consolidated subsidiaries, in each case compared with amounts shown on the January 31, 1998 audited consolidated and combined balance sheet included in the Registration Statement and the Prospectus, or for the period from January 31, 1998 to such specified date there were any decreases, as compared with the prior comparable period, in net sales or income before income taxes or total or per share amounts of net income of the Company and its consolidated subsidiaries, except in all instances for changes, decreases or increases set forth in such letter; and

(iv) they have carried out certain specified procedures (as requested by the Representatives), not constituting an audit, with respect to certain amounts, percentages and financial

information that are derived from the general accounting records of the Company and its consolidated subsidiaries and are included in the Registration Statement and the Prospectus and have compared such amounts, percentages and financial information with such records of the Company and its consolidated subsidiaries and with information derived from

-30-

such records and have found them to be in agreement, excluding any questions of legal interpretation.

In the event that the letters referred to above set forth any such changes, decreases or increases, it shall be a further condition to the obligations of the Underwriters that (A) such letters shall be accompanied by a written explanation from the Company as to the significance thereof, unless the Representatives deem such explanation unnecessary, and (B) such changes, decreases or increases do not, in the sole judgment of the Representatives, make it impractical or inadvisable to proceed with the purchase and delivery of the Securities as contemplated by the Registration Statement, as amended as of the date hereof.

References to the Registration Statement and the Prospectus in this paragraph (f) with respect to either letter referred to above shall include any amendment or supplement thereto at the date of such letter.

(g) The Representatives shall have received a certificate, dated the Firm Closing Date, of the principal executive officer and the principal financial or accounting officer of the Company to the effect that:

(i) the representations and warranties of the Company in this Agreement are true and correct as if made on and as of the Firm Closing Date; the Registration Statement, as amended as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading, and the Prospectus, as amended or supplemented as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and the Company has performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Firm Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement or any amendment thereto has been issued,

and no proceedings for that purpose have been instituted or, to the best of such officer's knowledge, are contemplated or threatened by the Commission; and

(iii) subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, (A) neither the Company nor any of its subsidiaries has sustained any material loss or interference with its business or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding, and there has not been any material adverse change, or

-31-

any development involving a prospective material adverse change, in the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company or its subsidiaries; (B) neither the Company nor any of its subsidiaries has incurred any material liability or obligation, direct or contingent, or entered into any material transaction not in the ordinary course of business; (C) neither the Company nor any of its subsidiaries has purchased any of its outstanding capital stock, or declared, paid or otherwise made any dividend or distribution of any kind on its capital stock; and (D) there has not been any material change in the capital stock, short-term debt or long-term debt of the Company and its consolidated subsidiaries, except in each case as described in or contemplated by the Prospectus (exclusive of any amendment or supplement thereto).

(h) The Representatives shall have received from the Selling Securityholder, the Kim Shareholders and each executive officer and director of the Company an agreement to the effect that such person or entity will not, directly or indirectly, without the prior written consent of Prudential Securities Incorporated, on behalf of the Underwriters, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, granted any option to purchase or other sale or disposition) of any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock or other capital stock of the Company, or any right to purchase or acquire Common Stock or other capital stock of the Company for a period of 360 days after the date of this Agreement, except (A) pursuant to this Agreement, (B) for issuances of options pursuant to stock option plans and employment agreements in existence on the date hereof and (C) pursuant to that letter agreement, dated July \_\_, 1998, between Prudential Securities Incorporated and Mr. James J. Kim.

(i) On or before the Firm Closing Date, the Representatives and counsel for the Underwriters shall have received such further certificates, documents or other information as they may have reasonably requested from the Company.

(j) Prior to the commencement of the offering of the Securities, the Securities to be issued and sold by the Company shall have been included for quotation on the Nasdaq National Market.

(k) The Underwriters shall have received a certificate from the Selling Securityholder, signed by the Selling Securityholder, dated the Firm Closing Date, to the effect that:

(i) the representations and warranties of the Selling Securityholder in this Agreement are true and correct as if made on and as of the Firm Closing Date;

-32-

(ii) with respect to statements or omissions in (A) the Registration Statement, as amended as of the Firm Closing Date, made in reliance upon and in conformity with written information furnished to the Company by the Selling Securityholder specifically for use therein, the Registration Statement does not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading, and (B) the Prospectus, as amended or supplemented as of the Firm Closing Date, made in reliance upon and in conformity with written information furnished to the Company by the Selling Securityholder specifically for use therein does not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statement therein, in the light of the circumstances under which they were made, not misleading; and

(iii) the Selling Securityholder has performed all covenants and agreements on its part to be performed or satisfied at or prior to the Firm Closing Date.

All opinions, certificates, letters and documents delivered pursuant to this Agreement will comply with the provisions hereof only if they are reasonably satisfactory in all material respects to the Representatives and counsel for the Underwriters. The Company shall furnish to the Representatives such conformed copies of such opinions, certificates, letters and documents in such quantities as the Representatives and counsel for the Underwriters shall reasonably request.

The respective obligations of the several Underwriters to purchase and

pay for any Option Securities shall be subject, in their discretion, to each of the foregoing conditions to purchase the Firm Securities, except that all references to the Firm Securities and the Firm Closing Date shall be deemed to refer to such Option Securities and the related Option Closing Date, respectively.

8. Indemnification and Contribution.

(a) Except as provided in Section 8(e), the Company, the Selling Securityholder and the Kim Shareholders, jointly and severally, agree to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), against any losses, claims, damages or liabilities, joint or several, to which such Underwriter or such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon:

(i) any untrue statement or alleged untrue statement made by the Company in Section 2 of this Agreement,

-33-

(ii) any untrue statement or alleged untrue statement of any material fact contained in (A) the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto or (B) any application or other document, or any amendment or supplement thereto, executed by the Company or based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to qualify the Securities under the securities or blue sky laws thereof or filed with the Commission or any securities association or securities exchange (each an "Application"),

(iii) the omission or alleged omission to state in the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or any Application a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or

(iv) any untrue statement or alleged untrue statement of any material fact required to be stated in or necessary to make the statements in any audio or visual materials provided by the Company and used in connection with the marketing of the Securities, in light of the circumstances under which they were made, not misleading, including without limitation, slides, videos, films and tape recordings, and will reimburse, as

incurred, each Underwriter and each such controlling person for any legal or other expenses reasonably incurred by such Underwriter or such controlling person in connection with investigating, defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action; provided, however, that the Company, the Selling Securityholder and the Kim Shareholders will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in such Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto or any Application in reliance upon and in conformity with written information furnished to the Company, the Selling Securityholder or the Kim Shareholders by such Underwriter through the Representatives specifically for use therein. This indemnity agreement will be in addition to any liability which the Company, the Selling Securityholder or the Kim Shareholders may otherwise have. The Company, the Selling Securityholder and the Kim Shareholders will not, without the prior written consent of the Underwriter or Underwriters purchasing, in the aggregate, more than fifty percent (50%) of the Securities, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not any such Underwriter or any person who controls any such Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act is a party to such claim, action, suit or proceeding), unless such settlement, compromise or consent includes an unconditional release of all of the Underwriters and

-34-

such controlling persons from all liability arising out of such claim, action, suit or proceeding.

(b) Each Underwriter, severally and not jointly, will indemnify and hold harmless the Company, each of its directors, each of its officers who signed the Registration Statement, the Selling Securityholder, the Kim Shareholders and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act against any losses, claims, damages or liabilities to which the Company or any such director or officer of the Company, the Selling Securityholder, the Kim Shareholders or any such controlling person of the Company or the Selling Securityholder may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment

thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or any Application or (ii) the omission or the alleged omission to state therein a material fact required to be stated in the Registration Statement or any amendment thereto, any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or any Application necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives specifically for use therein; and, subject to the limitation set forth immediately preceding this clause, will reimburse, as incurred, any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person or the Selling Securityholder or the Kim Shareholders in connection with investigating or defending any such loss, claim, damage, liability or any action in respect thereof. This indemnity agreement will be in addition to any liability which such Underwriter may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 8. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; provided, however, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be one or more legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnifying party shall not have the right to direct the defense of such action on behalf of such indemnified party or parties and such indemnified party or parties shall have the right to select separate counsel to defend such action on behalf of such indemnified party or parties. After notice from

-35-

the indemnifying party to such indemnified party of its election so to assume the defense thereof and approval by such indemnified party of counsel appointed to defend such action, the indemnifying party will not be liable to such indemnified party under this Section 8 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof, unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that in



connection with such action the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to local counsel) in any one action or separate but substantially similar actions in the same jurisdiction arising out of the same general allegations or circumstances, designated by the Representatives in the case of paragraph (a) of this Section 8, representing the indemnified parties under such paragraph (a) who are parties to such action or actions) or (ii) the indemnifying party does not promptly retain counsel reasonably satisfactory to the indemnified party or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. After such notice from the indemnifying party to such indemnified party, the indemnifying party will not be liable for the costs and expenses of any settlement of such action effected by such indemnified party without the consent of the indemnifying party.

(d) In circumstances in which the indemnity agreement provided for in the preceding paragraphs of this Section 8 is unavailable or insufficient, for any reason, to hold harmless an indemnified party in respect of any losses, claims, damages or liabilities (or actions in respect thereof), each indemnifying party, in order to provide for just and equitable contribution, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect (i) the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party on the other from the offering of the Securities or (ii) if the allocation provided by the foregoing clause (i) is not permitted by applicable law, not only such relative benefits but also the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions or alleged statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company, the Selling Securityholder and the Kim Shareholders on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting expenses) received by the Company, the Selling Securityholder and the Kim Shareholders bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, the Selling Securityholder or the Underwriters, the parties' relative intents, knowledge, access to information and opportunity to correct or prevent such statement or omission, and any other equitable considerations appropriate in the circumstances. The Company, the Selling Securityholder and the Underwriters agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the

Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take into account the equitable considerations referred to above in this paragraph (d). Notwithstanding any other provision of this paragraph (d), no Underwriter shall be obligated to make contributions hereunder that in the aggregate exceed the total public offering price of the Securities purchased by such Underwriter under this Agreement, less the aggregate amount of any damages that such Underwriter has otherwise been required to pay in respect of the same or any substantially similar claim, and no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute hereunder are several in proportion to their respective underwriting obligations and not joint, and contributions among Underwriters shall be governed by the provisions of the Prudential Securities Incorporated Master Agreement Among Underwriters. For purposes of this paragraph (d), each person, if any, who controls an Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Underwriter, and each director of the Company, each officer of the Company who signed the Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, shall have the same rights to contribution as the Company.

(e) Notwithstanding anything contained herein to the contrary, the liability of the (i) Selling Securityholder under the indemnity and contribution agreements contained in this Section 8 shall be limited to an amount equal to the initial public offering price of the Securities to be sold by such Selling Securityholder to the Underwriters less the amount of the underwriting discount and commission paid thereon to the Underwriters by the Selling Securityholder, and (ii) Kim Shareholders under the indemnity and contribution agreements contained in this Section 8 shall be limited to an amount that equals the sum of (A) the amounts distributed to the Kim Shareholders in 1998, including any amounts to be distributed prior to completion of the Reorganization, plus (B) the value of any assets retained by EB pursuant to the Reorganization, as more fully described in "Certain Transactions" of the Prospectus, plus (C) an amount equal to the proceeds received by the Selling Securityholder in connection with the sale of the Securities. The parties hereto agree that the amounts referred to in the foregoing clauses (A) and (B) shall not exceed in the aggregate \$50 million.

9. Default of Underwriters. If one or more Underwriters default in their obligations to purchase Firm Securities or Option Securities hereunder and the aggregate number of such Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase is ten percent or less of the aggregate number of Firm Securities or Option Securities to be purchased by all of the Underwriters at such time hereunder, the other Underwriters may make arrangements satisfactory to the Representatives for the purchase of such Securities by other persons (who may include one or more of the non-defaulting Underwriters, including the Representatives), but if no such arrangements are made by the Firm Closing Date or the related Option Closing

Date, as the case may be, the other Underwriters shall be obligated severally in proportion to their respective commitments hereunder to purchase the Firm Securities or Option

-37-

Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase. If one or more Underwriters so default with respect to an aggregate number of Securities that is more than ten percent of the aggregate number of Firm Securities or Option Securities, as the case may be, to be purchased by all of the Underwriters at such time hereunder, and if arrangements satisfactory to the Representatives are not made within 36 hours after such default for the purchase by other persons (who may include one or more of the non-defaulting Underwriters, including the Representatives) of the Securities with respect to which such default occurs, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company other than as provided in Section 11 hereof. Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company or the Selling Securityholder for damages caused by its default. In the event of any default by one or more Underwriters as described in this Section 9, the Representatives shall have the right to postpone the Firm Closing Date or the Option Closing Date, as the case may be, established as provided in Section 3 hereof for not more than seven business days in order that any necessary changes may be made in the arrangements or documents for the purchase and delivery of the Firm Securities or Option Securities, as the case may be. As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section 9. Nothing herein shall relieve any defaulting Underwriter from liability for its default.

10. Default by Selling Securityholder. If on either the Firm Closing Date or the Option Closing Date, the Selling Securityholder fails to sell the Firm Securities or the Option Securities, whichever is applicable, that the Selling Securityholder has agreed to sell on such date as set forth herein, the Company agrees that it will sell that number of shares of Common Stock to the Underwriters which represents either the Selling Securityholder's Firm Securities or Option Securities, whichever is applicable, that the Selling Securityholder has failed to so sell or such lesser number as may be requested by you.

11. Survival. The respective representations, warranties, agreements, covenants, indemnities and other statements of the Company and its officers, the Selling Securityholder and the several Underwriters set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement shall remain in full force and effect, regardless of (i) any investigation made by or on behalf of the Company, any of its officers or directors, the Selling Securityholder, any Underwriter or any controlling person referred to in Section 8 hereof and (ii) delivery of and payment for the Securities. The respective agreements, covenants, indemnities and other statements set forth in Sections 6 and 8 hereof shall remain in full force

and effect, regardless of any termination or cancellation of this Agreement.

