

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

MARVEL ENTERTAINMENT GROUP INC

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number 1-10779

MARVEL ENTERTAINMENT GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

94-3024816
(I.R.S. Employer
Identification No.)

387 PARK AVENUE SOUTH, NEW YORK, NY
(Address of principal executive offices)

10016
(Zip Code)

Registrant's telephone number, including area code: 212-696-0808

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, \$.01 par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No .

The aggregate market value of the issued and outstanding shares of Common Stock of the registrant held by non-affiliates was \$47,953,163 based on the closing price of the Company's Common Stock on March 27, 1997. As of March 27, 1997, there were 101,809,657 shares of the registrant's Common Stock, par value \$.01 per share, outstanding, of which 82,628,392 shares are held by indirect wholly owned subsidiaries of Mafco Holdings Inc.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's definitive proxy statement for its 1997 annual meeting of stockholders is incorporated by reference into Part III of this Form 10-K. If such proxy is not so filed, such information will be filed as an amendment to the Form 10-K.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

BUSINESS

GENERAL

The Company is a leading creator, publisher and distributor of youth entertainment products for domestic and international markets based on fictional action adventure characters owned by the Company (the "Marvel Characters"), licenses from professional athletes, sports teams and popular entertainment characters and other properties owned by third parties. The Company also licenses the Marvel Characters and properties for consumer products, television and film projects, on-line and interactive software, and advertising promotions.

The Company's operations consist of (i) the publication and sale of comic books and other children's publications, (ii) consumer products, media advertising, promotions and licensing of Marvel Characters, (iii) the marketing and distribution of sports and entertainment trading cards and activity sticker collections, (iv) the design, marketing and distribution of toys, and (v) the manufacture and distribution of adhesives and confectionery products.

BACKGROUND

Marvel Entertainment Group, Inc. ("Marvel" and together with its subsidiaries, the "Company") was incorporated on December 2, 1986, in the State of Delaware. Marvel (Parent) Holdings Inc. ("Parent Holdings"), is an indirect wholly owned subsidiary of Andrews Group Incorporated ("Andrews Group"), a wholly owned subsidiary of MacAndrews & Forbes Holdings Inc. ("MacAndrews Holdings"), a corporation wholly owned through Mafco Holdings Inc. ("Mafco" and together with MacAndrews Holdings, "MacAndrews & Forbes") by Ronald O. Perelman. Mafco beneficially owned approximately 81.2% of the common stock, par value, \$.01 per share ("Common Stock"), of the Company as of December 31, 1996.

REORGANIZATION

Although the Company's consolidated net revenues have increased through 1995 as a result of diversification into lines of business other than comic book publishing, certain significant and long-term changes in market conditions associated with the Company's publishing and trading cards businesses have significantly and adversely affected the Company's net revenues and operating results in recent periods.

The Company experienced significant operating losses during 1995 and 1996, and failed to satisfy certain financial covenants contained in the Credit Agreements (as defined below, see Note 5 of "Notes to Consolidated Financial Statements") beginning in the Fall of 1996. The Company commenced discussions in the Fall of 1996 with Andrews Group, its indirect parent, regarding an equity infusion in order to provide for the Company's cash requirements and with The Chase Manhattan Bank, agent bank for the Credit Agreements, regarding a restructuring of the Credit Agreements.

On December 27, 1996, Marvel along with certain of its operating and inactive subsidiaries, Fleeer Corp. ("Fleeer"); SkyBox International, Inc. ("SkyBox"); Marvel Characters, Inc.; Heroes World Distribution, Inc. ("Heroes World"); The Asher Candy Company; Malibu Comics Entertainment, Inc. ("Malibu"); Frank H. Fleeer Corp. and Marvel Direct Marketing Inc. (along with Marvel, the "Debtor Companies") filed petitions for relief and a plan of reorganization under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware. Panini S.p.A. ("Panini"), Marvel Restaurant Venture Corp. ("Marvel Restaurants") (a general partner in the Joint Venture developing the Marvel Mania restaurants (each as defined below), see "Business -- Strategic Initiatives -- Marvel Mania") and Toy Biz, Inc. ("Toy Biz"), all of which are active, as well as certain inactive subsidiaries did not file petitions under the Bankruptcy Code.

The Plan of Reorganization, filed on December 27, 1996 (as amended, the "Plan"), contemplated that pursuant to the Stock Purchase Agreement dated December 26, 1996, between Andrews Group and Marvel, Andrews Group, or an affiliate thereof, would acquire from Marvel, a number of shares of Common Stock (or its equivalent) that would represent 80.1% of the shares of reorganized Marvel after giving effect to such acquisition, in consideration for \$365 million in cash or, at the option of Andrews Group, shares of class A common stock, par value

\$.01 per share of Toy Biz (the "Class A Common Stock") or a combination of the foregoing (the "Andrews Investment"). The Plan contemplated that in connection with the Andrews Investment, the Company would acquire the Class A Common Stock not owned by Marvel, Andrews Group or their affiliates pursuant to a Merger Agreement between Andrews Group and Toy Biz and a Stock Purchase Agreement with the two other principal stockholders of Toy Biz. The Plan also contemplated a new \$160 million credit facility for Toy Biz to be used for

working capital purposes of the Company, including Toy Biz, and to fund the Company's strategic initiatives. See "Business --Strategic Initiatives." As of March 27, 1997, the Company owned 7,394,000 shares of class B common stock of Toy Biz (the "Class B Common Stock"), representing 26.6% of the equity of Toy Biz, and 78.4% of the voting power relating to Toy Biz. This plan has since been withdrawn as described below.

The Debtor Companies received approval from the Bankruptcy Court to pay on time and in full undisputed pre-petition obligations including salaries, wages and benefits to all of its employees, trade creditors and independent contractors and to continue funding its strategic initiatives. On January 24, 1997 the Bankruptcy Court approved a \$100 million debtor-in-possession financing facility (the "DIP Loan"), which is provided by a syndicate of lenders, including The Chase Manhattan Bank, as agent bank, and is available to the Company until June 30, 1997. The DIP Loan is subject to covenants and events of default including a change of control of Marvel (as defined therein). See Note 5 of "Notes to Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources".

In 1993, Marvel Holdings Inc. ("Marvel Holdings") issued \$517,447,000 principal amount at maturity of Senior Secured Discount Notes due 1998. In 1993, Parent Holdings issued \$251,678,000 principal amount at maturity of Senior Secured Discount Notes due 1998 (the "Parent Holdings Notes"). In 1994, Marvel III Holdings Inc. ("Marvel III" and collectively with Marvel Holdings and Parent Holdings, the "Marvel Holding Companies") issued \$125 million principal amount of 9-1/8% Senior Secured Notes due 1998 (the "Marvel III Notes"). Marvel Holdings and Parent Holdings have, in the aggregate, pledged 77,302,326 shares of the Company's common stock to secure such notes (the "Pledged Common Stock"), and an additional approximately 2.9 million shares are subject to a negative pledge under the indenture to the notes issued by Marvel Holdings. In addition, Parent Holdings has pledged the common stock of Marvel Holdings to secure the Parent Holding Notes, and Marvel III has pledged the common stock of Parent Holdings to secure the Marvel III Notes (collectively with the Pledged Common Stock, the "Pledged Stock").

On December 27, 1996, the Marvel Holding Companies filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the District of Delaware. The chapter 11 cases commenced by the Marvel Holding Companies have not been procedurally consolidated and are not jointly administered with the Debtor Companies' chapter 11 cases.