12. Termination.

(a) This Agreement may be terminated with respect to the Firm Securities or any Option Securities in the sole discretion of the Representatives by notice to the Company or the Selling Securityholder given prior to the Firm Closing Date or the related Option Closing Date, respectively, in the event that the Company or the Selling Securityholder shall have failed,

-38-

refused or been unable to perform all obligations and satisfy all conditions on their part to be performed or satisfied hereunder at or prior thereto or, if at or prior to the Firm Closing Date or such Option Closing Date, respectively,

(i) the Company or any of its subsidiaries shall have, in the sole judgment of the Representatives, sustained any material loss or interference with its business or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding or there shall have been any material adverse change, or any development involving a prospective material adverse change (including without limitation a change in management or control of the Company), in the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company and its subsidiaries, except in each case as described in or contemplated by the Prospectus (exclusive of any subsequent amendment or supplement thereto);

(ii) trading in the Common Stock shall have been suspended by the Commission or the Nasdaq National Market;

(iii) trading in securities generally on the Nasdaq National Market shall have been suspended or minimum or maximum prices shall have been established on any such exchange or market system;

(iv) a banking moratorium shall have been declared by New York or United States authorities; or

(v) there shall have been (A) an outbreak or escalation of hostilities between the United States and any foreign power, (B) an outbreak or escalation of any other insurrection or armed conflict involving the United States or (C) any other calamity or crisis or material adverse change in general economic, political or financial conditions having an effect on the United States financial markets that, in the sole judgment of the Representatives, makes it impractical or inadvisable to proceed with the public offering or the delivery of

the Securities as contemplated by the Registration Statement, as amended as of the date hereof.

(b) Termination of this Agreement pursuant to this Section 12 shall be without liability of any party to any other party except as provided in Section 11 hereof.

13. Information Supplied by Underwriters. The statements set forth in the last paragraph on the front cover page and in the first, third and ninth paragraphs under the heading "Underwriting" in any Preliminary Prospectus or the Prospectus (to the extent such statements relate to the Underwriters) constitute the only information furnished by any Underwriter through the Representatives to the Company for the purposes of Sections 2(a)(ii) and 8 hereof. The Underwriters confirm that such statements (to such extent) are correct.

-39-

14. Notices. All communications hereunder shall be in writing and, if sent to any of the Underwriters, shall be delivered or sent by mail, telex or facsimile transmission and confirmed in writing to Prudential Securities Incorporated, One New York Plaza, New York, New York 10292, Attention: Equity Transactions Group; if sent to the Company, shall be delivered or sent by mail, telex or facsimile transmission and confirmed in writing to the Company at 931 South Matlack Street, West Chester, Pennsylvania 19382, Attention: Chief Executive Officer and President; if sent to the Selling Securityholder, shall be delivered or sent by mail, telex or facsimile transmission and confirmed in writing to the Selling Securityholder at 931 South Matlack Street, West Chester, Pennsylvania 19382, Attention: President.

15. Successors. This Agreement shall inure to the benefit of and shall be binding upon the several Underwriters, the Company, the Selling Securityholder, the Kim Shareholders and their respective successors and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person except that (i) the indemnities of the Company and the Selling Securityholder contained in Section 8 of this Agreement shall also be for the benefit of any person or persons who control any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and (ii) the indemnities of the Underwriters contained in Section 8 of this Agreement shall also be for the benefit of the directors of the Company and the Selling Securityholder, the officers of the Company who have signed the Registration Statement and any person or persons who control the Company or the Selling Securityholder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act. No purchaser of Securities from any Underwriter shall be deemed a successor because of such purchase.

16. Applicable Law. The validity and interpretation of this Agreement, and the terms and conditions set forth herein, shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to any provisions relating to conflicts of laws.

17. Consent to Jurisdiction and Service of Process. All judicial proceedings arising out of or relating to this Agreement may be brought in any state or federal court of competent jurisdiction in the State of New York, and by execution and delivery of this Agreement, each Selling Securityholder accepts for itself and in connection with its properties, generally and unconditionally, the nonexclusive jurisdiction of the aforesaid courts and waives any defense of forum non conveniens and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement. The Selling Securityholder designates and appoints \_\_\_\_\_, and such other persons as may hereafter be selected by the Selling Securityholder irrevocably agreeing in writing to so serve, as its agent to receive on its behalf service of all process in any such proceedings in any such court, such service being hereby acknowledged by the Selling Securityholder to be effective and binding service in every respect. A copy of any such process so served shall be mailed by registered mail to the Selling

-40-

Securityholder at the address provided in Section 14 hereof; provided, however, that, unless otherwise provided by applicable law, any failure to mail such copy shall not affect the validity of service of such process. If any agent appointed by the Selling Securityholder refuses to accept service, the Selling Securityholder hereby agrees that service of process sufficient for personal jurisdiction in any action against the Selling Securityholder in the State of New York may be made by registered or certified mail, return receipt requested, to the Selling Securityholder at its address provided in Section 14 hereof, and the Selling Securityholder hereby acknowledges that such service shall be effective and binding in every respect. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of any Underwriter to bring proceedings against the Selling Securityholder in the courts of any other jurisdiction.

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

If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter shall constitute an agreement binding the Company and each of the several Underwriters.

Very truly yours,

ELECTRONICS BOUTIQUE HOLDINGS CORP.

By: \_\_\_\_\_  
Name: Joseph J. Firestone  
Title: President, Chief Executive Officer

EB NEVADA INC.

By: \_\_\_\_\_  
Name:  
Title: Attorney-in-fact acting on behalf  
of the Selling Securityholder

KIM SHAREHOLDERS

\_\_\_\_\_  
Name: James J. Kim

\_\_\_\_\_  
Name: Agnes C. Kim

Trust of Susan Y. Kim  
Dated December 31, 1987,

By: \_\_\_\_\_  
Name: Susan Y. Kim  
Title: Trustee

By: \_\_\_\_\_  
Name: John T. Kim  
Title: Trustee

By: \_\_\_\_\_  
Name: John F.A. Earley  
Title: Trustee

Trust of David D. Kim  
Dated December 31, 1987

By: \_\_\_\_\_  
Name: Susan Y. Kim  
Title: Trustee

By: \_\_\_\_\_  
Name: David D. Kim  
Title: Trustee

By: \_\_\_\_\_  
Name: John F.A. Earley  
Title: Trustee

Trust of John T. Kim  
Dated December 31, 1987

By: \_\_\_\_\_  
Name: Susan Y. Kim  
Title: Trustee

By: \_\_\_\_\_  
Name: John T. Kim  
Title: Trustee

By: \_\_\_\_\_  
Name: John F.A. Earley  
Title: Trustee

The foregoing Agreement is



hereby confirmed and accepted  
as of the date first above  
written.

PRUDENTIAL SECURITIES INCORPORATED  
SMITH BARNEY INC.

By: PRUDENTIAL SECURITIES INCORPORATED

By: \_\_\_\_\_  
Name: Jean-Claude Canfin  
Title: Managing Director

For itself and on behalf of the Underwriters.

SCHEDULE I

UNDERWRITERS

<TABLE>  
<CAPTION>

Underwriter -----	Number of Firm Securities to be Purchased -----
<S>	<C>
Prudential Securities Incorporated.....	
Smith Barney Inc.....	
Total.....	
	-----
	-----

</TABLE>

June 19, 1998  
Page 1

[Letterhead of Klehr, Harrison, Harvey, Branzburg & Ellers LLP]

July 22, 1998

Board of Directors  
Electronics Boutique Holdings Corp.  
931 South Matlack Street  
West Chester, PA 19382

Dear Gentlemen:

As counsel to Electronics Boutique Holdings Corp., a Delaware corporation (the "Company"), we have assisted in the preparation of the Company's Registration Statement on Form S-1 (File No. 333-48523) (the Registration Statement as amended at the time it becomes effective being referred to as the "Registration Statement") filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"), covering 6,250,000 shares of the Company's common stock, par value \$.01 per share (the "Common Stock"), comprised of (i) 4,375,000 shares of Common Stock to be sold by the Company (the "Shares") to the underwriters for whom Prudential Securities Incorporated and Salomon Smith Barney are acting as representatives (collectively, the "Underwriters"), (ii) 1,875,000 shares of Common Stock to be sold by EB Nevada Inc., the Company's parent (the "Selling Shareholder Shares") and (iii) up to 937,500 shares of Common Stock (the "Optional Shares") which the Underwriters will have a right to purchase from EB Nevada Inc. to cover over-allotments, if any.

June 19, 1998  
Page 2

In connection therewith, we have examined the originals or copies, certified or otherwise identified to our satisfaction, of (i) the Company's Certificate of Incorporation and Bylaws; (ii) minutes and resolutions of the Company's Board of Directors and stockholders; (iii) certificates issued by public officials; and (iv) such other documents and corporate records relating to the Company and the issuance and sale of the Shares, the Selling Shareholder Shares and Optional

Shares as we have deemed necessary as a basis for the opinion hereinafter set forth.

In our examination of the foregoing documents, we have assumed: (i) the genuineness of all signatures on originals and certified copies of documents; and (ii) the authenticity of all documents submitted to us as originals as well as the conformity to the originals of all documents submitted to us as photostatic copies. As to any fact material to our opinion, we have relied, to the extent we deem such reliance proper, upon representations of officers of the Company.

Based upon the foregoing, we are of the opinion that the Shares, the Selling Shareholder Shares and the Optional Shares to be sold to the Underwriters, when issued and sold in accordance with and in the manner described in the plan of distribution set forth in the Registration Statement, will be duly authorized, validly issued, fully paid and non assessable.

We are members of the Bar of the Supreme Court of Pennsylvania and do not opine as to the laws of any jurisdiction other than Pennsylvania and the General Corporation Law of the State of Delaware; provided, however, that no opinion is hereby rendered as to the state securities laws of either the Commonwealth of Pennsylvania or the State of Delaware. We hereby consent to the reference to our firm in the Registration Statement under the prospectus caption "Legal Matters" and to the inclusion of this opinion as an exhibit to the Registration Statement. In giving such consent, we do not admit hereby that we come within the category of persons whose consent is required under Section 7 of the Securities Act, or the rules and regulations promulgated thereunder.

Very truly yours,

/s/ Klehr, Harrison, Harvey,  
Branzburg & Ellers LLP

## JOINDER TO LOAN AND SECURITY AGREEMENT

This Joinder to Loan and Security Agreement ("Joinder") is made this \_\_\_ day of June, 1998 by and among THE ELECTRONICS BOUTIQUE, INC. ("EB" or the "Initial Borrower"), a Pennsylvania corporation and ELECTRONICS BOUTIQUE OF AMERICA INC. ("EB America"), a Pennsylvania corporation and FLEET CAPITAL CORPORATION ("Lender"), a Rhode Island Corporation.

## BACKGROUND

A. EB and Lender are parties to a certain Loan and Security Agreement dated March 16, 1998, as amended from time to time ("Loan Agreement") pursuant to which the Initial Borrower established certain financing arrangements with lender. The Loan Agreement and all instruments, documents and agreements executed in connection therewith, or related thereto, as amended from time to time, are referred to herein collectively as the "Existing Loan Documents". All capitalized terms used herein without further definition shall have the meanings ascribed thereto in the Loan Agreement.

B. Pursuant to a certain Assignment, Bill of Sale and Assumption Agreement dated as of May 31, 1998, all or substantially all of the assets of EB were transferred to EB America. In recognition of the benefits and privileges thereunder, EB America has requested that it be permitted to join into the Existing Loan Documents as if it were an original signatory thereto and the Initial Borrower and Lender have so consented subject to the terms and conditions hereof.

NOW, THEREFORE, with the foregoing Background incorporated by reference and made a part hereof and intending to be legally bound, the parties agree as follows:

1. Joinder.

(a) Upon the effectiveness of this Joinder, EB America joins in, assumes, adopts and becomes a Borrower under the Existing Loan Documents. All references to Borrower contained in the Existing Loan Documents are hereby deemed, for all purposes, to refer to and include EB America as a Borrower and EB America hereby agrees to comply with all of the terms, undertakings and conditions of the Existing Loan Documents as if it was an original signatory thereto.

(b) Without limiting the generality of the provisions of subparagraph (a) above, EB America is thereby liable, on a joint and several basis, along with EB, for all Obligations incurred at any time by any one or more Borrowers under the Existing Loan Documents, as amended hereby or as may

be hereafter amended, modified or supplemented.

2. Representations and Warranties. EB hereby reaffirms, and EB America hereby represents and warrants that, except as set forth on Schedule "A" hereto, as of the date hereof, all of the existing representations and warranties contained in the Loan Agreement and the Existing Loan

Documents are true and correct as of the date hereof.

3. Collateral. As security for payment of the Obligations, and satisfaction by Borrowers of all covenants and undertakings contained in the Loan Agreement and the Existing Loan Documents, EB America hereby assigns and grants to Lender a continuing first lien on and security interest in, upon and to all of its now owned or hereafter acquired, created or arising Collateral, as defined and described in the Loan Agreement.

4. Effectiveness Conditions. This Joinder shall be effective and EB America shall be deemed a Borrower under the Loan Agreement and the Existing Loan Documents upon completion of the following conditions precedent (all documents to be in form and substance satisfactory to Lender and Lender's counsel):

a. Execution of this Joinder to Loan and Security Agreement.

b. Execution and delivery of an Allonge to Revolving Credit Note.

c. Execution and filing of UCC-1 financing statements by EB America in all jurisdictions which Lender may deem appropriate.

d. Certification and delivery of (i) the resolutions of EB American's board of directors authorizing the execution of this Joinder, the Allonge to be issued hereunder, and each document required to be delivered by any section hereof and (ii) EB America's articles of incorporation and by-laws.

e. Execution and delivery of an Incumbency Certificate by EB America identifying all Authorized Officers with specimen signatures.

f. Delivery of written opinions by EB America's independent counsel addressed to Lender.

g. Execution and delivery of an Officer's Certificate of EB America.

5. Ratification of Existing Loan Documents. Except as expressly set forth herein, all of the terms and conditions of the Loan Agreement and the Existing Loan Documents are hereby ratified and confirmed and continue unchanged and in full force and effect. Borrowers each hereby confirm and

agree that all security interests and Liens granted to Lender continue in full force and effect and shall continue to secure the Obligations. All Collateral remains free and clear of any Liens other than Permitted Liens or Liens in favor of Lender. Nothing herein contained is intended to in any manner impair or limit the validity, priority, and extent of Lender's existing security interest in and Liens upon the Collateral. All references to the Loan Agreement shall mean the Loan Agreement as modified by this Joinder.

2

IN WITNESS WHEREOF, the parties have executed this Joinder the day and year first above written.

THE ELECTRONICS BOUTIQUE, INC.

BY: \_\_\_\_\_

ATTEST: \_\_\_\_\_

ELECTRONICS BOUTIQUE OF  
AMERICA INC.

BY: \_\_\_\_\_

ATTEST: \_\_\_\_\_

FLEET CAPITAL CORPORATION

BY: \_\_\_\_\_

ATTEST: \_\_\_\_\_

3

ADDENDUM TO ASSIGNMENT OF TRADEMARKS

THIS ADDENDUM TO ASSIGNMENT OF TRADEMARKS is made effective this 31st day of May, 1998 by The Electronics Boutique, Inc., a Pennsylvania corporation having a principal place of business at 1345 Enterprise Drive, Goshen Corporate Park, West Chester, PA 19380 ("Assignor") to Elbo Inc., a Delaware corporation ("Assignee").