On January 9, 1997, the United States Trustee appointed a committee of creditors holding unsecured claims against the Marvel Holding Companies (the "Creditors Committee") under section 1102(a) of the Bankruptcy Code. The members of the Creditors Committee, as originally appointed, include: The Bank of New York, High River Limited Partnership, Westgate International, L.P., Schultz Investments, WHERCO, Inc., M3, LLC and United Equities Commodities Company.

On January 13, 1997, the Creditors Committee filed a motion (the "Stay Relief Motion") in the Holdings Companies' chapter 11 cases seeking (i) relief from the automatic stay to permit LaSalle National Bank, as successor indenture trustee (the "Holding Companies' Trustee"), on behalf of the holders of the notes issued by the Marvel Holding Companies, to foreclose upon, and vote, the Pledged Stock and (ii) dismissal of the Marvel Holding Companies' chapter 11 cases. On February 26, 1997, the Bankruptcy Court entered an order granting relief from the automatic stay to allow the Holding Companies' Trustee to vote and to foreclose upon the Pledged Stock. On February 27, 1997, the Company and the Marvel Holding Companies filed a notice of appeal with respect to such order.

On February 12, 1997, the Office of the United States Trustee appointed a committee of equity security holders of the Debtor Companies under section 1102(a)(1) of the Bankruptcy Code (the "Equity Committee"). The Equity Committee presently consists of: Barclay's Global Investors, Marty Solomon, Robert A. Della Camera, Peter E. Kelly, Jr., Gladys V. Veidemanis and Ronald Cantor.

On March 7, 1997, Andrews Group exercised its right to terminate the Stock Purchase Agreement with the Company. On the same date, Andrews Group informed Toy Biz and the two principal stockholders of Toy Biz that, as a result of the termination of the Andrews Investment, a condition to closing under the Merger Agreement with

Toy Biz and the Stock Purchase Agreement would not be satisfied, that Andrews Group did not intend to waive the satisfaction of such condition and therefore the transaction contemplated by such agreements would not be consummated.

On March 7, 1997, the Creditors Committee indicated that it would make a proposal whereby the holders of Common Stock (other than Mafco and its affiliates) and holders of the notes of the Marvel Holding Companies would make a \$365 million infusion into the Company as part of a new Plan of Reorganization through a rights offering that would be backstopped by certain members of the Creditors Committee, including an entity controlled by Carl Icahn (the "Icahn Group") (as subsequently amended, the "Committee Proposal"). The Committee Proposal did not specify whether all of the \$365 million would be added to the equity of the Company or whether a portion of the proceeds would be used to repay borrowings under the Credit Agreements, and does not contemplate Toy Biz becoming a wholly owned subsidiary of Marvel. The Committee Proposal contemplated that prior to confirmation of any plan of reorganization reflecting the Committee Proposal, the current Board of Directors of the Company would be replaced by designees of the Creditors Committee. Such proposal was subject to further negotiations with the Company and the Company's bank lenders, but an agreement with these entities was never reached.

On March 19, 1997, the Creditors Committee notified the Company that on March 25, 1997 it would cause the Holding Companies' Trustee to vote the Pledged Stock to replace the Board of Directors of the Company and the Holding Companies. On March 24, 1997, the Court in the Debtor Companies' bankruptcy cases issued a restraining order preventing the Creditors Committee and the Holding Companies' Trustee from voting the Pledged Stock or otherwise replacing the Board of Directors of the Company and determined that the Creditors Committee and the Holding Companies' Trustee must comply with the procedural requirements of section 362 of the Bankruptcy Code to seek relief from the automatic stay to take such action. The Court, however, also ruled that the Creditors Committee and Holding Companies' Trustee could replace the Board of Directors of Marvel Holdings and Parent Holdings. On March 28, 1997, the Creditors Committee and the Holding Companies' Trustee filed a motion to lift the automatic stay in the Debtor Companies' cases in order to permit the Creditors Committee and the Holding Companies' Trustee to replace the Board of Directors of Marvel. A hearing date on such motion has been set for May 14, 1997. On the same date, the Creditors Committee filed an emergency appeal of the restraining order of the Bankruptcy Court issued on March 24, 1997 preventing the replacement of the Board of Directors of Marvel. A briefing schedule has been set for the emergency appeal and a hearing date for such appeal has been set for May 1, 1997.

There can be no assurance that any plan of reorganization under the Bankruptcy Code reflecting the Committee Proposal or a proposal made by any other party will be proposed, or that if a plan is proposed, such plan of reorganization will be confirmed under the Bankruptcy Code.

If the Company is unable to obtain confirmation of a plan of reorganization, its creditors or equity security holders may seek other alternatives for the Company, including bids for the Company or parts thereof through an auction process.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - - Liquidity and Capital Resources" and "Legal Proceedings".

PUBLISHING

COMICS

The Company is the largest creator and publisher of comic books in North America and, through Panini, the Company publishes comic books in Italy, the United Kingdom and certain other parts of Western Europe. The Company, through Panini, also licenses the publication of comic books based on other Marvel Characters throughout the world.

The Company has been publishing comic books since 1939 and has developed a roster of more than 3,500 Marvel Characters, including the following popular Marvel Characters: SPIDER-MAN; X-MEN (including WOLVERINE, NIGHTCRAWLER, COLOSSUS, STORM, CYCLOPS, BISHOP and GAMBIT); CAPTAIN AMERICA; FANTASTIC FOUR (including MR. FANTASTIC, HUMAN TORCH, INVISIBLE WOMAN and THING); INCREDIBLE HULK; THOR; SILVER SURFER; DAREDEVIL; IRON MAN; DR. STRANGE and GHOST RIDER. The Company's Marvel SUPER HEROES exist in the "MARVEL UNIVERSE," a fictitious universe which provides a unifying historical and contextual background for the storylines. The Company's titles feature classic Marvel SUPER HEROES and X-MEN, newly developed Marvel Characters and characters created by

other entities and licensed to the Company, and, as a result of its 1994 acquisition of Malibu, Malibu's "ULTRAVERSE" characters.

In developing comic books, the Company targets particular age groups or types of readers. Currently in development are young children's products such as EASY TO READ, MY FIRST MARVEL and Marvel coloring books. Certain of the Marvel Characters such as X-MEN are aimed at readers at the older end of the 4 to 17 year-old age group. Established readership of the Company's comic books also extends to the 18 to 35 year-old age group.

The Company's approach to super heroes is a contemporary drama based on real people with real problems. This enables the characters to evolve, remain fresh, and, therefore, attract and retain new readers in each succeeding generation. The "Marvel Universe" concept permits the Company to use the popularity of its Marvel Characters to introduce a new character in an existing Marvel SUPER HEROES or X-MEN comic or to develop more fully an existing but lesser known character. In this manner, formerly lesser known Marvel Characters such as PUNISHER and WOLVERINE have been developed and are now popular characters in their own right and are featured in their own monthly comic books. The "Marvel Universe" concept also allows the Company to use its more popular characters to make "guest appearances" in the comic books of lesser-known or newer characters to attempt to increase the circulation of a particular issue or issues.

MARKET

The Company's primary target market for its comic books is children and teenagers in the 10 to 17 year old age group, however, the majority of the Company's readers currently are teenagers and young adults. There are two primary types of purchasers of the Company's comic books. One is the traditional purchaser who buys comic books like any other magazine. The other audience is the reader-saver who purchases comic books, typically from a comic book specialty store, and maintains them as part of a collection.

CREATIVE AND PRODUCTION PROCESS

The Company's full-time editorial staff consists of an editor-in-chief, two executive editors and approximately eighteen editors, associate editors and assistant editors who oversee the quality and consistency of the artwork and editorial copy and manage the production schedule of each issue. The production of each issue requires the editors to coordinate over a six month period the activities of a writer, a pencil artist, an inker, a colorist and a printer. The majority of this work is performed by third parties outside of the Company's premises.