WHEREAS, Assignor adopted and used certain trademarks and registrations set forth on Schedule A of the Assignment of this date, which are in use in the United States and the Republic of Korea in connection with mail order and retail store services involving electrical, electronics and computer related products and accessories;

WHEREAS, by the Assignment of this date, Assignor transferred its entire interest in the aforesaid certain United States and Republic of Korea trademarks in connection with mail order and retail store services involving electrical, electronics and computer related products and accessories, to Assignee, intending that assignment to include all trademarks owned by Assignor in return for all of Assignee's shares of common stock;

WHEREAS, Assignor has additional trademarks, applications and registrations, a list of which is attached hereto in Schedule I, which are in use in certain additional countries of the world in connection with mail order and retail store services including electrical, electronic and computer products and accessories (hereinafter the "additional trademarks");

WHEREAS, Assignor is required to transfer the additional trademarks to Assignee as part of the original incorporation of Assignee under Section 351 of the Internal Revenue Code.

NOW, THEREFORE, in consideration of Assignee's stock issued to Assignor and for other

valuable consideration, the receipt of which is hereby acknowledged, intending to be legally bound, Assignor hereby sells, assigns, transfers and sets over to Assignee the Assignor's entire right, title and interest in and to the additional trademarks, along with the goodwill appurtenant thereto, and assigns to and authorizes Assignee to file or prosecute in its name, applications, in all countries, the same to be held and enjoyed by said Assignee, its successors, assigns, nominees or legal representatives, to the full end of the term or terms

for which said additional trademarks, may be registered, as fully and entirely as the same would have been held and enjoyed by Assignor had this assignment, sale and transfer not been made; and

Assignor hereby covenants that it has the full right to convey the entire interest herein assigned, and that it has not executed and will not execute any agreement in conflict herewith, and it further covenants and agrees that it will, each time request is made and without undue delay, execute and deliver all such papers as may be necessary or desirable to perfect the title to said additional trademarks to Assignee, its successors, assigns, nominees, or legal representatives, and it agrees to communicate to Assignee or to its nominee all known facts respecting said additional trademarks, to testify in any legal proceedings, to sign all lawful papers, to make all rightful oaths, and generally to do everything possible to aid said Assignee, its successors, assigns, nominees, and legal representatives to obtain and enforce for their own benefit proper protection for said additional trademarks.

Assignor hereby authorizes and requests any official of any country whose duty it is to issue trademark registrations, to issue to said Assignee the entire right, title and interest in any and all registrations, in accordance with the terms of this Assignment.

IN WITNESS WHEREOF, Assignor has hereunto set its hand as of the date first set forth above.

THE ELECTRONICS BOUTIQUE, INC.

By: /s/Joseph J. Firestone

-----  
Joseph J. Firestone, President

COMMONWEALTH OF PENNSYLVANIA :  
: SS  
COUNTY OF CHESTER :



On this \_\_\_\_ day of \_\_\_\_\_, 1998, before me personally came the above named Joseph J. Firestone to me personally known and known to me to be the same individual who executed the foregoing assignment, and who acknowledged to me that execution of the same was of that person's own free will for the use and purposes therein set forth.

---

Notary Public

4

SCHEDULE I

EUROPE

(Covering Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom)

Mark	Registration No.
Electronics Boutique	Application No. 341,966 - Pending
EB	Application No. 342,030 - Pending

UNITED KINGDOM

Mark	Registration No.
Electronics Boutique	2,041,846
EB	Application No. 2,040,726 - Pending
Electronics Boutique w/Logo	2,040,724
The Electronics Boutique	2,040,725
EBX	Application No. 2,050,730 - Pending
Stop-N-Save Software	2,043,306

GERMANY

Mark	Registration No.
Electronics EB Boutique	39542702.9

ITALY

Mark	Registration No.
Electronics EB Boutique	Application No. MI960005936 - Pending

SWITZERLAND

Mark	Registration No.
Electronics EB Boutique	435,837

BENELUX (Belgium, Netherland, Luxembourg)

Mark	Registration No.
Electronics EB Boutique	590,761

DENMARK

Mark	Registration No.
Electronics EB Boutique	02083/1997

IRELAND

Mark	Registration No.
Electronics Boutique	Application No. 96/5224 - Pending
Electronics Boutique w/EB Logo	Application No. 96/5223 - Pending
EB	Application No. 96/5222 - Pending

CHINA

Mark  
Electronics EB Boutique

Registration No.  
Application No. 9700112438 - Pending

JAPAN

Mark  
Electronics EB Boutique

Registration No.  
Application No. 8-147580 - Pending

SOUTH AFRICA

Mark  
Electronics EB Boutique

Registration No.  
Application No. 95-14095 - Pending

ISRAEL

Mark  
Electronics EB Boutique

Registration No.  
Application No. 101,511 - Pending

BRAZIL

Mark  
EB Electronics Boutique  
Electronics EB Boutique

Registration No.  
Application No. 819171271 - Pending  
Application No. 819171280 - Pending

CHILE

Mark  
Electronics EB Boutique

Registration No.  
Application No. 324,935 - Pending

AUSTRALIA

Electronics Boutique

Pending

EB Electronics Boutique (Stylized)	Pending
Electronics EB Boutique	Pending
Electronics EB Boutique (Stylized)	Pending

AGREEMENT OF LEASE  
BETWEEN  
THE ELECTRONICS BOUTIQUE, INC.

(LANDLORD)

AND

ELECTRONICS BOUTIQUE OF AMERICA INC.

(TENANT)

DATED JULY \_\_, 1998 AND EFFECTIVE AS OF MAY 31, 1998

TABLE OF CONTENTS

<TABLE>  
<CAPTION>  
Section

Page No.

<S>	<C>	<C>
1.	DEMISED PREMISES.....	1
2.	LEASE TERM.....	1
3.	FIXED RENT.....	1
4.	ADDITIONAL RENT.....	2
5.	ABSOLUTE NET, NET, NET LEASE.....	3
6.	OPTION TO PURCHASE DEMISED PREMISES.....	4
7.	USE OF DEMISED PREMISES.....	8
8.	CONDITION OF DEMISED PREMISES.....	8
9.	ALTERATIONS OR IMPROVEMENTS BY TENANT.....	8
10.	REPRESENTATIONS AND WARRANTIES OF LANDLORD.....	8
11.	COVENANTS OF TENANT.....	9
12.	RULES AND REGULATIONS.....	11
13.	ASSIGNMENT AND SUBLETTING.....	11
14.	[INTENTIONALLY OMITTED].....	13
15.	EMINENT DOMAIN.....	13
16.	CASUALTY DAMAGE.....	13
17.	INSURANCE; INDEMNIFICATION OF LANDLORD; WAIVER OF SUBROGATION.....	15
18.	INSPECTION; ACCESS; CHANGES IN BUILDING FACILITIES.....	16

</TABLE>

TABLE OF CONTENTS

<TABLE>		
<CAPTION>		
Section		Page No.
<S>	<C>	<C>
19.	DEFAULT.....	17
20.	LANDLORD'S REMEDIES.....	18
21.	LANDLORD'S RIGHT TO CURE TENANT'S DEFAULT.....	21
22.	ESTOPPEL CERTIFICATE.....	21
23.	HOLDING OVER.....	21
24.	SURRENDER OF DEMISED PREMISES.....	21
25.	SUBORDINATION, NON-DISTURBANCE AND ATTORNMEN.....	22
26.	BROKERS.....	23
27.	NOTICES.....	23
28.	MISCELLANEOUS.....	23
</TABLE>		

List of Exhibits

- Exhibit "A": Legal Description of Land
- Exhibit "B": Form of Tenant Estoppel Certificate and Statement

AGREEMENT OF LEASE

THIS AGREEMENT OF LEASE (this "Lease") is made this \_\_\_\_ day of July, 1998 and effective as of May 31, 1998, by and between THE ELECTRONICS BOUTIQUE, INC., a Pennsylvania corporation ("Landlord") and ELECTRONICS BOUTIQUE OF AMERICA INC., a Pennsylvania corporation ("Tenant").

Intending to be legally bound, Landlord and Tenant agree as set forth below.

1. DEMISED PREMISES. Landlord, for the term and subject to the provisions and conditions hereof, leases to Tenant, and Tenant rents from Landlord, the tract of land known as 931 South Matlack Street, West Chester, Pennsylvania 19382, which tract of land is described more particularly on Exhibit "A" attached hereto and hereby made a part of this Lease (the "Lease"), together with the building erected thereon containing approximately 140,000 rentable square feet (the "Building") and the paved parking and loading areas and other improvements situate on the Land (the Land, Building and other improvements sometimes hereinafter collectively being referred to as the "Demised Premises").

2. LEASE TERM. The Lease Term (the "Lease Term") commenced on May 31, 1998 (the "Commencement Date"), and shall continue until May 31, 2000 unless extended or sooner terminated as provided in this Lease.

3. FIXED RENT. Fixed rent (the "Fixed Rent") is payable by Tenant, beginning on the Commencement Date in twenty-four (24) monthly installments of Fifty Thousand Dollars (\$50,000.00) each, representing one-twelfth (1/12th) of the annual Fixed Rent (the "Annual Fixed Rent") of Six Hundred Thousand Dollars (\$600,000.00).

Annual Fixed Rent is payable without prior notice or demand, and, except as set forth in this Lease, without any setoff or deduction whatsoever, in advance, on the first day of each month at such place as Landlord may direct, except that the Fixed Rent for the first full month of the Lease Term will be paid on the date of execution of this Lease. If the Lease Term commences on a day other than the first day of a calendar month, Tenant shall pay to Landlord, on or before the Commencement Date of the Lease Term, a pro rata portion of the monthly installment of rent (including Fixed Rent and any Additional Rent (as defined in Paragraph 4), such pro rata portion to be based on the actual number of calendar days remaining in such partial month after the Commencement Date of the Lease Term. If the Lease Term shall expire on other than the last day of a calendar month, such monthly installment of Fixed Rent and Additional Rent shall be prorated for each calendar day of such partial month. If any portion of Fixed Rent, Additional Rent or any other sum payable to Landlord hereunder shall be due and unpaid for more than ten (10) days, it shall thereafter bear interest at a rate equal to five percent (5%) per annum greater than the highest prime rate of interest announced from time to time by PNC Bank, National Association, (or its successor) (the "Default Rate"), as the same may change from time to time, from the due date until the date of payment thereof by

Tenant provided, however, that nothing herein contained shall be construed or implemented in such a manner as to allow Landlord to charge or receive interest in excess of the maximum legal rate then allowed by law. Landlord and Tenant understand and agree that memos written on rental checks or any other payment forms delivered to Landlord do not and shall not, throughout the Lease Term hereunder, constitute satisfaction of any current or outstanding debt of Tenant pursuant to this Lease, and, provided further that any such memo shall not preclude Landlord from recovering any balance of any sum or sums due under this Lease. In addition, a letter or similar type statement accompanying any rental check or payment form delivered to Landlord pursuant to this Lease shall also have no force or effect under this Lease as such may relate to the satisfaction of any debt of Tenant hereunder.

#### 4. ADDITIONAL RENT.

4.1 As additional rent under this Lease ("Additional Rent"), at least thirty (30) days before any fine, penalty, interest or other cost may be added thereto for the non-payment thereof (or sooner if elsewhere herein required), Tenant shall pay throughout the Lease Term all levies, taxes, assessments, water and sewer rents and charges, liens, license and permit fees, charges for public utilities and all other charges, imposed or charged by any federal state or municipal government or public authority, or under any law, ordinance or regulation thereof, or pursuant to any recorded covenants or agreements (all of which hereinafter collectively are referred to as "Impositions") upon or with respect to the Demised Premises, the Land or any improvements made thereto, any part of the foregoing, and any appurtenances thereto, or directly upon this Lease or the rent payable hereunder or amounts payable by any subtenants or other occupants of the Premises, or upon this transaction or any related documents to which Tenant is a party or successor in interest, or against Landlord because of Landlord's estate or interest herein. If Tenant is permitted by the assessing and collecting authorities and by all mortgagees and elects to pay any Imposition in installments, Tenants shall nevertheless pay all unpaid installments thereof prior to the expiration or sooner termination of the Lease Term, whether or not such installments are then due or payable. Tenant shall pay each of the Impositions, at Landlord's election, to Landlord or directly to the government or other public authority charged with the collection of such Impositions; and in the latter event, Tenant shall furnish Landlord, not later than ten (10) days prior to the last day upon which they may be paid without any fine, penalty, interest or cost, receipts or other evidence satisfactory to Landlord of the payment of all such Impositions.

4.2 Nothing contained in this Lease shall be interpreted as requiring Tenant to pay any income, excess profits, corporate capital stock, or franchise tax imposed or assessed upon Landlord, unless such tax or any similar tax is levied or assessed in lieu of all or any part of any imposition or an increase in any Impositions. If under the requirements of any state or local law with respect to such new method of taxation, Tenant is prohibited from paying such new tax, Landlord may, at its election, terminate this Lease by giving written notice thereof to Tenant; provided however, that Tenant may, within fifteen (15) days of the date of such notice require Landlord to withdraw such notice of termination if Tenant agrees to execute a new lease for the sole purpose of

2

placing Landlord in a financial position identical to the financial position of Landlord pursuant to the terms of this Lease.

4.3 Notwithstanding the foregoing provisions of this Section 4, if required by any mortgagee, Landlord shall have the right to require Tenant to pay to Landlord or to any mortgagee, at the time when the monthly installment of minimum rent is payable, an amount equal to one-twelfth (1/12th) of the annual Impositions as estimated by Landlord. If Landlord elects to have Tenant make such payments, Tenant also shall pay to Landlord or to such mortgagee, as the case may be, at least thirty (30) days before any fine, penalty, interest or cost may be added thereto for the non-payment thereof, the amount by which the Impositions becoming due exceed the monthly payments on account thereof previously made by Tenant. The amounts paid by Tenant pursuant to this Section 4.3 shall be used to pay the Impositions but such amount shall not be deemed to be trust funds and no interest shall be payable thereon.

4.4 Landlord may bring proceedings to contest the validity or amount of any Imposition or to recover payments therefor. Tenant shall cooperate with Landlord with respect to such proceedings to the extent reasonably necessary and shall pay to Landlord all reasonable costs, fees and expenses incurred in connection with such proceedings as additional rent promptly upon being billed therefor.

4.5 Tenant, without postponement of payment, may bring proceedings to contest the validity or amount of any Imposition or to recover payments therefor, Tenant shall save Landlord harmless from all costs and expenses in connection with such proceedings. Landlord shall cooperate with Tenant with respect to such proceedings to the extent reasonably necessary, but all costs, fees and expense incurred in connection with such proceedings shall be borne by Tenant, Tenant shall give Landlord advance written notice of Tenant's intention to take any such action.

4.6 Tenant will be responsible to pay, as Additional Rent, for ad valorem taxes on its personal property and on the value of the leasehold improvements in the Demised Premises (and if the taxing authorities do not separately assess Tenant's leasehold improvements, Landlord may make a reasonable allocation of impositions to such improvements).

4.7 If, upon expiration or termination of this Lease for any cause, the amount of any Additional Rent due hereunder has not yet been determined, an appropriate payment from Tenant to Landlord, or refund from Landlord to Tenant, shall be made promptly after such determination.

5. ABSOLUTE NET, NET, NET LEASE. This Lease is what is commonly called a "Net, Net, Net Lease". It is the intention of Landlord and Tenant that Fixed Rent shall be absolutely net to Landlord and that all costs, expenses and obligations of every kind relating directly or indirectly in any way, foreseen and unforeseen, to the Tenant's use, occupancy and/or possession of the Demised Premises, which may arise or become due during the Lease Term (including, but not limited to, the hook-up and/or consumption of all utilities, the payment of Additional Rent and

3

payment for the insurance coverages required to be maintained by Tenant under



this Lease), shall be paid and/or performed by Tenant or, if and to the extent paid, performed, or incurred by Landlord, reimbursed or paid to Landlord by Tenant within thirty (30) days after being billed therefor. Landlord shall be indemnified by Tenant against all such costs, expenses and obligations. Except as set forth in this Lease, such Fixed Rent and all Additional Rent shall be paid without abatement, diminution, reductions, deduction or setoff.

6. OPTION TO PURCHASE DEMISED PREMISES.

6.1 Landlord hereby grants to Tenant the exclusive right and option to purchase the Demised Premises (the "Option") at any time during the Lease Term for the purchase price of Six Million seven Hundred Thousand Dollars (\$6,700,000.00) (the "Purchase Price"), subject to adjustment for settlement prorations and upon the terms and conditions hereinafter set forth in this Section 6. If Tenant desires to exercise the Option during the Lease Term, Tenant shall notify Landlord in writing of its exercise of the Option (the "Exercise Notice"). If Tenant fails to exercise the Option during the Lease Term in accordance with this Lease, the Option shall lapse and terminate, and Tenant shall have no further right to purchase the Demised Premises under this Lease or otherwise, except as the parties may hereafter agree in writing.

6.2 Upon Tenant's receipt of the Exercise Notice, the following terms and conditions of this Section 6.2 shall become and constitute the agreement of Landlord to sell and Tenant to buy the Demised Premises:

(a) The purchase price for the Demised Premises shall be the Purchase Price. The Purchase Price shall be paid by Tenant to Landlord at settlement.

(b) In the event of a failure by Landlord to perform or comply with any of the terms and provisions of this Section 6.2 to be performed and complied with by Landlord within the time or times provided herein, upon five (5) days' notice to Landlord, Tenant shall be repaid any moneys paid by Tenant on account of the Purchase Price, and Tenant shall have all remedies available to it under law and in equity (including, without limitation, specific performance).

(c) Settlement on the purchase of the Demised Premises shall be made at the offices of Klehr, Harrison, Harvey, Branzburg & Ellers LLP, 1401 Walnut Street, Philadelphia, Pennsylvania, 19102, within forty-five (45) days after the date of the Exercise Notice, but in no event later than the date of expiration of the Lease Term or the earlier termination of this Lease.

(d) (i) At settlement, title to the Demised Premises shall be free and clear of all leases, liens, judgments, encumbrances, easements, restrictions and objections, except existing building restrictions, ordinances, easements of roads, easements visible upon the ground, privileges or rights of utility or public service companies, and all other encumbrances and/or restrictions recorded against the Land as of the date of execution of this Lease. Except as set forth in this Section 6.2(d)(i), Landlord agrees not to convey or encumber all or any portion of the Premises or

4

any interest therein, or to encumber the Demised Premises with any judgments, restrictions, easements or other objections without the prior written consent of Tenant, which consent Tenant shall not unreasonably withhold, delay or condition. Landlord may mortgage the Demised Premises without the consent of Tenant, provided the mortgage and other instruments evidencing and/or securing such financing expressly acknowledge and recognize the rights of Tenant set forth in this Lease.

(ii) Excepting only as set forth in Section 6.2(d)(i) above, at settlement title to the Demised Premises shall be in fee simple and insurable as good and marketable at regular rates by a title insurance company selected by Tenant. Search and title insurance costs shall be paid by Tenant.

(iii) In the event title in accordance with this Section 6.2 cannot be conveyed by Landlord, Tenant shall have the option of taking such title as Landlord can give, without abatement of the Purchase Price, except as to monetary lien or liens, or, in the alternative, of terminating this

Agreement, in which latter event Tenant shall be repaid any money paid on account of the Purchase Price, and all interest accrued thereon, and neither party shall have any further rights, duties or obligations under this Agreement.

(iv) The Demised Premises shall be conveyed by Landlord to Tenant at settlement by good and sufficient deed, containing a special warranty only, prepared by Tenant and delivered to Landlord a reasonable time prior to settlement.

(e) All times provided for in this Section 6 are and shall be of the essence, and each extension of any such time or times shall continue to be of the essence of this Agreement. Tender of an executed deed and of the purchase money are hereby waived.

(f) At settlement, Landlord shall deliver to Tenant sole and exclusive possession of the Demised Premises by delivery of the deed. At settlement, Landlord and Tenant shall terminate this Lease in writing pursuant to an agreement prepared by Landlord that shall contain customary releases and indemnities in favor of Landlord.

(g) (i) Tenant shall be responsible for all Impositions for all tax years during the Lease Term, and shall pay and discharge the same at or before settlement. Landlord shall be responsible for all Impositions for all tax years preceding the year in which the Lease Term commenced, and shall pay and discharge the same at or before settlement. Impositions due for the current tax year in which settlement is held shall be apportioned between the parties as of the date of settlement on a tax year basis if and to the extent settlement is held during the first tax year following commencement of the Lease Term. As used in this Lease, "tax year" shall, in each instance, be deemed to be the fiscal year used by the respective taxing or assessing authorities.

(ii) Tenant shall pay all of the real estate transfer taxes imposed upon this transaction.

5

(h) (i) Landlord represents and warrants to Tenant that, as of the Commencement Date, Landlord has no knowledge or notice of any work being done or about to be done, or of any assessment, violation or other notice issued or about to be issued by any federal, state, municipal or public body or authority, relating to, or with respect to or otherwise affecting the Demised Premises or abutting streets. Landlord agrees to pay for all work done or ordered to be done by or required in order to comply with the requirements of any federal, state, municipal or public body or authority prior to the date of this Lease, whether or not presently assessed or ordered to be done, on or with respect to or otherwise affecting the Demised Premises or abutting streets, or required in order to comply with any existing assessment, violation or similar notice.

(ii) Landlord represents that the Demised Premises is zoned I-2.

(iii) If required by law, Landlord shall deliver to Tenant at or before settlement a certificate from the appropriate municipal department or departments stating whether or not the Demised Premises is in violation of the applicable zoning laws and ordinances and identifying any outstanding notices of any uncorrected violations of the applicable zoning, housing, building, safety or fire ordinances. The certificate shall be dated no earlier than twenty (20) days prior to settlement.

(i) Subject to the other terms and conditions of this Lease, Landlord shall assume the risk of loss by casualty or eminent domain after the date of the Exercise Notice. Tenant shall continuously maintain insurance coverage against loss from fire or other casualty, with all risk and extended coverage endorsement, in an amount not less than the full replacement cost of the Demised Premises, without co-insurance or deductible, and, effective as of the Exercise Date, all such insurance coverages shall name Landlord as the insured and Tenant as an additional insured thereunder. Loss or damage to the Demised Premises as a result of the exercise of the power of eminent domain or as a result of fire or casualty between the date of the Exercise Notice and the time of settlement shall not, at Tenant's option, void or impair the Option, but Tenant shall have the option to: (a) complete settlement and be entitled to the

eminent domain award or compensation and a credit for the proceeds of any insurance received by Landlord on account of any such loss or damage, and to an assignment of all claims to such compensation or award and on insurance policies, provided such award, compensation or proceeds shall not exceed the Purchase Price; or (b) terminate this Agreement and be entitled to a return of any monies paid on account of the Purchase Price.

(j) The Demised Premises shall be conveyed upon exercise of the Option in their "AS IS" "WHERE IS" condition, with no representation or warranty being made by Landlord as to the physical or environmental condition of the Demised Premises or the suitability or fitness of the Demised Premises for Tenant's use.

(k) Landlord and Tenant each represents to the other party that it has dealt with no other real estate broker, agent or finder in connection with the Option. Each party hereby agrees to indemnify, defend and hold harmless the other party from and against any and all losses, costs,

6

damages, liabilities and expenses (including reasonable attorneys' fees) arising as a result of a breach of the representations set forth in the preceding sentence. This Section 6.2(k) shall survive settlement and shall not merge with the deed.

(l) A memorandum of the Option may be filed in the office of the Recorder of Deeds for Chester County by Landlord and Tenant.

(m) Except as set forth in this Section 6.2(m), the Option may not be assigned, without Landlord's consent, may be withheld or granted by Landlord in its sole discretion. The Option may be assigned by Tenant to any Related Party (as defined in Section 13) without Landlord's consent, provided that Tenant shall, notwithstanding any such assignment, remain liable for full performance of Tenant's obligations under this Section 6.2.

(n) Subject to Section 6.2(m), this Section shall inure to the benefit of and be binding upon Landlord and Tenant, and each of their successors and assigns.

(o) This Section 6.2 constitutes the entire understanding between the parties hereto concerning the right of Tenant to purchase the Demised Premises, and all prior agreements, contracts and understandings between the parties concerning the purchase of the Demised premises by Tenant are hereby merged into this Section 6. The parties shall not be bound by any agreements, understandings or conditions respecting the right of Tenant to purchase that Demised Premises other than those expressly set forth in this Section 6.

(p) The Option may not be changed or amended orally. All notices, demands and other communications concerning the Option shall be valid only if given in writing and in the manner set forth in Section 27.

(q) In any proceeding to enforce the Option or obtain any remedy provided for herein or otherwise permitted by law in connection with the Option, Landlord and Tenant hereby knowingly, voluntarily and intentionally waive trial by jury to the fullest extent permitted by law.

(r) The invalidity or unenforceability of any provision of this Section 6 shall in no way affect the validity or enforceability of any other provision of this Section 6.

(s) Failure to insist upon strict compliance with any of the terms, covenants or conditions hereof shall not be deemed a waiver of such terms, covenants or conditions, nor shall any waiver or relinquishment of any right or power hereunder at one time or more times be deemed a waiver or relinquishment of such right or power at any other time or times.

(t) The obligation of Landlord to complete settlement under this Section 6 following Tenant's exercise of the Option is expressly conditioned upon Tenant having performed and complied with all of the agreements, undertakings and obligations that are required under this

Lease to be performed or complied with by Tenant at or prior to the completion of settlement under this Section 6 at no cost or expense to Landlord.

7. USE OF DEMISED PREMISES. Tenant covenants and agrees to use and occupy the Demised Premises only as a private warehouse, general office and other uses incidental to and associated with Tenant's business as a retailer of video software and related products and only in conformity with the law, and for no other purpose. In no event may Tenant use the Demised Premises or any portion thereof for the display and retail sale of any products or for any other retail business directly with the public. Tenant shall not use or permit any use of the Demised Premises which creates any safety or environmental hazard, or which would: (i) be dangerous to the Demised Premises, including the Building, or (ii) cause any increase in the premium cost for any insurance which Landlord may then have in effect with respect to the Building generally.

8. CONDITION OF DEMISED PREMISES. Tenant acknowledges that it has had an opportunity to inspect the Demised Premises and hereby agrees to accept possession of the Demised Premises in their "AS IS" "WHERE IS" condition as of the Commencement Date, with no representation or warranty by Landlord as to the physical or environmental condition of the Demised Premises or the suitability or fitness of the Demised Premises for Tenant's use.

9. ALTERATIONS OR IMPROVEMENTS BY TENANT. Except as set forth in this Section 9, during the Lease Term Tenant shall not make any alterations, additions, improvements, redecorating or other changes to the Demised Premises without the prior written approval of Landlord and then only in accordance with plans and specifications previously approved in writing by Landlord and subject to such conditions as Landlord may reasonably require, including, without limitation, that Tenant be required to pay for any increased cost to Landlord occasioned thereby or attributed thereto. Prior to the termination of this Lease and without additional notice to Tenant by Landlord, Tenant shall either: (i) remove any such alterations or additions and repair any damage to the Building or the Demised Premises occasioned by their installation or removal and restore the Demised Premises to substantially the same condition as existed prior to the time when any such alterations or additions were made, or (ii) reimburse Landlord for the cost of removing such alterations or additions and the restoration of the Demised Premises. Landlord shall reasonably determine any such cost as called for in clause (ii) above prior to the termination of this Lease and Tenant shall reimburse Landlord within thirty (30) days of receipt of such notice. Notwithstanding the foregoing provisions of this Section 9, Tenant may, without Landlord's prior approval, make minor nonstructural interior alterations or improvements to the Building which cost individually or in any series of transactions no more than Twenty-Five Thousand Dollars (\$25,000.00); provided, however, that Tenant notifies Landlord of any such alteration or improvement, which notice shall be accompanied by invoices showing the cost of the work, and Tenant otherwise complies with this Lease, including the covenants set forth in Section 11.

10. REPRESENTATIONS AND WARRANTIES OF LANDLORD. Landlord represents and warrants, to its actual knowledge as of the Commencement Date, that the Building has been completed in accordance with all applicable building codes and that Landlord has received no notice

of violations of laws, codes, ordinances or regulations affecting the Demised Premises. In addition, to Landlord's actual knowledge as of the Commencement Date, there are no Hazardous Substances (as defined in Section 11.8(a)) or storage tanks at the Building.