The artists and writers include freelancers who generally are paid on a per-page basis. They are eligible to receive incentives or royalties based on the number of copies sold (net of returns) of the comics books in which their work appears. The Company has entered into agreements with certain artists and writers under which such persons have agreed to provide their services to the Company on an exclusive basis, generally for a period of one to three years, and generally begin to expire in 1997. These contracts were entered into when the comic book market was stronger and in light of the decline in the comic book market, the Company will seek to renew these contracts with more favorable terms.

The creative process begins with the development of a story line. From the established story line, the writer develops a character's actions and motivations into a plot. After a writer has developed the plot, the pencil artist translates it into an action-filled pictorial sequence of events. The penciled story is returned to the writer who dialogues it, indicating where the balloons and captions should be placed. The completed dialogue and artwork are forwarded to a letterer who letters the dialogue and captions in the balloons. Next, an inker enhances the pencil artist's work in order to give the drawing three-dimensionality.

The artwork is then sent to a coloring artist. Typically using only four colors in varying shades, the color artist uses overlays to create over 100 different tones. This artwork is subcontracted to a color separator who produces separations and sends the finished material to the printer. Unaffiliated entities produce color separations and print all of the Company's comic books. The Company currently uses several color separators and two printers to produce its comic books.

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DISTRIBUTION

The Company's publications are distributed through three channels: (i) to comic book specialty stores on a nonreturnable basis (the "direct market"), (ii) traditional retail outlets on a returnable basis (the "retail returnable market") and (iii) on a subscription sales basis.

Net publishing revenues were \$103.1 million, \$147.7 million and \$129.4

million for the years ended December 31, 1996, 1995 and 1994, respectively. The increase in revenues from 1994 to 1995 primarily relates to revenues from Heroes World, the Company's comic book direct market distribution subsidiary, which was purchased in December 1994 and subsequently closed (as described more fully below). See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Overall industry comic book sales declined primarily as a result of reduced readership, lower speculative purchases and lower selling prices, which in turn caused a contraction in the number of comic book specialty stores. The decrease in the overall comic book business has resulted in a decrease in the number of, and has negatively affected the financial condition of, the comic book specialty stores, which has further negatively impacted the Company's net publishing revenues.

For the year ended December 31, 1996, approximately 62.6% of net publishing revenues were derived from sales to the direct market. In 1995 and 1996, the Company exclusively distributed its publications through Heroes World. In this time period, however, the comic book direct market and the Company's sales in such market have continued to decline. In light of such declines and related inefficiencies at Heroes World, in late 1996 the Company decided to close Heroes World and in early 1997 the Company entered into an agreement with an unaffiliated entity to service specialty market retailers and direct market comic book shops. The Company believes that in the event of a termination of this agreement the Company will be able to provide service to its customers and that any such termination would not have a long-term material adverse effect on its publishing business.

For the year ended December 31, 1996, approximately 24.6% of the Company's net publishing revenues were derived from sales to the retail returnable market and 9.5% of net publishing revenues were through a single unaffiliated distributor. The retail returnable market consists of approximately 50,000 traditional periodical retailers such as newsstands, convenience stores, drug stores, supermarkets, mass merchandise and national bookstore chains. The distributors sell the Company's publications to wholesalers, who in turn sell to the retail outlets. The Company issues credit to these distributors for unsold and returned copies. Distribution to national bookstore chains is accomplished through a separate distributor. The Company believes it could obtain comparable services from other distributors in the retail returnable market should such replacement become necessary or desirable.

For the year ended December 31, 1996, approximately 5.5% of the Company's net publishing revenues were derived from subscription sales. Subscription copies of the Company's publications are mailed for the Company by an unaffiliated subscription fulfillment service.

For the year ended December 31, 1996, approximately 7.3% of the Company's net publishing revenues were derived from advertising sales. In most of the Company's comic publications, ten pages (three glossy cover pages and seven inside pages) are allocated for advertising. The products advertised include sports and entertainment trading cards, video games, role playing games, movies, candy, cereals, toys, models and other consumer packaged goods. The Company permits advertisers to advertise in a broad range of the Company's comic publications which target specific groups of titles that have a younger or older readership.

CONSUMER PRODUCTS, MEDIA AND ADVERTISING-PROMOTION LICENSING

The Company's consumer products, media and advertising-promotion licensing operations are organized in several areas: the licensing of or joint ventures involving the Marvel Characters for use with (i) merchandise, (ii) promotions, (iii) publishing, (iv) television and film, (v) on-line and interactive software and (vi) restaurants, theme parks and site-based entertainment. The Company's licensees sell the Company's character-based products through their normal distribution channels and occasionally in specialty comic book stores. The Company's characters appear on hundreds of items, including shirts, shoes and a myriad of other types of apparel, gifts, toys and games, software, housewares and domestic items and consumer packaged goods. The Company generally receives a percentage of wholesale sales as a royalty including a guarantee of minimum royalties, and an advance against royalties upon execution of a license agreement. The Company also licenses the Marvel Characters for the production of television programs and feature films and for use in theme parks.

The Company, through Panini, also enters into publishing license agreements with international publishers for the publication of comic and non-comic books employing the Company's titles and the Marvel Characters and third party titles and characters in approximately 50 countries and 19 languages. The Company receives a percentage of the publishers' revenues as a

royalty. The Company also acts as an agent for third party owners of characters seeking to obtain licensing opportunities for their characters.

For the year ended December 31, 1996, the revenue from consumer products, media and advertising-promotions licensing comprised 2.5% of the Company's consolidated net revenues.

MARVEL STUDIOS

To enhance further the media exposure of the Marvel Characters, the Company and Toy Biz intend to form Marvel Studios, although documentation relating to such formation has not been finalized (and pending such formation, Marvel Studios is being operated as a division of the Company). The objective of Marvel Studios is to facilitate the release of live action and animated feature films and television programming, and other media based on the Marvel Characters in order to create greater consumer interest in the Marvel Characters and related merchandise. The Company believes that any feature film or television programming, theatrical productions or other media and any advertising and promotion associated with such media will create consumer interest in the Marvel Characters and revenue opportunities for the Company's licensing and toy businesses. For example, the Company believes that the popularity of the X-MEN and SPIDER-MAN animated television shows have resulted in significant increases in net sales by Toy Biz of X-MEN and SPIDER-MAN toys. The Company believes that Marvel Studios will facilitate the release of feature films, television programming and other media by giving the Company greater control over the development of such projects compared to the present practice of only licensing the use of the Marvel Characters in film or television projects to an unrelated third party. See "Strategic Initiatives -- Marvel Studios".

INTERACTIVE MEDIA

During 1996, the Company formed Marvel Interactive for the development of on-line services and interactive software utilizing or based upon the Marvel Characters. For a further description of these matters, see "Strategic Initiatives -- Marvel Interactive."

RESTAURANTS

The Company, through Marvel Restaurants, a wholly owned subsidiary of Marvel, has formed a joint venture (the "Joint Venture") with Planet Hollywood, Inc. ("PHI") for the development of Marvel theme restaurants based on the Marvel Characters ("Marvel Mania"). Three restaurants are currently contemplated, with the first restaurant expected to open in the second half of 1997. For a further description of these matters, see "Strategic Initiatives-- Marvel Mania."