11. COVENANTS OF TENANT. Tenant covenants that, at all times during the Lease Term, Tenant will, at Tenant's sole cost, risk and expense:

11.1 Keep the Demised Premises (including the Building and the mechanical, electrical, plumbing, drainage (storm water and sewage) and HVAC systems serving the Building and/or other portions of the Demised Premises) in good order, condition and repair, reasonable wear and tear and damage by insured casualty excepted, and Tenant will promptly make all repairs necessary to and

maintain such good order, condition and repair, whether such repairs are interior or exterior, structural or nonstructural, foreseen or unforeseen; it being acknowledged and agreed by Tenant that the term "repairs" used in this Section 11.1 and in other provisions of this Lease means and includes restorations, replacements and renewals when necessary, and all materials and equipment used and/or installed in connection with the performance of Tenant's covenant set forth in this Section 11.1 and other obligations set forth in this Lease shall be new and at least equal in quality and utility to those items being repaired, replaced or renewed;

11.2 Surrender the Demised Premises at the expiration of the Lease Term or earlier termination of this Lease in the same condition in which Tenant has agreed to keep the same during the Lease Term;

11.3 Not place, erect, maintain or display any sign or other marking of any kind whatsoever on the windows, doors or exterior walls of the Building or upon the Land, except as may be approved by Landlord and, if required under local ordinances, by local governing authorities, and not use or place any curtains, blinds, drapes or coverings over any exterior windows or upon the window surfaces which are visible from the outside of the Building without the prior written consent of Landlord, which consent shall not be unreasonably withheld;

11.4 Comply with all laws, codes, ordinances, orders, enactments and regulations of any governmental authority relating or applicable to the Demised Premises and/or Tenant's occupancy of the Demised Premises and any covenants, easements and restrictions governing the Land or Building and indemnify, defend and hold Landlord harmless from all consequences from its failure to do so;

11.5 Promptly notify Landlord of any damage to or defects in the Demised Premises, any notices of violation received by Tenant and of any injuries to persons or property which occur therein or claims relating thereto;

11.6 Pay when due for any alterations, improvements or additions to, and repairs, maintenance, restorations and replacements of all or any part of the Demised Premises, and allow

9

no mechanic's, materialmen's or other lien to attach to the Demised Premises with respect to any of the foregoing;

11.7 Without the prior written consent of Landlord, not place within the Demised Premises or bring into the Building any machinery or other personalty having a weight in excess of the design capacity of the Building;

11.8 (a) Not use the Demised Premises for the generation, use, manufacture, recycling, transportation, treatment, storage, discharge or disposal of any hazardous, toxic or polluting substance or waste (including petroleum products, asbestos containing materials, polychlorinated biphenyl containing materials or equipment, and/or radioactive materials) (collectively, "Hazardous Substances") or for any use which poses a risk of damage to the environment or injury to natural persons and will not engage in any activity which could subject Landlord to any liability under federal, state or local environmental law, regulation, code, enactment, order or ordinance;

(b) Comply with all applicable environmental statutes, rules, regulations, codes, enactments and orders of any federal, state or municipal government in effect at any time during the term of this Lease; obtain in its own name any and all environmental permits, registrations, licenses or identification numbers necessary for its operations; and comply with all such permits;

(c) Take no action (or not refuse to take any action) which could result in a lien being imposed on the Demised Premises by the state or federal government under any environmental statute;

(d) Not install, use, manufacture, generate, store, transport, discharge or dispose of any Hazardous Substances or storage tanks at, under or beneath the Demised Premises, or permit or suffer any of the foregoing at the Demised Premises, without the prior written consent of Landlord.

(e) Take no action which could require Landlord to include in the deed to the Land or the Building a notice of disposal/release of Hazardous Substances at the site.

(f) Tenant hereby indemnifies and saves harmless Landlord from any and all judgments, losses, costs, damages and expenses (including fines, penalties, and reasonable attorneys' fees) resulting from any claim, demand, liability, obligation, right or cause of action, including but not limited to governmental action or other third party action (each, a "Claim" and collectively, "Claims") that is asserted against Landlord or the Demised Premises as a result of Tenant's breach of any representation, warranty, or covenant set forth in this Lease; or arising out of the operations or activities or presence of Tenant or any sublessee, agent, or representative of Tenant at the Demised Premises; or arising from environmental conditions or violations at the Demised Premises during the Lease Term including, without limitation, the presence of Hazardous

10

Substances at, on, or under the Demised Premises or the discharge or release of hazardous, polluting, or toxic substances from the Demised Premises.

(g) Landlord hereby indemnifies and saves harmless Tenant from any and all Claims (including, without limitation, governmental actions) that are asserted against Tenant or the Demised Premises as a result of the presence of Hazardous Substances at, on, or under the Demised Premises or the release of Hazardous Substances from the Demised Premises arising prior to the Lease Term.

(h) The indemnities, representations, warranties and covenants contained in this Section 11.8 shall survive the expiration or earlier termination of this Lease.

11.9 Comply with the rules and regulations referenced in Section 12 below and with all reasonable changes and additions thereto upon notice by Landlord to Tenant (such rules and regulations, together with all changes and additions thereto, are deemed a part of this Lease); and

11.10 Comply with all reasonable recommendations of Landlord's or Tenant's insurance carriers relating to layout, use, storage and/or disposal of materials and maintenance, repair, replacement and/or restoration of the Demised Premises.

12. RULES AND REGULATIONS. Landlord shall have the right to make such reasonable rules and regulations (the "Rules and Regulations") as in the judgment of Landlord may from time to time be needful for the safety, appearance, care and cleanliness of the Building and for the preservation of good order therein; provided, however, such Rules and Regulations shall not be effective until Landlord delivers to Tenant a copy of the Rules and Regulations or any amendments thereto, as the case may be, in the manner set forth in Section 27 of this Lease.

13. ASSIGNMENT AND SUBLETTING.

13.1 Landlord's Consent. Except for a Permitted Transfer (as defined in Section 13.2), Tenant shall neither assign this Lease or any interest therein nor sublet the Demised Premises or any portion thereof without the prior written consent of Landlord, which consent Landlord agrees shall not be unreasonably withheld, conditioned or delayed.

13.2 Permitted Transactions.

(a) Tenant may assign this Lease or any interest therein or sublet the Premises or any portion thereof, without the Landlord's consent, to a Related Party (as defined below) (each, a "Permitted Transfer"); provided, (i) Tenant shall remain liable for the performance by the transferee-in-possession of Tenant's obligations under this Lease; (ii) the transferee-in-possession shall assume, in writing, all obligations to be performed by Tenant under this Lease from and after the effective date of such Permitted Transfer; and (iii) the transferee-in-possession of this

Lease shall have a net worth on the effective date of such Permitted Transfer not less than Tenant's net worth immediately prior to completion of such Permitted Transfer.

(b) (i) As used in this Lease, "Related Party" means any of the following persons or entities: (A) a Successor to Tenant (as defined below); (B) an Affiliate (as defined below) of Tenant or any Successor to Tenant; or (C) all or any of the nominal or beneficial owners of the capital stock or other ownership interests of (I) Tenant, (II) any Successor to Tenant or (III) any Affiliate of Tenant or any Successor to Tenant, or any entity of which at least fifty percent (50%) of the voting shares or other ownership interests are owned nominally or beneficially by such stockholders or owners of other ownership interests, as the case may be.

(ii) As used in this Lease, "Successor to Tenant" means a successor to Tenant or to Tenant's successors and assigns, as the case may be, by one of the following means: (A) merger, consolidation or otherwise by operation of law; (B) acquisition of all or substantially all of the assets of Tenant; (C) acquisition of all or substantially all of the issued and outstanding shares of capital stock of Tenant; or (D) the transfer of capital stock or other ownership interests in connection with a public offering registered by the Securities Exchange Commission.

(iii) As used in this Lease, "Affiliate" means: (A) a subsidiary or parent of Tenant or any Successor to Tenant; (B) a subsidiary of a parent of Tenant or any Successor to Tenant; or (C) any other entity under common ownership and management control with any of the foregoing. For the purpose of defining "Affiliate" in the preceding sentence, "subsidiary" is hereby defined as a corporation at least fifty percent (50%) of the voting shares of which is owned by another corporation, which latter corporation is hereby defined as a "parent."

13.3 Tenant's request for consent to any sublet or assignment shall be in writing and shall contain the name, address, and description of the business of the proposed assignee or subtenant, its most recent financial statement and other evidence of financial responsibility, its intended use of the Demised Premises, and the terms and conditions of the proposed assignment or subletting.

13.4 Each assignee or other transferee of this Lease shall assume and be deemed to have assumed this Lease and shall be and remain liable jointly and severally with Tenant for all payments and for the due performance of all terms, covenants, conditions and provisions herein contained on Tenant's part to be observed and performed. No assignment shall be binding upon Landlord unless the assignee shall deliver to Landlord an instrument in form and substance satisfactory to Landlord containing a covenant of assumption by the assignee, but the failure or refusal of assignee to execute and deliver the same shall not release assignee from its liability as set forth herein. Any profit or additional consideration or rent in excess of the Fixed Rent or Additional Rent payable by Tenant hereunder which is payable to Tenant as a result of any assignment or subletting shall be paid to Landlord as Additional Rent when received by Tenant. All the foregoing notwithstanding, Tenant shall not enter into any lease, sublease, license, concession or other agreement for the use, occupancy or utilization of the Demised Premises or any portion thereof,

which provides for a rental or other payment for such use, occupancy or utilization based in whole or in part on the income or profits derived by any person from the property leased, used, occupied or utilized (other than an amount based on a fixed percentage or percentages of receipts or sales). Any such purported lease, sublease, license, concession or other agreement shall be absolutely void and ineffective as a conveyance of any right or interest in the possession, use or occupancy of any part of the Demised Premises.

13.5 Any consent by Landlord hereunder shall not constitute a waiver of strict future compliance by Tenant with the provisions of this Section 13 or a release of Tenant from the full performance by Tenant of any of the

terms, covenants, provisions, or conditions in this Lease contained.

14. [INTENTIONALLY OMITTED]

15. EMINENT DOMAIN. If the whole or more than twenty-five percent (25%) of the Demised Premises (or use or occupancy of the Demised Premises) shall be taken or condemned by any governmental or quasi-governmental authority for any public or quasi-public use or purpose (including sale under threat of such a taking), or if the owner elects to convey title to the condemnor by a deed in lieu of condemnation, or if all or any portion of the Land or Building are so taken, condemned or conveyed and as a result thereof, in Landlord's or Tenant's reasonable judgment, the Demised Premises cannot be used for Tenant's permitted use as set forth in this Lease, then this Lease shall cease and terminate as of the date when title vests in such governmental or quasi-governmental authority and the Fixed Rent and Additional Rent shall be abated on the date when such title vests in such governmental or quasi-governmental authority. If less than twenty-five percent (25%) of the Demised Premises is taken or condemned by any governmental or quasi-governmental authority for any public or quasi-public use or purpose (including sale under threat of such a taking), the Fixed Rent and Additional Rent shall be equitably adjusted (on the basis of the number of square feet before and after such event, and to the extent parking or other material Building features are taken, such taking shall also be adjusted for) on the date when title vests in such governmental or quasi-governmental authority and the Lease shall otherwise continue in full force and effect. In any case, Tenant shall have no claim against Landlord for any portion of the amount that may be awarded as damages as a result of any governmental or quasi-governmental taking or condemnation (or sale under threat of such taking or condemnation); and all rights of Tenant to damages therefor are hereby assigned by Tenant to Landlord. The foregoing shall not, however, deprive Tenant of any separate award for moving expenses, dislocation damages or for any other award which would not reduce the award payable to Landlord.

16. CASUALTY DAMAGE.

16.1 In the event of damage to or destruction of the Demised Premises caused by fire or other casualty, or any such damage or destruction to the Building or the facilities necessary to provide services and normal access to the Demised Premises in accordance herewith, Landlord, after receipt of written notice thereof from Tenant, and subject to any mortgagee's consent and to

13

the conditions set forth in this Section 16.1, shall undertake to make repairs and restorations with reasonable diligence as hereinafter provided, unless this Lease has been terminated by Landlord or Tenant as hereinafter provided or unless any mortgagee which is entitled to receive casualty insurance proceeds fails to make available to Landlord a sufficient amount of such proceeds to cover the cost of such repairs and restoration. If (i) the damage is of such nature or extent that, in Landlord's sole judgment, more than one hundred and fifty (150) days would be required (with normal work crews and hours) to repair and restore the part of the Demised Premises or Building which has been damaged, or (ii) the Demised Premises or the Building is so damaged that, in Landlord's sole judgment, it is uneconomical to restore or repair the Demised Premises or the Building, as the case may be, or (iii) less than one hundred fifty (150) days then remain on the current Lease Term, Landlord shall so advise Tenant promptly, and either party, in the case described in clause (i) above, or Landlord, in the cases described in clauses (ii) or (iii) above, within thirty (30) days after any such damage or destruction shall have the right to terminate this Lease by written notice to the other, as of the date specified in such notice, which termination date shall be no later than thirty (30) days after the date of such notice.

16.2 In the event of fire or other casualty damage, provided this Lease is not terminated pursuant to the terms of this Section 16 and is otherwise in full force and effect, and sufficient casualty insurance proceeds in excess of the cost of adjusting the insurance claim and collecting the insurance proceeds are available for application to such restoration or repair, Landlord shall proceed diligently to restore the Demised Premises to substantially its condition prior to the occurrence of the damage. Landlord shall not be obligated to repair or restore any alterations, additions, fixtures or equipment which Tenant may have installed (whether or not Tenant has the



right or the obligation to remove the same or is required to leave the same on the Demised Premises as of the expiration or earlier termination of this Lease) unless Tenant, in a manner satisfactory to Landlord, assures payment in full of all costs as may be incurred by Landlord in connection therewith.

16.3 Landlord shall not insure the Building, the Demised Premises, any improvements or alterations to the Demised Premises, or any fixtures, equipment or other property of Tenant, all of which shall be the sole responsibility of Tenant to insure as more fully set forth in Section 17. Tenant shall, at its sole expense, insure the value of its leasehold improvements, fixtures, equipment and personal property located in or on the Demised Premises, for the purpose of providing funds to Landlord to repair and restore the Demised Premises to substantially its condition prior to occurrence of the casualty occurrence. If there are any such alterations, fixtures or additions and Tenant does not assure or agree to assure payment of the cost of restoration or repair as aforesaid, Landlord shall have the right to repair and restore the Demised Premises to substantially the same condition as existed prior to the damage, excepting such alterations, additions or fixtures.

16.4 The validity and effect of this Lease shall not be impaired in any way by the failure of Landlord to complete repairs and restoration of the Demised Premises or of the Building within one hundred and fifty (150) days after commencement of the work, even if Landlord had in good faith notified Tenant that the repair and restoration could be completed within such period,

14

provided that Landlord proceeds diligently with such repair and restoration, and provided further that if Landlord does elect to repair and restore following an event of casualty and such work is not completed within two hundred and ten (210) days from the date Landlord commences the work, Tenant shall have the right to terminate this Lease by written notice to Landlord, upon which both parties shall be relieved of any liabilities arising under this Lease to each other, except such liabilities of Tenant as may have accrued prior to such termination. In the case of damage to the Demised Premises which is of a nature or extent that Tenant's continued occupancy is in the judgment of Landlord and Tenant substantially impaired, then the Annual Fixed Rent and Additional Rent otherwise payable by Tenant hereunder shall be equitably abated or adjusted for the duration of such impairment, subject to the condition set forth in Section 16.5. Tenant shall be responsible to repair or replace all leasehold improvements and all equipment, fixtures, inventory and other personal property located in or on the Demised Premises, subject to Section 9 and to such other conditions as Landlord may require.

16.5 At Tenant's sole cost and expense, Tenant shall maintain a rental coverage endorsement or other comparable form of coverage as part of its all-risk insurance policy. Tenant will receive an abatement of Annual Fixed Rent to the extent of payments received by Landlord from the carrier providing the rental coverage endorsement.

17. INSURANCE; INDEMNIFICATION OF LANDLORD; WAIVER OF SUBROGATION.

17.1 (a) Tenant covenants and agrees to exonerate, indemnify, defend, protect and save Landlord harmless from and against any and all claims, demands, expenses, losses, suits and damages as may be occasioned by reason of: (i) any accident or matter occurring on or about the Demised Premises caused or suffered by Tenant, its agents, employees, invitees, contractors or guests, causing injury to persons or damage to property (including, without limitation, the Demised Premises), unless such accident or other matter resulted solely from the gross negligence or intentional act or omission of Landlord or Landlord's agents, contractors or employees; (ii) the failure of Tenant fully and faithfully to perform the obligations and observe the conditions of this Lease; and/or (iii) the negligence or otherwise tortious act of Tenant or anyone in or about the Demised Premises on behalf of or at the invitation or right of Tenant.

(b) Tenant shall maintain the following in full force and effect continuously throughout the Lease Term, at Tenant's sole cost, risk and expense:

- (i) insurance against loss or damage to

the Building and all other improvements now or hereafter located on the Demised Premises by fire and such other casualties as may be included in the broadest form of all-risk insurance from time to time available, in an amount equal to the full insurance replacement value of the Building and improvements, the policy to have attached thereto replacement cost, agreed amount and rental coverage endorsements or comparable forms of coverage;

15

(ii) comprehensive general liability insurance (including a contractual liability and fire legal liability insurance endorsement) naming as an additional insured Landlord against claims for bodily injury, death or property damage in amounts not less than Three Million Dollars (\$3,000,000) (or such higher limits as may be determined by Landlord from time to time) and business interruption insurance in an amount equal to Tenant's gross income for twelve (12) months; and

(iii) boiler insurance, plate glass insurance, and such other reasonable forms of insurance in such amounts as may be required from time to time by Landlord or by any mortgagee.

All policies shall be issued by companies having a Best's financial rating of A or better and a size class rating of XII (12) or larger or otherwise acceptable to Landlord. At or prior to the Commencement Date, Tenant shall deposit the policy or policies of such insurance, or certificates thereof, with Landlord and shall deposit with Landlord renewals thereof at least fifteen (15) days prior to each expiration. Said policy or policies of insurance or certificates thereof shall have attached thereto an endorsement that such policy shall not be canceled without at least thirty (30) days' prior written notice to Landlord that no act or omission of Tenant shall invalidate the interest of Landlord under said insurance and expressly waiving all rights of subrogation as set forth below. At Landlord's request, Tenant shall provide Landlord with a letter from an authorized representative of its insurance carrier stating that Tenant's current and effective insurance coverage complies with the requirements contained herein.

17.2 Each of the parties hereto releases the other, to the extent of the releasing party's insurance coverage, from any and all liability for any loss or damage covered by such insurance which may be inflicted upon the property of such party even if such loss or damage shall be brought about by the fault or negligence of the other party, its agents or employees; provided, however, that this release shall be effective only with respect to loss or damage occurring during such time as the appropriate policy of insurance shall contain a clause to the effect that this release shall not affect said policy or the right of the insured to recover thereunder. If any policy does not permit such a waiver, and if the party to benefit therefrom requests that such a waiver be obtained, the other party agrees to obtain an endorsement to its insurance policies permitting such waiver of subrogation if it is available. If an additional premium is charged for such waiver, the party benefiting therefrom agrees to pay the amount of such additional premium promptly upon being billed therefor.

17.3 This Section 17 shall expressly survive the expiration of the Lease Term or earlier termination of the Lease.

18. INSPECTION; ACCESS; CHANGES IN BUILDING FACILITIES.

18.1 Landlord and its agents or other representatives shall be permitted to enter the Demised Premises at reasonable times upon twenty-four (24) hours' notice, except in a emergency

16

situation when no such notice shall be required (i) to examine, inspect and protect the Demised Premises and the Building and (ii) during the last six (6) months of the Lease Term, to show it to prospective tenants and to erect upon, affix to any suitable part of the Land or exterior of the Building a notice or signage for letting the Demised Premises or, subject to Section 6, selling the Demised Premises.

18.2 Landlord shall have access to and use of all areas in the Demised Premises as well as access to and through the Demised Premises for the purpose of operation, maintenance, decoration and repair; provided, however, that except in emergencies such access shall not be exercised so as to interfere unreasonably with Tenant's use of the Demised Premises. Tenant shall permit Landlord to install, use and maintain pipes, ducts and conduits within the Building walls, bearing columns and ceilings of the building, provided that the installation work is performed at such times and by such methods as will not materially interfere with Tenant's use of the Building, materially reduce the floor area thereof or materially and adversely affect Tenant's layout. Landlord and Tenant shall cooperate with each other in the location of Landlord's and Tenant's facilities requiring such access.

18.3 Subject to the other terms and conditions of this Lease, Landlord reserves the right at any time, without incurring any liability to Tenant therefor, to make such changes in or to the Building and the fixtures and equipment thereof, as well as in or to the street entrances, halls, foyers, passages, elevators, if any, and stairways thereof, as it may deem necessary or desirable; provided that there shall be no change that materially detracts from the character or quality of the Building.

19. DEFAULT. Any other provisions in this Lease notwithstanding, the occurrence of any of the following shall be an event of default under this Lease (each, an "Event of Default"): (i) Tenant fails to pay any installment of Fixed Rent, Additional Rent or other sum payable by Tenant hereunder within five (5) days after the same is due and payable under this Lease; (ii) Tenant fails to observe or perform any other covenant or agreement of Tenant herein contained and such failure continues after written notice given by or on behalf of Landlord to Tenant for more than ten (10) days; provided, however, that if Tenant is proceeding diligently to cure any such default but such cannot reasonably be cured within said ten (10) day period, Tenant shall have such additional amount of time to cure as is reasonably necessary; (iii) Tenant uses or occupies the Demised Premises other than as permitted hereunder; (iv) Tenant assigns or sublets, or purports to assign or sublet, the Demised Premises or any part thereof other than in the manner and upon the conditions set forth herein; (v) Tenant abandons or vacates the Demised Premises or without Landlord's prior written consent, or Tenant removes or attempts to remove or manifests an intention to remove any or all of Tenant's property from the Demised Premises other than in the ordinary and usual course of business; (vi) Tenant files a petition commencing a voluntary case, or has filed against it a petition commencing an involuntary case, under the Federal Bankruptcy Code (Title 11 of the United States Code), as now or hereafter in effect, or under any similar law, or files or has filed against it a petition or answer in bankruptcy or for reorganization or for an arrangement pursuant to any state bankruptcy law or any similar state law, and, in the case of any such involuntary action, such action shall not be

17

dismissed, discharged or denied within sixty (60) days after the filing thereof, or Tenant consents or acquiesces in the filing thereof, (vii) a custodian, receiver, trustee or liquidator of Tenant or of all or substantially all of Tenant's property or of the Demised Premises shall be appointed in any proceedings brought by or against Tenant and, in the latter case, such entity shall not be discharged within sixty (60) days after such appointment or Tenant consents to or acquiesces in such appointment; or (viii) Tenant shall generally not pay Tenant's debts as such debts become due, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due. The notice and grace period provisions in clauses (i) and (ii) above shall have no application to the Events of Default referred to in clauses (iii) through (viii) above.

20. LANDLORD'S REMEDIES.

20.1 Upon the occurrence of any Event of Default, Landlord at any time thereafter may at its option exercise any one or more of the following remedies:

(a) Termination of Lease. Landlord may terminate this Lease, by written notice to Tenant, without any right by Tenant to reinstate its rights by payment of rent due or other performance of the terms and conditions hereof. Upon such termination Tenant shall immediately surrender

possession of the Demised Premises to Landlord, and Landlord shall immediately become entitled to receive from Tenant an amount equal to the aggregate of all Fixed Rent and Additional Rent which then remains due to Landlord but unpaid by Tenant.

(b) Reletting. With or without terminating this Lease, as Landlord may elect, Landlord may re-enter and repossess the Demised Premises, or any part thereof, and lease the Demised Premises or any part thereof to any other person upon such terms as Landlord shall deem reasonable, for a term within or beyond the term of this Lease; provided, that any such reletting prior to termination shall be for the account of Tenant, and Tenant shall remain liable for (i) all Annual Fixed Rent, Additional Rent and other sums which would be payable under this Lease by Tenant in the absence of such expiration, termination or repossession, less (ii) the net proceeds, if any, of any reletting effected for the account of Tenant after deducting from such proceeds all of Landlord's expenses, reasonable attorneys' fees and expenses, employees' expenses, reasonable brokerage commissions and fees, reasonable alteration costs, expenses of preparation for such reletting and all costs and expenses, direct or indirect, incurred as a result of Tenant's breach of the Lease. Landlord shall use commercially reasonable efforts to relet the Demised Premises. If the Demised Premises are at the time of default sublet or leased by Tenant to others, Landlord may, as Tenant's agent, collect rents due from any subtenant or other tenant and apply such rents to the rent and other amounts due hereunder without in any way affecting Tenant's obligation to Landlord hereunder. Such agency, being given for security, is hereby declared to be irrevocable.

(c) Acceleration of Rent. Landlord may declare Fixed Rent and all items of Additional Rent (the amount thereof to be based on historical amounts and Landlord's estimates for future amounts) for the entire balance of the then current Lease Term immediately due and

18

payable, together with all other charges, payments, costs, and expenses payable by Tenant as though such amounts were payable in advance on the date the Event of Default occurred.

(d) Removal of Contents by Landlord. With respect to any portion of the Demised Premises which is vacant or which is physically occupied by Tenant, Landlord may remove all persons and property therefrom, and store such property in a public warehouse or elsewhere at the cost of and for the account of Tenant, without service of notice or resort to legal process (all of which Tenant expressly waives) and without being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby. Landlord shall have a lien for the payment of all sums agreed to be paid by Tenant herein upon all Tenant's property, which lien is to be in addition to Landlord's lien now or hereafter provided by law.

(e) Late Charge. In addition to all other rights and remedies of Landlord, if an Event of Default shall occur, Landlord shall have the right to charge a late payment penalty of five percent (5%) of any amount owed to Landlord that is not paid within five (5) days of the date when the same is due and payable under this Lease.

(f) SECTION 20.1(f) BELOW SETS FORTH WARRANTS OF AUTHORITY FOR AN ATTORNEY TO CONFESS JUDGMENTS AGAINST TENANT. IN GRANTING THESE WARRANTS OF AUTHORITY TO CONFESS JUDGMENTS AGAINST TENANT, TENANT HEREBY KNOWINGLY, INTENTIONALLY, VOLUNTARILY AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHTS TENANT HAS OR MAY HAVE TO PRIOR NOTICES AND AN OPPORTUNITY FOR HEARING UNDER THE RESPECTIVE CONSTITUTIONS AND LAWS OF THE UNITED STATES AND THE COMMONWEALTH OF PENNSYLVANIA. UPON THE EXPIRATION OF THE THEN CURRENT TERM OF THIS LEASE OR THE EARLIER TERMINATION OR SURRENDER HEREOF AS PROVIDED IN THIS LEASE, IT SHALL BE LAWFUL FOR ANY ATTORNEY OF ANY COURT OF RECORD IN THE COMMONWEALTH OF PENNSYLVANIA TO APPEAR AS ATTORNEY FOR TENANT AS WELL AS FOR ALL PERSONS CLAIMING BY, THROUGH OR UNDER TENANT AND TO SIGN AN AGREEMENT FOR ENTERING IN ANY COMPETENT COURT AND THEREIN CONFESS JUDGMENT FOR THE RECOVERY BY LANDLORD OF POSSESSION OF THE DEMISED PREMISES, FOR WHICH THIS LEASE SHALL BE ITS SUFFICIENT WARRANT, WHEREUPON, IF LANDLORD SO DESIRES, A WRIT OF POSSESSION OR OTHER APPROPRIATE WRIT UNDER THE RULES OF CIVIL PROCEDURE THEN IN EFFECT MAY ISSUE FORTHWITH, WITHOUT ANY PRIOR WRIT OR PROCEEDINGS; HOWEVER, IF SUCH PROCEEDING IS TERMINATED AND THE POSSESSION OF THE DEMISED PREMISES REMAIN IN OR

BE RESTORED TO TENANT, LANDLORD SHALL HAVE THE RIGHT FOR THE SAME DEFAULT AND UPON ANY SUBSEQUENT DEFAULT OR DEFAULTS, OR UPON THE TERMINATION OF THIS LEASE UNDER ANY OF THE TERMS OF THIS LEASE TO BRING ONE OR MORE FURTHER AMICABLE ACTION OR ACTIONS AS HEREINBEFORE SET FORTH TO RECOVER POSSESSION OF THE DEMISED PREMISES AND CONFESS JUDGMENT FOR THE

19

RECOVERY OF POSSESSION OF THE DEMISED PREMISES AS HEREINABOVE PROVIDED.

\_\_\_\_\_ TENANT

20.2 Proceedings. In any action of ejectment, Landlord shall first cause to be filed in such action an affidavit made by it or someone acting for it, setting forth the facts necessary to authorize the entry of judgment, and, if a true copy of this Lease (and of the truth of the copy such affidavit shall be sufficient evidence) be filed in such action, it shall not be necessary to file the original as a warrant of attorney, any rule of Court, custom or practice to the contrary notwithstanding. Tenant hereby releases to Landlord and to any and all attorneys who may appear for Tenant all errors in said proceedings and all liability thereof. If proceedings shall be commenced by Landlord to recover possession under the Acts of Assembly and Rules of Civil Procedure, either at the end of the term or upon the earlier termination of this Lease, or for non-payment of rent or any other reason, Tenant specifically waives the right to the three (3) months' notice and to the fifteen (15) or thirty (30) days' notice required by the Landlord and Tenant Act of 1951, as the same may be amended, and agrees that five (5) days' notice shall be sufficient in either or any such case.

20.3 Survival of Tenant's Obligations. No expiration or termination of this Lease Term pursuant to Section 20.1(a) above or by operation of law or otherwise (except as expressly provided in this Lease), and no repossession of the Demised Premises or any part thereof pursuant to Section 20.1(a) or (b) above or otherwise shall relieve Tenant of its liabilities and obligations hereunder, all of which shall survive such expiration, termination or repossession, and Landlord may, at its option, sue for and collect all rent and other charges due hereunder at any time as when such charges accrue.

20.4 Injunction. In the event of breach or threatened breach by Tenant of any provision of this Lease, Landlord shall have the right of injunction and the right to invoke any remedy allowed at law or in equity in addition to other remedies provided for herein.