SPORTS AND ENTERTAINMENT TRADING CARDS; CHILDREN'S ACTIVITY STICKERS

In April 1995, the Company acquired SkyBox and merged its operations with the existing trading card operations of Fleer (collectively, "Fleer/SkyBox"). Fleer/SkyBox is a leading marketer of sports and entertainment trading cards. Fleer/SkyBox is best known for its sports trading cards depicting professional athletes and sports teams, including professional baseball, basketball, football and hockey players competing in Major League Baseball, the National Basketball Association, the National Football League and the National Hockey League and NASCAR drivers. Sports trading cards feature pictures of professional athletes and generally include statistical and biographical information about the pictured athletes. The Company's ability to produce, market, and sell its sports trading cards is dependent upon the continual renewal of license agreements with the organizations representing the players and owners of the baseball, basketball, football and hockey players, teams and leagues. These licenses are non-exclusive and generally are granted for a two to four year period. In addition, Fleer/SkyBox manufactures and distributes entertainment trading cards using the Company's classic SUPER HEROES characters as well as characters based on other licensed properties, such as The Hunchback of Notre Dame and Hercules of the Walt Disney Company, Time Warner's Batman and Robin and Paramount's Star Trek. The Company's trading card operations have been and continue to be negatively affected by the general contraction in the sports and entertainment trading card markets and the baseball, hockey and basketball labor situations. The Company is required to make minimum royalty and advertising payments under the license agreements related to sports and entertainment trading cards. Generally, these licenses were executed when the trading card market was larger and the Company's trading card net revenues were higher as compared to

actual 1996 net revenues. Hence, as a result of the minimum royalty and advertising commitments, declines in the Company's trading card net revenues significantly and adversely affect the profitability of the trading card

business. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Panini is the largest manufacturer and distributor of sports and entertainment sticker collections in the world, with a substantial portion of its business conducted in Western Europe. Panini produces and distributes stickers, which are pictures on self-adhesive paper designed primarily to be collected and placed in albums. Panini maintains a broad portfolio of licenses for characters or themes on which the stickers are based. Panini's prominent position in the sticker industry has enabled it to secure many desirable licenses, including exclusive and non-exclusive agreements with many sporting federations and with major entertainment licensors such as Disney, Time Warner and Mattel. Collections produced by Panini feature professional athletes and teams in sports such as soccer (primarily athletes and teams competing in the major European and Brazilian soccer leagues, including those competing in the World Cup and European Cup competitions), baseball, basketball and hockey; Disney characters such as 101 Dalmatians; variety characters and themes, such as Mattel's Barbie, D.C. Comic's Batman and the Company's X-MEN; and other characters popular in local European markets. Licenses generally are for a term of one to three years and provide for minimum guaranteed royalty payments. There have been significant improvements to self-adhesive stickers in recent years with innovations such as the use of vinyl and foil paper and textured surfaces.

Although there can be no assurance that, in the future, new licenses for the Company's sports and entertainment trading card and sticker business will be granted to the Company upon the expiration of the current licenses, the Company anticipates that it will obtain new licenses generally on terms acceptable to it. In the future, the Company intends to seek to negotiate lower royalty guarantees and advertising commitments relating to its existing trading card licenses, although there can be no assurance that any such negotiations will be successful. The Company considers its relationships with its licensors to be good. For additional information relating to these matters, see subsection entitled "License Agreements and Trademarks."

MARKET

Although the Company's sports and entertainment trading cards have marketing categories and consumer profiles similar to those in the publishing market, a significant portion of Fleeer/SkyBox sales are made to a subset of the market consisting of serious collectors. Panini sells its sticker collections primarily to children between the ages of 4 and 14 in Western European markets. During the year ended December 31, 1996, sales in Italy, France, Germany, Spain and Brazil accounted for a substantial majority of Panini's children activity sticker collection net revenues.

PRODUCTION PROCESS

Photographs used for the Company's sports trading cards are usually taken by independent photographers under contract with the Company or by the organizations representing the respective leagues and their member teams. Artwork used for Company's entertainment trading cards is developed from actual medium (i.e. movies and comic books) or created by in-house and freelance artists some of whom create artwork for the Company's comic books. Design and coordination of the artwork is handled by the Company's staff of artists. Independent contractors print, cut, collate and wrap the trading cards. Quality enhancements include dual-sided gloss coating and color corrected photography. Additional enhancements of Fleeer/SkyBox premium brand cards utilize high-gloss ultraviolet coatings and gold foil stamping and super premium brand cards utilize additional high-gloss clear plastic laminates and gold foil stampings, heavier card stock and improved colorization.

Most of the manufacturing processes required in the production of Panini's sticker collections, including self-adhesive paper production, film layout, printing and packaging of the finished product are conducted in Panini's own facilities, in Modena, Italy and Sao Paulo, Brazil. These manufacturing activities are supported by the Company's editorial, art, studio and photo lithography staff. Panini has separate production facilities for stickers and self-adhesive paper in Modena, Italy and Sao Paulo, Brazil.

DISTRIBUTION

The Company's sports and entertainment trading cards are distributed through two channels: (i) to trading card specialty stores and (ii) through mass merchandisers, price clubs and newsstand retail outlets (the "mass market"). As a result of market conditions, the Company has revamped its trading card business such that distribution of its trading card products is concentrated in trading card specialty stores and selected mass market accounts. In addition, the Company is testing a merchandising initiative to place fixtures in mass market outlets with high traffic in order to

simplify buying and attract purchasers (see "Strategic Initiatives --Trading and Entertainment Cards"). The Company's sports and entertainment trading cards are distributed primarily in the United States and Canada. The Company distributes its trading cards internationally primarily through Panini in most of the world and through third-party distributors in Japan, Australia and New Zealand.

Since 1994, the Company believes that the overall trading card market has declined by approximately 40%, which has resulted in a substantive decrease in the Company's trading card revenues. The decrease in the overall trading card market has decreased the number of, or has negatively affected the financial condition of, the trading card specialty stores, thereby negatively impacting the Company's trading card revenues.

Panini sells sticker packs and collection albums through newsstands, confectioners and other retail locations. Panini sells primarily to national and local third-party distributors in other countries where it markets its products.

For the year ended December 31, 1996, approximately 45% of the Company's net sports and entertainment trading card revenues were derived from sales through numerous unaffiliated distributors to specialty collectible shops. None of the unaffiliated distributors individually represented a significant percentage of the Company's net sports and entertainment trading card revenues for 1996. The Company estimates that there are approximately 3,500 to 4,000 specialty collectible shops which are primarily located in the United States and Canada. The Company believes that one or more of its existing distributors or others could replace any of the Company's other distributors should such replacement become necessary or desirable.

For the year ended December 31, 1996, approximately 49% of the Company's net sports and entertainment trading card revenues were derived from sales to the mass market.

For the year ended December 31, 1996, substantially all of the Company's children's activity sticker collection net revenues were derived from sales to the retail returnable market, of which approximately 55.0% were through three unaffiliated distributors.

Total sports and entertainment trading card and children's activity sticker revenues were \$301.1 million, \$357.9 million and \$282.6 million in 1996, 1995 and 1994, respectively.

TOYS

The Company presently owns a 26.6% equity interest in Toy Biz representing, through its Class B Common Stock, 78.4% of the voting power. Toy Biz is a toy entertainment company that designs, markets and distributes a diverse product line comprised of boys' and girls', infant/pre-school and activity toys in the United States and internationally, based on popular entertainment properties, consumer brand names and proprietary designs. The Company licenses to Toy Biz more than 3,500 Marvel Characters on an exclusive, perpetual, and royalty-free basis, subject to certain limitations, for use in a broad range of toys. Toy Biz capitalizes on the popularity generated by the media exposure of certain of the Company's characters, such as X-MEN and SPIDER-MAN by emphasizing those characters in its toy lines. Toy Biz also has licenses to manufacture certain toy products based on non-Marvel Characters depicted in television programs such as Hercules: The Legendary JourneysTM, Xena: Princess WarriorTM and Muppet BabiesTM, all of which are broadcast on network, syndicated or cable television. A number of motion pictures as to which Toy Biz has obtained licenses to manufacture certain products have been completed or are in the planning stages. These include a made-for-television movie entitled Generation XTM, which premiered in prime time on the Fox Network, for which Toy Biz has manufactured and distributed mainly action figures, as well as, a feature film entitled Muppet Treasure IslandTM, a widely distributed first run motion picture, for which Toy Biz has manufactured and distributed certain plush items. Other motion pictures (both related and unrelated to the Marvel Characters) for which Toy Biz has obtained licenses to manufacture certain products, are planned for release by such licensors as The Walt Disney Company and Universal City Studios, Inc.