20.5 Waiver of Redemption. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future law in the event this Lease is terminated, or in the event of Landlord obtaining possession of the Demised Premises, or Tenant is evicted or dispossessed for any cause, by reason of violation by Tenant of any of the provisions of this Lease.

20.6 Not Exclusive Right. No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy herein or by law provided, but each shall be cumulative and in addition to every other right or remedy given herein or now or hereafter existing at law or in equity or by statute.

20.7 Expenses. In the event that Landlord commences suit for the repossession of the Demised Premises, for the recovery of rent or any other amount due under the provisions of this Lease, or because of the breach of any other covenant herein contained on the part of Tenant to be

20

kept or performed, and a breach shall be established, Tenant shall pay to Landlord all expenses incurred in connection therewith, including reasonable attorneys' fees.

21. LANDLORD'S RIGHT TO CURE TENANT'S DEFAULT. If Tenant defaults in the making of any payment or in the doing of any act herein required to be made or done by Tenant, then Landlord may, but shall not be required to, make such payment or do such act, and charge the amount of Landlord's expense, with

interest accruing and payable thereon at the Default Rate as of the date of the expenditure by Landlord or as of the date of payment thereof by Tenant, whichever is higher, from the date paid or incurred by Landlord to the date of payment thereof by Tenant; provided, however, that nothing herein contained shall be construed or implemented in such a manner as to allow Landlord to charge or receive interest in excess of the maximum legal rate then allowed by law. Such payment and interest shall constitute Additional Rent hereunder due and payable with the next monthly installment of Fixed Rent; but the making of such payment or the taking of such action by Landlord shall not operate to cure such default by Tenant or to estop Landlord from the pursuit of any remedy to which Landlord would otherwise be entitled.

22. ESTOPPEL CERTIFICATE. Tenant shall, at any time and from time to time, at the request of Landlord or any mortgagee, upon ten (10) business days' notice, execute, acknowledge and deliver to Landlord a statement in the form of Exhibit "B" attached hereto and hereby made a part of this Lease or such other reasonable form supplied by Landlord, it being intended that any such statement delivered pursuant hereto may be relied upon by others with whom Landlord may be dealing. Tenant hereby appoints Landlord as Tenant's attorney-in-fact to execute any such estoppel certificates in the event Tenant does not execute and return such certificates within the time period set forth above.

23. HOLDING OVER. If Tenant retains possession of the Demised Premises or any part thereof after the termination of this Lease or expiration of the Lease Term or otherwise in the absence of any written agreement between Landlord and Tenant concerning any such continuance of the term, Tenant shall pay Landlord (i) as agreed liquidated damages for such holding over alone, an amount, calculated on a per diem basis for each day of such unlawful retention, equal to the greater of (a) one hundred fifty percent (150%) of the Annual Fixed Rent, or (b) the established market rental for the Demised Premises, for the time Tenant thus remains in possession, plus, in each case, all Additional Rent and other sums payable hereunder, and (ii) all other damages, costs and expenses sustained by Landlord by reason of Tenant's holding over. Without limiting any rights and remedies of Landlord resulting by reason of the wrongful holding over by Tenant, or creating any right in Tenant to continue in possession of the Demised Premises, all Tenant's obligations with respect to the use, occupancy and maintenance of the Demised Premises shall continue during such period of unlawful retention.

24. SURRENDER OF DEMISED PREMISES. Tenant shall, at the expiration or earlier termination of the Lease Term, promptly surrender the Demised Premises in good order and condition and in conformity with the applicable provisions of this Lease, excepting only reasonable wear and tear and damage caused by insured casualty.

21

25. SUBORDINATION, NON-DISTURBANCE AND ATTORNMEN.T.

25.1 Subject to the terms and conditions of Section 25.2, this Lease and the estate, interest and rights hereby created are subordinate to any mortgage now or hereafter placed upon the Building or the Land or any estate or interest therein, including, without limitation, any mortgage on any leasehold estate, and to all renewals, modifications, consolidations, replacements and extensions of same as well as any substitutions therefor. Tenant agrees that in the event any person, firm, corporation or other entity acquires the right to possession of the Building or the Land, including any mortgagee or holder of any estate or interest having priority over this Lease, Tenant shall, if requested by such person, firm, corporation or other entity, attorn to and become the tenant of such person, firm, corporation or other entity, upon the same terms and conditions as are set forth herein for the balance of the Lease Term. Notwithstanding the foregoing, any mortgagee may, at any time, subordinate its mortgage to this Lease, without Tenant's consent, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution and delivery, and in that event, such mortgagee shall have the same rights with respect to this Lease as though it had been executed prior to the execution and delivery of the mortgage. Tenant, if requested by Landlord, shall execute any such instruments in recordable form as may be reasonably required by Landlord in order to confirm or effect the subordination or priority of this Lease, as the case may be, the rights of Tenant set forth in Section 25.2, and the attornment of Tenant to future landlords in accordance with the terms of this Section 25.

25.2 (a) Provided this Lease shall at all times be in full force and effect and provided further that there shall exist no Event of Default by Tenant hereunder, the right of possession by Tenant to possess and quietly enjoy the Demised Premises and any or all of Tenant's rights under this Lease shall not be affected in any way or disturbed by any lender doing business with Landlord in the exercise of any such lender's rights under any formal agreements between such lender and Landlord. Tenant shall not be named as a party defendant to any foreclosure of any lien of any mortgage for the purpose of terminating this Lease, and Tenant shall not, by any such foreclosure, be in any other way foreclosed from its rights under this Lease.

(b) In the event that any such lender or its successors or assigns comes into possession of the Demised Premises or acquires the leasehold interest of Landlord by foreclosure of any mortgage between any such lender and Landlord, or by proceedings on any note executed by Landlord in favor of any such lender or otherwise, this Lease shall not be terminated by any such foreclosure or proceedings; and this Lease shall continue in full force and effect upon Tenant's attornment, as provided herein, as a direct lease between Tenant and any such lender upon the same terms, covenants, conditions and agreements set forth in this Lease.

(c) In the event that the Demised Premises or Landlord's leasehold interest therein is sold or otherwise disposed of pursuant to any right or power contained in any mortgage or any note between any such lender and Landlord, or as a result of proceedings thereon, this Lease shall not be terminated or affected thereby, and the purchaser of the Demised Premises or of

22

Landlord's leasehold interest therein or any person or entity acquiring title thereto shall so acquire it, subject to this Lease; and this Lease shall continue in full force and effect upon Tenant's attornment, as provided herein, as a direct lease between Tenant and any party acquiring title to Landlord's leasehold interest therein, as aforesaid, upon the same terms, covenants conditions and agreements set forth in this Lease.

26. BROKERS. Each party represents and warrants to the other that it has not made any agreement or taken any action which may cause anyone to become entitled to a commission as a result of the transactions contemplated by this Lease, and each will indemnify, defend and hold harmless the other from any and all claims, actual or threatened, for compensation by any such third person by reason of such party's breach of its, his, her or their representation or warranty contained in this Section 26. This Section 26 shall survive the expiration of the Lease Term or earlier termination of this Lease.

27. NOTICES. All notices or other communications hereunder shall be in writing and shall be deemed to have been given (i) if hand delivered or sent by an express mail or delivery service or by national overnight courier, if and when delivered to the respective parties at the below addresses (or at such other address as a party may hereafter designate for itself by notice to the other party as required hereby), or (ii) if mailed, then on the third business day following the date on which such communication is deposited in the United States mails, by first class or certified mail, return receipt requested, postage prepaid, and addressed to the respective parties at the below addresses (or at such other address as a party may hereafter designate for itself by notice to the other party as required hereby). All notices and communications to Tenant may also be given by leaving same at the Demised Premises during normal business hours.

27.1 If to Landlord:

The Electronics Boutique, Inc.  
931 South Matlack Street  
West Chester, PA 19382  
Attention: President

27.2 If to Tenant:

Electronics Boutique of America Inc.  
931 South Matlack Street  
West Chester, PA 19382

28. MISCELLANEOUS.

28.1. Successors and Assigns. Subject to Section 13, the obligations of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors

23

and assigns; provided that Landlord and each successive owner of the Building and/or the Land shall be liable only for obligations accruing during the period of its ownership or interest in the Building and from and after the transfer by Landlord or such successive owner of its ownership or other interest in the Building, Tenant shall look solely to the successors in title for the performance of Landlord's obligations hereunder arising thereafter. Any successor of Landlord hereunder shall provide Tenant with a notice evidencing that such successor Landlord has assumed all of Landlord's obligations under this Lease.

28.2 Waivers. No delay or forbearance by Landlord in exercising any right or remedy hereunder or in undertaking or performing any act or matter which is not expressly required to be undertaken by Landlord shall be construed respectively, to be a waiver of Landlord's rights or to represent any agreement' by Landlord to undertake or perform such act or matter thereafter.

28.3 Consent to Exclusive Jurisdiction; Waiver of Trial by Jury. Tenant hereby consents to the exclusive jurisdiction of the Common Pleas Court of Chester County, Pennsylvania and/or the United States Court for the Eastern District of Pennsylvania in any and all actions or proceedings arising under this Lease, and irrevocably agrees to service of process in accordance with Section 25 above. Landlord and Tenant agree to waive trial by jury in any action, proceeding or counterclaim brought by either of the parties hereto against the other on any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, Tenant's use, possession and/or occupancy of the Demised Premises, and/or any claim of injury or damage and any emergency or any other statutory remedy. It is further mutually agreed that in the event Landlord commences any summary proceeding for non-payment of rent, Tenant will not interpose any counterclaim of whatever nature or description in any such proceeding.

28.4 Limitation of Landlord's Liability. Tenant shall look solely to the Demised Premises and rents derived therefrom for enforcement of any obligation hereunder or by law assumed or enforceable against Landlord, and no other property or other assets of Landlord shall be subjected to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies or with respect to this Lease, the relationship of landlord and tenant hereunder or Tenant's use, possession and/or occupancy of the Demised Premises.

28.5 Time of the Essence. All times, wherever specified herein for the performance by Landlord or Tenant of their respective obligations hereunder, are of the essence of this Lease.

28.6 Severability. Each covenant and agreement in this Lease shall for all purposes be construed to be a separate and independent covenant or agreement. If any provision in this Lease or the application thereof shall to any extent be invalid, illegal or otherwise unenforceable, the remainder of this Lease, and the application of such provision other than as invalid, illegal or unenforceable, shall not be affected thereby; and such provisions in this Lease shall be valid and enforceable to the fullest extent permitted by law.

24

28.7 Quiet Enjoyment. Provided Tenant is not in default of any of the terms and conditions of this Lease, Tenant shall be entitled to quiet enjoyment of the Demised Premises without disturbance or hindrance by Landlord or anyone claiming under or through Landlord.

28.8 Amendment and Modification. This Lease, including all Exhibits hereto, each of which is incorporated in this Lease, contains the



entire agreement between the parties hereto, and shall not be amended, modified or supplemented unless by agreement in writing signed by both Landlord and Tenant.

28.9 Headings and Terms. The title and caption headings and table of contents of this Lease are for convenience of reference only and shall not in any way be utilized to construe or interpret the agreement of the parties as otherwise set forth herein. The term "Landlord" and term "Tenant" as used herein shall mean, where appropriate, all persons acting by or on behalf of the respective parties, except as to any required approvals, consents or amendments, modifications or supplements hereunder when such terms shall only mean the parties originally.

28.10 No Joint Venture. Nothing contained in this Lease shall be construed to create a partnership, joint venture or other association between Tenant and Landlord.

28.11 Counterparts. This Lease may be executed in counterparts each of which shall be deemed an original and all of which, when taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties here to have caused this Agreement of Lease to be executed on the day and year first above written.

LANDLORD:

THE ELECTRONICS BOUTIQUE, INC.

[Corporate Seal]

Attest:

-----  
Marilyn Kirchner  
Assistant Secretary

By:

-----  
Joseph Firestone  
President

TENANT:

ELECTRONICS BOUTIQUE OF AMERICA INC.

[Corporate Seal]

Attest:

-----  
John R. Panichello  
Secretary

By:

-----  
Joseph Firestone  
President

EXHIBIT "A"

LEGAL DESCRIPTION OF LAND

Landlord: \_\_\_\_\_  
Tenant: \_\_\_\_\_

EXHIBIT "B"

FORM OF

ELECTRONICS BOUTIQUE OF AMERICA INC.  
(Tenant)

The undersigned (jointly and severally if more than one) hereby represents, warrants and certifies to \_\_\_\_\_ (the "Landlord") and/or \_\_\_\_\_ ("Mortgagee") that is the tenant and present occupant (the "Tenant") of certain premises (the "Demised Premises") located at \_\_\_\_\_ and that:

1. Basic Lease Terms - The Demised Premises are more specifically described in, and are leased under the provisions of, a lease agreement (the "Lease"), the basic terms of which are described below:

- 1.1 Demised Premises: \_\_\_\_\_;
- 1.2 Rentable Square Feet of Demised Premises: \_\_\_\_\_
- 1.3 Date of Lease: \_\_\_\_\_
- 1.4 Commencement Date: \_\_\_\_\_
- 1.5 Expiration Date: \_\_\_\_\_
- 1.6 Current Annual/Monthly Fixed Rent: \$ \_\_\_\_\_ / \$ \_\_\_\_\_
- 1.7 Current Monthly Additional Rent: \$ \_\_\_\_\_
- 1.8 Total Monthly Rent As of : \$ \_\_\_\_\_
- 1.9 Security Deposit: NONE
- 1.10 Total Rent Is Paid Through: \_\_\_\_\_

2. Modifications. The Lease contains all of the understandings and agreements between Tenant and Landlord, and is in existence in full force and effect, without modification, addition, extension, or renewal on the date hereof (or is in full force and effect modified as indicated below), except as indicated below:

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Landlord \_\_\_\_\_  
Tenant \_\_\_\_\_

B-1

3. Acceptance of Demised Premises. Tenant has accepted possession of the Demised Premises and is now in possession of same, and the improvements and space required to be furnished according to the Lease have been fully delivered by Landlord and accepted by Tenant.

4. Options. There are no options, rights of first refusal, options to terminate, exclusive business rights, or other rights in Tenant to extend or renew the term of the Lease or to expand or otherwise modify the Demised Premises, except as-indicated below:

5. Commencement of Rental Obligation. Tenant's obligation to pay rent commenced as of May 31, 1998.

6. Rent Payment. No rent has been paid by Tenant in advance under the Lease, except for the Total Monthly Rent, as described above, that became due for the current month.