The Company believes that media events associated with the characters on which Toy Biz bases certain of its toy products increase overall consumer awareness and popularity of these characters and Toy Biz has in part followed a strategy intended to capitalize on the popularity generated by such media exposure. Toy Biz has used its success in marketing the Marvel line as a means of attracting licenses for use of recognized trademarks and brand names such as Gerber(R), Coleman(R), and NASCAR(R).

During 1996, Toy Biz also continued its efforts to develop toys under licenses for recognized consumer brands names and other popular characters. Toy

marketed under the Gerber(R) trademark. Toy Biz continued to develop a line of children's toys with a camping and outdoor theme sold under the Coleman(R) trademark. Toy Biz also licensed from NASCAR(R) and several well-known stock car drivers the rights to manufacture various toy products based upon such trademarks and personalities.

During 1996, Toy Biz also continued to manufacture and distribute additional proprietary products in various categories including: Baby Tumbles Surprise(TM), Baby Headstand Surprise(TM), Baby So Real(TM), Take Care of Me Twins(TM) and the multi-activity game tables.

Since completing the acquisition of the assets of Spectra Star, Inc. ("Spectra Star(R)") and Quest Aerospace Education, Inc. ("Quest") in 1995, Toy Biz's specialized activity toy business has continued to grow, with Spectra Star(R) brand kites comprising a substantial share of United States domestic kite business, and Quest(TM) brand rockets entering the growing mass merchandise market and specialty store distribution channels.

Toy Biz's net revenues for 1996, 1995 and 1994 were \$221.6 million, \$196.4 million and \$156.5 million, respectively. Prior to March of 1995, the Company reported Toy Biz operations under the equity basis and did not record Toy Biz net revenues in its consolidated net revenues. In March of 1995, the Company began to consolidate Toy Biz operations and consolidated \$180.2 million of net revenues for 1995.

CUSTOMERS, MARKETING AND DISTRIBUTION

Toy Biz markets and distributes its products throughout the world with sales to customers in the United States accounting for approximately 80% of Toy Biz's net sales in 1996. Outlets for Toy Biz's products in the United States include specialty toy retailers, mass merchandisers, mail order companies and variety stores, as well as independent distributors who purchase products directly from Toy Biz and ship them to retail outlets. Toy Biz's five largest customers include Toys 'R' US, Inc., Wal-Mart Stores, Inc., Kmart Corporation, Target Stores, Inc., a division of Dayton-Hudson Corp. and Kay-Bee Toys, a division of Consolidated Stores, Inc. which customers accounted in the aggregate for approximately 74.8% of Toy Biz's domestic gross sales and 59.6% of Toy Biz's total sales in 1996. Toy Biz's products currently are sold outside the United States through independent distributors by its Hong Kong subsidiary, under supervision of Toy Biz's management. Toy Biz's international product line generally includes products currently or previously offered in the United States, packaged to meet local regulatory and marketing requirements.

MANUFACTURING

Toy Biz maintains a product development staff and also obtains new product ideas from third-party inventors. The time from concept to production of a new toy can range from six to twenty four months, depending on product complexity.

Toy Biz relies on independent parties in the People's Republic of China ("China") to manufacture a substantial portion of its products. The remainder of its products are manufactured in Mexico or the United States. As a matter of policy, Toy Biz uses several different manufacturers. By concentrating its manufacturing among certain manufacturers, Toy Biz thereby pursues a strategy of selecting manufacturers at which Toy Biz's product volume qualifies Toy Biz as a significant customer. Toy Biz is not a party to any long-term agreement with any manufacturer.

While Toy Biz is not dependent on any single manufacturer in China to supply it with products, Toy Biz is subject to the risks of foreign manufacturing, including currency exchange fluctuations, transportation delays and interruptions, and political or economic disruptions affecting international businesses generally. Toy Biz's ability to obtain products from its Chinese manufactures is dependent upon the United States' trade relationship with China. The "Most Favored Nation" status of China, which is reviewed annually by the United States government is a regular topic of political controversy. The loss of China's "Most Favored Nation Status" would increase the cost of importing products from China significantly, which could have a material adverse effect on Toy Biz. The imposition of further trade sanctions on China could result in significant supply disruptions or higher merchandise costs to Toy Biz. Toy Biz believes that alternate sources of manufacturing are available outside China, although there can be no assurance that these alternate sources will be available on acceptable terms.

OTHER PRODUCTS

CONFECTIONERY

Fleer manufactures and markets an array of confectionery products. Fleer's confectionery operation is best known for its DUBBLE BUBBLE and RAZZLES gum products. The Company believes that DUBBLE BUBBLE, with origins dating back to 1928, was the first branded bubble gum sold in the United States. The Company distributes its confectionery products utilizing substantially the same distribution channels as those used for sports and entertainment trading cards.

ADHESIVES

Panini distributes self-adhesive paper throughout the world. Through its Adespan Paper Division, Panini manufactures sheet and reel self-adhesive paper which is sold to third parties primarily for production of stickers used in labeling and packaging.

Net revenues from other products were \$101.7 million, \$90.0 million and \$52.3 million in 1996, 1995 and 1994, respectively.

LICENSES AND TRADEMARKS

The Company believes that its roster of Marvel Characters as well as its MARVEL trade name represent its most valuable assets and that such roster could not be easily reproduced. In addition, the Company considers its FLEER, FLEER ULTRA, FLAIR, NBA HOOPS and SKYBOX trademarks to be of material importance to its sports picture card business, its PANINI trademark to be of material importance to its children's activity sticker business and DUBBLE BUBBLE and RAZZLES trademarks to be of material importance to its confectionery business. The Company currently conducts an active program of maintaining and protecting (i) its principal trademarks, including the MARVEL trade name, and (ii) copyrights on the Marvel characters and publications in the United States and in approximately 55 foreign countries where such protection is available. The Company's principal trademarks have been registered in the United States, certain of the countries in Western Europe and South America, Japan, Israel and South Africa and, in the case of Panini, in Western Europe and Brazil.

The Company's ability to market its sports trading cards is based on rights under primarily non-exclusive license agreements with the baseball, basketball, football and hockey players' associations, and with the organizations which represent the respective leagues and their member teams. Generally, the Company's sports picture card licenses provide for two-to-four-year terms and minimum guaranteed royalty and advertising payments. The Company's agreements with the various players' associations enable the Company to use a player's name, picture, facsimile signature and biographical description. The Company's agreements with the organizations representing the various leagues and their member teams enable the Company to use the logos and trademarks of the various sports, the leagues and logos, names and uniforms of the member teams. As a result of these licenses, the Company is permitted to produce and sell in the United States and Canada, and most of the rest of the world, sports picture cards and stickers. All of these licenses are primarily non-exclusive and, accordingly, the various players' associations, leagues and team representatives are free to grant similar licenses to other companies. For additional information relating to this matter, see "Competition."

The Company's sports picture card license agreements generally provide the licensor with the right to assure the quality of the manufactured products and the suitability of the manufacturers used by the Company, allow the licensor to inspect the records relating to licensed products, and set forth labeling requirements for the licensed merchandise. Such license agreements generally require annual guaranteed minimum royalty payments and monthly or other periodic payments of royalty guarantees for royalties in excess of the guaranteed minimum amounts. The Company also has required minimum advertising expenditures under its various sports licenses. The sports and entertainment trading card licenses of Fleer/SkyBox generally provide that it is an event of default if there is a change of control of Fleer/SkyBox or of Marvel. On February 26, 1997, the Bankruptcy Court entered an order granting relief from the automatic stay to allow the Holding Companies' Trustee to vote and to foreclose upon the Pledged Stock. On February 27, 1997, the Company and the Marvel Holding Companies filed a notice of appeal with respect to such order. On March 24, 1997, the Court in the Debtor Companies' bankruptcy cases issued a restraining order preventing the Creditors Committee and the Holding Companies' Trustee from voting the Pledged Stock or otherwise replacing the Board of Directors of the Company and determined that the Creditors Committee and the Holding Companies' Trustee must comply with the procedural requirements of section 362 of the

Bankruptcy Code to seek relief from the automatic stay to take such action. The Court, however, also ruled that the Creditors Committee and Holding Companies' Trustee could replace the Board of Directors of Marvel Holdings and Parent Holdings. If the Holding Companies' Trustee were to foreclose on the Pledged Stock or exercise voting control over such stock, such action could cause a change of control of the Company and may cause a default under one or more of the Fleer/SkyBox's sports and entertainment trading card licenses.

Panini's ability to market its sports sticker products is based on rights, some of which are exclusive, and some of which are non-exclusive, with the sports federations and, depending upon the country, the players. Panini's sticker licenses have various terms and require minimum guaranteed royalties. Panini's agreements with the various federations and, where applicable, the players, allow Panini to use the logos and trademarks of the various leagues, member teams and the player's name, picture, biographical and other information.

The Company also has various entertainment licenses related to the trading cards and sticker businesses that require minimum guaranteed royalties and are otherwise similar to the Company's sports trading card licenses.

Although the Company considers its relationships with its trading card and sticker licensors to be good, there can be no assurance that such licensors will grant new licenses to the Company upon expiration of the current licenses. In the past, renewals of the Company's sports card licenses have required, among other things, increases in royalty rates and minimum guaranteed royalty amounts and advertising commitments.

In 1996, Toy Biz produced a majority of its products under licenses which it has obtained from third parties. Some of these licenses confer rights to exploit original concepts developed by toy inventors and designers. Character licenses, such as the exclusive, perpetual and royalty-free license, subject to certain limitations from Marvel (the "Marvel License"), permit Toy Biz to manufacture and market toys based on characters owned by others which have or develop their own popular identity, often through exposure in various media such as television programs, movies, cartoons and books. Other licenses, referred to as trademark or brand name licenses, permit the Company to produce toys bearing the recognized consumer trademark or brand name owned by the licensor. In return for these rights (other than those under the Marvel License), Toy Biz pays royalties to its licensors.

Royalties paid by Toy Biz to licensors and investors are typically based on a percentage of net sales. Most licenses extend for one to three years and are renewable at the option of Toy Biz upon payment of minimum guaranteed payments or the attainment of certain sales levels during the initial term of the license. In the future, royalty rates and minimum guaranteed payments may increase or decrease depending upon various competitive forces in the toy industry.

EMPLOYEES

As of March 15, 1997, the Company employed approximately 1,400 persons. The Company also contracts for creative work on an as-needed basis with approximately 550 freelance writers and artists.

Certain of the Company's manufacturing employees are represented by a union pursuant to a collective bargaining agreement which expires in June 1999.

The Company believes that its relations with its employees are satisfactory.

COMPETITION

The comic book and sports and entertainment trading card industries are highly competitive. The Company competes with over one hundred publishers in the United States. There are numerous companies licensed to produce sports and entertainment trading cards, other than entertainment trading cards based on the Marvel's Characters, some of which sell their products only in regional or niche markets. In addition, licenses may be granted to other companies to produce sports and entertainment trading cards in the future, thus generating greater competition.

Panini, as a leader in the development of the sticker industry, generally enjoys a pre-eminent position in each of the countries in which it operates. The major competitors of Panini are generally regional companies. The Company believes that Panini's competitive advantages are its reputation for quality stickers, its long standing relationship with licensors and its strong distribution capabilities. Panini does, however, compete for the discretionary spending of children with other forms of youth entertainment.

The toy industry is highly competitive, and Toy Biz competes with many larger toy companies in the design and development of new toys, the procurement of licenses and for adequate retail shelf space of its products. Such competitors include Hasbro, Inc., Mattel Inc., Tyco Toys, Inc, Playmates, Inc. and Bandai Co., Ltd. Toy Biz considers Just Toys, Inc., Lewis Galoob Toys, Inc., Empire of Carolina, Inc. and Ohio Art Co. to be among its competitors as well.

Some of the Company's competitors such as D.C. Comics are part of integrated entertainment companies and may have greater resources than the Company. The Company also faces competition from other entertainment media, such as movies and video games, but believes that it benefits from the low price of comic books, sports and entertainment trading cards and children's activity sticker collections in relation to such other products.

SEASONALITY

The Company sells sports trading cards throughout the year in all major sports. Sales of the Company's sports trading cards peak at or near the beginning and mid-point of the sports season to which a specific product relates. Sales of entertainment related products tend to be less seasonal, although sales of products related to a motion picture or animated series are generally planned to begin at the time of first release or subsequent video release in the case of a major motion picture. Sales of entertainment related products are planned, where possible, to counterbalance the seasonality of sports related product sales or event-driven entertainment product sales (e.g., a motion picture or animated series release).

Sales of the Company's sports and entertainment stickers in Europe are generally concentrated in the first and fourth quarters, coinciding with the related buying habits of children during the school year.

Toy Biz, like the toy industry in general, experiences a significant seasonal pattern in sales and net income due to the heavy demand for toys during the Christmas season. During 1994, 1995 and 1996, 70%, 69% and 64%, respectively, of Toy Biz's domestic net sales were realized during the months of July through December. The seasonal pattern requires significant use of working capital, mainly to build inventory during the year, prior to the Christmas selling season. Toy Biz expects that its business will continue to experience a significant seasonal pattern for the foreseeable future.

The timing of events as discussed above as well as the continued introduction of new events and related products can and will cause fluctuations in quarterly revenues and earnings.

STRATEGIC INITIATIVES

The Company has begun several strategic initiatives intended to create organizational synergies, coordinate creative character development and increase mass retail penetration. The objective eventually is to integrate all applicable products of the Company in a coordinated marketing effort. The vision is to transform the Company into an integrated entertainment and sports content company prominent in all forms of media, print, electronic publishing, toys and games. The Company will concentrate on old and new character development while targeting growth niches within each market. There can be no assurance that the Company will have sufficient capital to fund these initiatives (see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources"), or that the Company will be successful in implementing such initiatives.

The strategic initiatives are focused in four main areas: (i) the development of Marvel Studios, (ii) the development of Marvel Interactive, (iii) the development of Marvel Mania Restaurants and (iv) certain in-store merchandising investments for the purpose of increasing revenues in the sports and entertainment trading card business.