7. No Tenant Default. Tenant is not in default under the Lease and is current in the payment of any and all charges required to be paid by Tenant, except as indicated below:

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8. Subordination, Non-Disturbance and Attornment. In the event that Landlord's interest is conveyed or Landlord otherwise relinquishes possession of the Premises to a third party, including but not limited to any mortgagee or successor in interest to any such mortgagee, the undersigned agrees to attorn to such third party and to recognize such third party as landlord. Subject to the terms and conditions of Section 25.2 of the Lease, Tenant agrees to subordinate to any mortgagee or successor in interest to any such mortgagee as more fully set forth in the Lease. Any such attornment or subordination shall be effective and self-operative without the execution of any other instrument by either party hereto but, upon the request of such landlord, the undersigned shall execute and deliver an instrument confirming such attornment or subordination.

9. No defense. Tenant has no defenses, set-offs, basis for withholding of rent, claims or counterclaims against the Landlord for any failure of performance of any of the terms of the Lease, nor to the best of Tenant's knowledge are there defaults or breaches by Landlord under the Lease, including, without limitation, defaults relating to the design, condition and tenant uses of the Demised Premises.

B-2

10. No Prior Assignment or Subletting. Tenant has not assigned, pledged, mortgaged or otherwise transferred or encumbered the Lease or the rental payments thereunder, nor sublet all or any part of the Premises and is not presently permitting the same to be occupied or used by anyone other than Tenant except as indicated below:

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11. Use of Premises. Tenant has not accumulated, recycled, stored, treated, spilled, emitted, leaked or disposed of any hazardous, toxic or polluting substances or wastes at the property. Tenant has not received notice from any governmental agency that it may be responsible for clean-up of the property or surrounding areas pursuant to the Federal Comprehensive Environmental, Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq., the Federal Water Pollution Control Act (33 U.S.C.A. Section 1151 et seq.), the Clean Water Act of 1977 (33 U.S.C.A. Section 1251 et seq.), or the regulations promulgated thereunder (if applicable), or any other federal, state or local environmental law, regulation or ordinance.

The undersigned makes this statement with the understanding that Landlord and any others with which Landlord may be dealing intend to rely upon this Certificate and Statement and the undersigned agrees that they may so rely.

Dated: \_\_\_\_\_, 199\_

ELECTRONICS BOUTIQUE OF AMERICA INC.

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

B-3

## AGREEMENT AND BILL OF SALE

THIS AGREEMENT AND BILL OF SALE (this "Agreement") is entered into as of the 13th day of July, 1998 by and between EB NEVADA INC., a Nevada corporation having its principal office at 2255-A Renaissance Drive, Suite 4, Las Vegas, NV ("Transferor"), and ELECTRONICS BOUTIQUE HOLDINGS CORP., a Delaware corporation having its principal office at 931 South Matlack Street, West Chester, PA ("Transferee").

WHEREAS, Transferee was incorporated under the laws of the State of Delaware in March 1998 as a holding company for the operating activities of The Electronics Boutique, Inc.;

WHEREAS, in contemplation of an initial public offering (the "IPO") of shares of common stock, par value \$.01 per share, of Transferee ("Common Stock"), Transferor and Transferee have determined that it is in their best interests for Transferor to transfer to Transferee all of the shares that it holds in Electronics Boutique of America Inc., Elbo Inc., EB International, Inc. and Electronics Boutique Canada Inc. (collectively, the "Operating Shares");

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound hereby, covenant and agree as follows:

1. Exchange of Shares.

(a) Effective (i) immediately prior to the execution of the Underwriting Agreement between Transferor and the Transferee on the one hand and Prudential Securities Incorporated and Salomon Smith Barney, as representatives of the underwriters on the other, to be entered into in connection with the IPO, and (ii) simultaneously with the effectuation of (A) the Agreement and Bill of Sale, dated as of July 13, 1998, between The Electronics Boutique, Inc. and Transferor, (B) the Agreement and Bill of Sale, dated as of July 13, 1998, between Transferee and EB Investment Corp. and (C) the Agreement and Consent to Assignment and Assumption of Partnership Interests, dated as of July 13, 1998, by and among EB Services Corporation, James J. Kim, Agnes C. Kim, certain trusts for the benefit of Susan Y. Kim, David D. Kim and John T. Kim, Transferee, EB Investment Corp. and Electronics Boutique of America Inc., Transferor shall assign, sell, transfer, grant and set over unto Transferee all of Transferor's right, title and interest in the Operating Shares in exchange for that number of shares of Common Stock equal to the amount obtained by dividing \$257,705,600 by the initial public offering price per share in the IPO (the "Holdings Shares"), in a transaction described in Section 351 of the Internal Revenue Code of 1986, as amended.

(b) Transferee agrees to accept the Operating Shares in exchange for the Holdings Shares, which will be validly issued, fully paid, and non-assessable.

In furtherance of the foregoing, the parties hereto further agree as follows:

2. Representations and Warranties. Transferor (i) has good title to the Operating Shares and the power and authority to assign and transfer the Operating Shares and (ii) has made no prior assignment thereof and (iii) to the best of Transferor's knowledge, the Operating Shares are free and clear of all liens, claims and encumbrances.

3. Successors and Assigns. The rights, interests and benefits granted hereby and the burdens and obligations imposed hereby shall inure to the benefit of and be binding upon, as the case may be, the parties hereto and their respective successors and assigns.

4. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Pennsylvania without regard to its choice of laws principles.

5. Further Assurances. Transferor and Transferee each agree that they shall execute and deliver such instruments, documents and other writings as may be necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Agreement.

6. Counterparts. This Agreement may be signed in one or more counterparts, each of which shall be deemed an original, and all of which taken together shall constitute a single agreement.

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IN WITNESS WHEREOF, Transferor and Transferee have caused this Agreement to be duly executed as of the day and year first above written.

TRANSFEROR:

TRANSFEEE:

EB NEVADA INC.

ELECTRONICS BOUTIQUE HOLDINGS  
CORP.

By: /s/ Susan Y. Kim

By: /s/ Joseph J. Firestone

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Susan Y. Kim,  
Secretary

Joseph J. Firestone,  
President and Chief Executive Officer

AGREEMENT AND CONSENT TO ASSIGNMENT  
AND ASSUMPTION OF PARTNERSHIP INTERESTS

This Agreement and Consent to Assignment and Assumption of Partnership Interests (this "Agreement") is entered into as of the 13th day of July, 1998 by and among EB Services Corporation, a Pennsylvania corporation ("EB Services"), the Susan Y. Kim Trust dated December 31, 1987, the David D. Kim Trust dated December 31, 1987, the John T. Kim Trust dated December 31, 1987 (collectively, the "Kim Trusts"), James J. Kim, Agnes C. Kim (collectively, the "Kims" and, together with the Kim Trusts, the "Limited Partners"), Electronics Boutique Holdings Corp., a Delaware corporation ("Holdings"), EB Investment Corp., a Delaware corporation ("EB Investment"), and Electronics Boutique of America Inc., a Pennsylvania corporation ("EBOA"). EB Services and the Limited Partners are collectively referred to herein as the "Partners."

WHEREAS, the Partners are parties to a Limited Liability Partnership Agreement, dated as of January 1997, as amended (the "Partnership Agreement"), and collectively own 100% of the outstanding partnership interests of EB Services Company, LLP, a limited liability partnership formed pursuant to the Partnership Agreement and the Pennsylvania Revised Limited Liability Partnership Act (the "Partnership");

WHEREAS, the Limited Partners own an aggregate of ninety-nine percent (99%) of the outstanding partnership interests of the Partnership and EB Services owns one percent (1%) of the outstanding partnership interests of the Partnership (the "One Percent Interest"); and

WHEREAS, (i) the Partners desire to assign, transfer and set over to Holdings an aggregate of 99.99% of the outstanding partnership interests of the Partnership (the "Assigned Interests"), with EB Services retaining the remaining .01% interest, (ii) Holdings desires to assign, transfer and set over the Assigned Interests to EB Investment and (iii) EB Investment desires to assign, transfer and set over the Assigned Interests to EBOA;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto, intending to be legally bound hereby, covenant and agree as follows:

1. Assignments.

(a) Assignment to Holdings. At the Effective Time (as defined below), (i) each of the Limited Partners shall assign, transfer and set over to Holdings all of its interest in the Partnership and (ii) EB Services shall assign, transfer and set over to Holdings ninety-nine percent (99%) of the One Percent Interest collectively in exchange for

an aggregate of 100 shares of Common Stock (as defined below). Pursuant to the aforementioned assignments, (i) each of the Kim Trusts shall receive thirteen (13) shares of Common Stock, (ii) the Kims shall receive an aggregate of sixty (60) shares of Common Stock and (iii) EB Services shall receive one (1) share of Common Stock. The "Effective Time" means that time immediately

prior to the execution of the Underwriting Agreement between Holdings and EB Nevada Inc., on the one hand and Prudential Securities Incorporated and Salomon Smith Barney, as representatives of the underwriters, on the other, to be entered into in connection with the contemplated initial public offering of common stock ("Common Stock"), par value \$.01 per share, of Holdings.

(b) Assignment to EB Investment. At the Effective Time, Holdings shall assign, transfer and set over the Assigned Interests to EB Investment as a capital contribution to this wholly-owned subsidiary.

(c) Assignment to EBOA. At the Effective Time, EB Investment shall assign, transfer and set over the Assigned Interests to EBOA as a capital contribution to this wholly-owned subsidiary.

(d) Timing. Each of the transfers of the Assigned Interests contemplated by this Agreement shall occur simultaneously at the Effective Time.

(e) Tax Consequences. Each of the assignments outlined above are intended to qualify under Section 351 of the Internal Revenue Code of 1986, as amended.

2. Assumption of Liabilities and Obligations. EBOA hereby agrees to accept the Assigned Interests and assume, to the extent of the Assigned Interests, the Partners' liabilities and obligations arising on or after the Effective Time under the Partnership Agreement. EBOA agrees to be bound by all terms, covenants and conditions of the Partnership Agreement and all related instruments and documents as they pertain to the interests in the Partnership transferred hereby from and after the Effective Time. The Limited Partners, Holdings and EB Investment shall have no further obligations or liabilities with respect to or by virtue of their interests in the Partnership transferred hereby, except that the Limited Partners shall remain liable for those obligations and liabilities which relate to the period of time prior to the Effective Time.

3. Joinder to Partnership Agreement. At the Effective Time, EBOA shall be bound as a partner by all of the terms and conditions set forth in the Partnership Agreement.



4. Representations and Warranties. Each Partner represents and warrants that (i) it has good title to its respective interest in the Partnership that it is transferring hereby and the power and authority to assign and transfer such interest, (ii) it has made no prior assignment of such interest and, (iii) to the best of its knowledge, such interest is free and clear of all liens, claims and encumbrances. Each of Holdings and EB Investment represents and warrants that, at the Effective Time, it will have the power and authority to transfer the interests it is transferring hereby, (ii) it has made no prior assignment of such interests and, (iii) to the best of its knowledge, such interests are free and clear of all liens, claims and encumbrances

2

5. Indemnity. EBOA shall indemnify, defend and hold harmless the other parties hereto from and against any and all cost, liabilities, damage or expense, including reasonable attorneys' fees, originating from any failure by it to pay any liability assumed hereunder or any act or omission by it, its employees or agents, occurring or arising after the Effective Date, and arising out of its right to any interest of the Partnership transferred hereby.

6. Acknowledgment and Consent of, and Waiver by, the General Partner. EB Services, the general partner of the Partnership, consents, in accordance with Article X of the Partnership Agreement, to each of the transfers described herein and to the admission of EBOA as a partner thereof. EB Services hereby waives (i) the requirement of written notice imposed by Section 10.1 of the Partnership Agreement and (ii) its right of first refusal under Section 10.5 thereof.

7. Acknowledgment and Consent of the Limited Partners. The Limited Partners, Holdings and EB Investment hereby consent, in accordance with Article IX of the Partnership Agreement, to the transfer by EB Services of ninety-nine percent (99%) of its interest in the Partnership and the subsequent transfers thereof pursuant hereto and to the admission of EBOA as a partner thereof.

8. Further Assurances. The parties hereto agree that they shall execute and deliver such instruments, documents and other writings as may be necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Agreement.

9. Successors and Assigns. The rights, interests and benefits granted hereby and the burdens and obligations imposed hereby shall inure to the benefit of and be binding upon, as the case may be, the parties hereto and their respective successors and assigns.

10. Governing Law. This Assignment shall be governed by the laws of the Commonwealth of Pennsylvania without regard to its choice of laws principles.

11. Counterparts. This Assignment may be signed in one or more counterparts, each of which shall be deemed an original, and all of which taken together shall constitute a single agreement.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

EB SERVICES CORPORATION

By: /s/Joseph J. Firestone

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Joseph J. Firestone  
President

SUSAN Y. KIM TRUST dated December 31, 1987

By: /s/Susan Y. Kim

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Susan Y. Kim  
Trustee

By: /s/John T. Kim

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John T. Kim  
Trustee

By: /s/John F. A. Earley

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John F. A. Earley  
Trustee

DAVID D. KIM TRUST dated December 31, 1987

By: /s/Susan Y. Kim

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Susan Y. Kim  
Trustee

By: /s/David D. Kim

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David D. Kim  
Trustee

By: /s/John F.A. Earley

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John F. A. Earley  
Trustee

JOHN T. KIM TRUST dated December 31, 1987

By: /s/Susan Y. Kim

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Susan Y. Kim  
Trustee

By: /s/John T. Kim

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John T. Kim  
Trustee

By: /s/John F. A. Earley

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John F. A. Earley  
Trustee

/s/ James J. Kim

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JAMES J. KIM

/s/ Agnes C. Kim

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AGNES C. KIM

ELECTRONICS BOUTIQUE HOLDINGS CORP.

By: /s/Joesph J. Firestone

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Joseph J. Firestone  
President and Chief Executive Officer

EB SERVICES CORPORATION

By: /s/Joseph J. Firestone

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Joseph J. Firestone  
President and Chief Executive Officer

ELECTRONICS BOUTIQUE OF AMERICA INC.

By: /s/Joseph J. Firestone

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Joseph J. Firestone  
President and Chief Executive Officer

EXHIBIT 21.1

SUBSIDIARIES OF ELECTRONICS BOUTIQUE HOLDINGS CORP.

1. Electronics Boutique Investment Corp., a Delaware corporation
2. Electronics Boutique of America Inc., a Pennsylvania corporation
3. Elbo Inc., a Delaware corporation
4. Electronics Boutique Canada Inc., an Ontario corporation
5. E.B. International, Inc., a Pennsylvania corporation
6. Electronics Boutique Korea, Inc., a South Korea corporation
7. Electronics Boutique Australia Pty Ltd, an Australia corporation
8. EB Finance Inc., a Delaware corporation

Consent of Independent Certified Public Accountants

Board of Directors of  
The Electronics Boutique, Inc. and  
Partners of EB Services Company LLP:

We consent to the use of our report included herein and to the reference to our firm under the heading "Experts" in the Prospectus.

/s/ KPMG Peat Marwick LLP

Philadelphia, Pennsylvania  
July 22, 1998