MARVEL STUDIOS

To enhance further the media exposure of the Marvel Characters, the Company and Toy Biz intend to form Marvel Studios, although documentation relating to such formation has not been finalized (and pending such formation, Marvel Studios is being operated as a division of the Company). The objective of Marvel Studios is to facilitate the release of live action and animated feature films and television programming, and other media based on the Marvel Characters in order to create greater consumer interest in the Marvel Characters and related merchandise. The Company believes that any feature film or television programming, theatrical productions or other media and any advertising and promotion associated with such media will create consumer interest in the Marvel Characters and revenue opportunities for the Company's businesses, including the licensing and toy businesses. For example, the

Company believes that the popularity of the X-MEN and SPIDER-MAN animated television shows resulted in significant increases in net sales by Toy Biz of X-MEN and SPIDER-MAN toys. The Company believes that Marvel Studios will facilitate the release of feature films, television programming and other media by giving the Company greater control over the development of such projects compared to the present practice of only licensing the use of the Marvel Characters in film or television projects to an unrelated third party.

The rights to produce feature films based on certain of the Marvel Characters are currently licensed to third parties and some of those rights are currently in dispute. There can be no assurance that the Company will be able to reacquire or restructure these rights for development or that Marvel Studios will enhance the likelihood that any such films or television programming will be produced.

Currently there are three television series based on the Marvel Characters being aired on free domestic television. Series based on the X-MEN and SPIDER-MAN characters appear on Fox Children's Network ("FCN") and consistently are rated among the most highly watched shows during children's television time periods. In the Fall of 1996, The INCREDIBLE HULK began airing on the United Paramount Network ("UPN"). In addition, from 1994 to 1996, the Marvel Action Hour aired in syndication, which featured two half-hour segments of THE FANTASTIC FOUR and IRON MAN. In February, 1996 a made for television movie GENERATION X aired. The Company has also entered into an agreement with Fox Kid's Worldwide ("FKW") for the development and broadcast of four new animation series on FCN over a seven-year period, anticipated to begin with the SILVER SURFER in the 1997-1998 broadcast season. The agreement with FKW provides for the development and broadcast of at least fifty-two (52) episodes of new series, and has a term of seven (7) years, which may be extended to ten (10) years at the option of FKW if at least 104 episodes of eight (8) different series are broadcast. As part of its agreement with FKW, the Company will generally reimburse FKW for 25% of production costs, and will grant FKW a participation in merchandise revenues derived from the Marvel Characters featured in the television series aired by FKW. In addition commencing in the Fall of 1997, the Company expects that its X-MEN, IRON MAN, and FANTASTIC FOUR series will be rerun in syndication in an hour long broadcast with one half of the hour airing an X-MEN episode and the other half of the hour airing either an IRON MAN or FANTASTIC FOUR episode. The Company anticipates that this media exposure will increase the popularity of the Marvel Characters on which the series are based and thereby benefit the Company's various businesses.

MARVEL INTERACTIVE

The Company intends to further develop entertainment software and on-line applications which leverage the popularity of Marvel Characters. America On line ("AOL"), one of the world's largest commercial on-line services, has entered into a joint venture with the Company to create, among other offerings, original, exclusive on-line interactive comics or "Cybercomics". These comics change weekly, versus the standard monthly, and allow fans to participate in the comic by driving the story line. The Company believes that its on-line offerings, including comics, will reach a new group of readers beyond that of its traditional distribution. The Company's site on AOL was launched on July 8, 1996 and recently was awarded AOL's Member's Choice Award. Marvel Interactive has also initiated the online launch of all the Company's brands (including Marvel Comics, Fleer/Skybox and Toy Biz) on the internet through a series of linked websites. The internet addresses provided by the Company are www.marvel.com and www.fleerskybox.com.

All initial software titles will be based on the Marvel Characters and are expected to be multi-platform. Given the lead times for software development, most of the benefits from development efforts in 1997 will not begin to be realized until 1998. At this point, Marvel Interactive is in a start-up mode and certain of the markets, principally on-line, are in a developmental stage and there can be no assurance that the on-line market will prove to be a commercial success for Marvel or that Marvel Interactive will develop any software and, if developed, that such software will be successful.

MARVEL MANIA

Marvel Mania is projected to be a group of theme restaurants offering an array of merchandise, in the genre of Planet Hollywood and Hard Rock Cafe, although the theming will be based on the Marvel Characters. The Marvel Mania units are envisioned as multimedia, interactive experiences which will give life to the fictitious Marvel Universe of characters. Marvel Mania represents a further strategic investment in the development of the Company's intellectual properties. In addition to the general branding benefits Marvel desires to obtain from Marvel Mania, the Company expects that each restaurant with its retail merchandise area, once fully operational, will be profitable.

The restaurants are intended to be an interactive, multimedia environment designed to entertain the customer with videos, soundtracks and electronics. Each operation is intended to offer premium quality fashion merchandise

such as jackets, T-shirts, sweatshirts and hats. Other items intended for sale will include video games, comic books, action-figure toys, collectible figurines and animation cels.

The Marvel Mania restaurants are a joint venture between Marvel Restaurants and PHI. Three restaurants are contemplated, with the first restaurant expected to open in Los Angeles as a joint venture between the Joint Venture and MCA/Universal, in which MCA/Universal has a 70% interest and the Joint Venture has a 30% interest. The Los Angeles restaurant is under construction and is projected to open in the second half of 1997. The Joint Venture agreement between Marvel Restaurants and PHI provides that the Company will lend \$35 million on an interest bearing basis and make a \$1 million equity contribution to the Joint Venture for the development and construction of the first units. If only three restaurants are developed, the Company does not anticipate that it will be required to loan the Joint Venture the entire \$35 million. After reimbursement to the Company of the loan, the Joint Venture will pay the Company an annual license fee equal to 10% of all gross sales at Marvel Mania units and will pay PHI, which is responsible for the daily operation of the business, a management fee equal to 10% of gross sales. Any remaining income will then be divided equally between the Company and PHI. As a result of the decline in the Company's financial condition, the Company and PHI entered into a modification of the agreement providing, among other things, that (i) if the Company did not agree to open a third restaurant by the earlier of one year after the opening of its Orlando restaurant or December 31, 2001, 50% of the Joint Venture profits each year would be distributed to the Joint Venture parties prior to full repayment of the Company's loan and (ii) Planet Hollywood's agreement not to compete with the Joint Venture would be modified. Through March 21, 1997, the Company has invested approximately \$3.8 million and has posted a standby letter of credit for approximately \$6.1 million to fund development costs associated with the restaurant being constructed in Los Angeles.

TRADING AND ENTERTAINMENT CARDS

In an effort to increase revenues, Fleer/SkyBox has begun to implement an in-store merchandising program involving the placement of fixtures which, in an attractive and efficient manner, hold and dispense packs of trading cards. These fixtures are being placed in retail stores with high traffic of trading card collectors and are expected to simplify buying and make purchases more attractive to customers by making selections easier. Fleer/SkyBox plans to provide the fixture program to retailers who will support the category through a dedicated in-store section. If the program is successful, Fleer/SkyBox intends to roll out the program nationally.

INFLATION

In general, the Company's business is affected by inflation and the effects of inflation may be experienced by the Company in future periods. Management believes, however, that such effect has not been significant to the Company during the past three years.

ITEM 2. PROPERTIES

The Company has the following principal properties:

<TABLE> <CAPTION>	Facility -----	Location -----	Square Feet -----	Owned/Leased -----
<S>		<C>	<C>	<C>
	Manufacturing/Warehouse/Office	Waldorf, Germany	22,825	Owned
	Warehouse/Office	Terrsellia, Spain	20,450	Owned
	Warehouse/Office	SaintLaurent Du Var, France	35,327	Owned
	Manufacturing/Warehouse/Office	Bomporto, Italy	217,345	Owned
	Office	Modena, Italy	131,132	Owned
	Office	Modena, Italy	11,388	Owned
	Manufacturing	Modena, Italy	45,144	Owned
	Warehouse	Modena, Italy	21,953	Owned
	Manufacturing/Office	Modena, Italy	48,086	Owned
	Warehouse	Modena, Italy	14,817	Owned

Warehouse	Modena, Italy	23,605	Owned
Warehouse	Modena, Italy	12,411	Leased
Manufacturing/Warehouse/Office	Sao Paolo, Brazil	35,801	Leased
Office	New York, NY	69,000	Leased
Office*	New York, NY	17,000	Leased
Office	New York, NY	15,000	Leased
Office	Mt. Laurel, NJ	30,836	Leased
Office	London, England	8,978	Leased
Warehouse/Office	Leeds, England	13,390	Leased
Warehouse/Office	Wakefield, England	18,385	Leased
Warehouse/Office*	Yuma, Arizona	80,000	Leased
Manufacturing/Warehouse/Office	Byhalia, MS	72,300	Leased
Warehouse*	Puyallup, WA	216,500	Leased

</TABLE>

In addition, the Company leases or subleases other office and warehouse space located in several locations in the United States and in Europe. The Company's leases expire through 2005 and provide for aggregate monthly rentals of approximately \$0.4 million, subject to escalation clauses.

*Represents facilities leased by Toy Biz. Toy Biz's New York lease expires in April 1997. Toy Biz has entered into a sublease pursuant to which it will occupy approximately 30,000 square feet of new office space and expects to relocate its executive and principal offices to such premises in 1997.

ITEM 3. LEGAL PROCEEDINGS

REORGANIZATION LEGAL PROCEEDINGS

On December 27, 1996, the Debtor Companies filed petitions under Chapter 11 of the Bankruptcy Code and in connection with such filing have been parties to various legal proceedings. See "Business -- Reorganization."

The Holding Companies' Trustee has alleged that events of defaults under each of the Marvel Holding Companies indentures have occurred by reason of the commencement of the Debtor Companies' cases under the Bankruptcy Code. The Holding Companies' Trustee has also alleged that the majority ownership and the anti-injunction provisions of each of the indentures have been violated. The Company is not a party to any of the indentures governing the notes issued by the Marvel Holding Companies. In addition, the Company believes the allegations of the Holding Companies' Trustee are either without merit or will be resolved in connection with the prosecution of the reorganization cases of the Marvel Holding Companies. The Holding Companies' Trustee has also alleged that it may assert a claim based on alleged "tortious interference" occasioned by the Company's filing of the Plan. The Company believes that any such allegations are completely without merit.

There are twenty-seven purported class and derivative actions brought by stockholders of the Company and holders of bonds issued by the Marvel Holding Companies and one action brought by a purported class of Toy Biz

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shareholders presently pending in the Delaware Court of Chancery (collectively, the "Delaware Actions") that challenge, among other things, the Andrews Investment.

Twenty-one of the twenty-seven Delaware Actions assert either claims on behalf of a purported class of all Marvel shareholders or shareholder derivative claims on behalf of Marvel, or both. The complaints allege, among other things, that the Andrews Investment represents a breach of defendants' fiduciary duties because the proposed purchase price per share is unfair and such purchase would dilute the minority shareholders' interest in Marvel. Plaintiffs in these actions seek to enjoin the Andrews Investment, to rescind the Andrews Investment if it is in fact consummated prior to the entry of the Court's judgment, to recover damages for defendants' alleged conduct and to recover costs and disbursements in pursuing these actions, including reasonable attorneys' fees. These actions have been consolidated for all purposes by order of the Delaware Court of Chancery. A consolidated complaint has not yet been filed.

Six of the Delaware Actions assert claims on behalf of a purported class consisting of the holders of bonds issued by the Marvel Holding Companies. These complaints allege, among other things, that the Andrews Investment, if consummated, would be a breach of defendants' duty of fair dealing and good faith owed to the holders of the bonds because the Andrews Investment would result in the substantial dilution of Marvel's outstanding stock, which is security for the bonds, and will thus diminish the value of the bonds. These actions have been separately consolidated by order of the Delaware Court of Chancery. The consolidated complaint in these six actions do not name any of the chapter 11 Debtor Companies as defendant. The parties to the

consolidated complaint have agreed to defer the filing of an answer.

All of the foregoing Delaware Actions name varying defendants consisting in the aggregate of Marvel, Andrews Group, MacAndrews Holdings, Parent Holdings, Marvel III, Marvel Holdings, Ronald O. Perelman, William C. Bevins, Donald G. Drapkin, Michael Fuchs, Frank Gifford, E. Gregory Hookstratten, Morton L. Janklow, Quincy Jones, Stan Lee, Scott C. Marden, Terry C. Stewart and Kenneth Ziffren.

One of the pending Delaware Actions asserts claims on behalf of a purported class of all Toy Biz shareholders. *Holl v. Toy Biz, Inc.*, Marvel Entertainment Group, Inc., Andrews Group, Inc., Ronald O. Perelman, Joseph M. Ahearn, Avi Arad and Issac Perlmutter, C.A. No. 15359, was filed on November 15, 1996. The complaint alleges, among other things, that defendants Perelman, Ahearn, Arad and Perlmutter are breaching their fiduciary duties in pursuing the proposed offers of Marvel and Andrews Group to purchase Toy Biz stock. In addition, the complaint alleges that defendant Marvel is aiding and abetting the individual defendants in their unlawful conduct. Damages in an unspecified amount are sought for the alleged breach of fiduciary duties by defendants. Plaintiffs also seek to enjoin the consummation of the transaction, to rescind the transaction in the event it is consummated and to recover costs and disbursements and reasonable allowances for plaintiff's counsel. This case has been stayed by stipulation of the parties.

No classes have been certified in any of the Delaware Actions. On December 27, 1996, Marvel filed a petition for protection under chapter 11 of the United States Bankruptcy Code. As a result of Marvel's filing, all of the Delaware Actions with respect to Marvel are automatically stayed pursuant to 11 U.S.C. Section 362. On March 7, 1997, Andrews Group terminated the Stock Purchase Agreement with Marvel and withdrew the proposal for the Andrews Investment. On the same date, Andrews Group informed Toy Biz and the two other principal stockholders of Toy Biz that the transactions contemplated by the Merger Agreement and the Stock Purchase Agreements with Toy Biz and each of such principal stockholders, respectively, would not be consummated.

Piels v. Marvel Entertainment Group, Inc., Ronald O. Perelman, Andrews Group, Inc. and MacAndrews & Forbes Holdings Inc., Index No. 96-605702, was commenced on November 14, 1996. This action, filed in New York Supreme Court, County of New York, asserts claims on behalf of a purported class of all Marvel shareholders. Named as defendants are Marvel, Ronald O. Perelman, Andrews Group and MacAndrews Holdings. The complaint alleges, among other things, that the defendants have breached their fiduciary duties in connection with the Andrews Investment. Specifically, plaintiff alleges that Marvel's minority shareholders are being directly damaged by defendants' actions with respect to the Andrews Investment. Plaintiff seeks injunctive relief, damages in an unspecified amount and costs and disbursements, including reasonable attorneys' fees. By orders dated February 25, 1997, the New York Supreme Court denied plaintiff's motion for a preliminary injunction and granted defendants' motion to dismiss the action based on forum non conveniens.

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OTHER LEGAL PROCEEDINGS

On March 9, 1995, a complaint purporting to be a class action was filed against SkyBox, certain of SkyBox's officers and directors and the Company in the Delaware Court of Chancery, New Castle County, entitled *Strougo v. Lorber, et al.*, C.A. No. 14107 ("Strougo"). The complaint generally alleged that SkyBox and certain of its officers and directors breached their fiduciary duties by agreeing to be acquired by the Company at an allegedly unfair and inadequate price, failing to consider other potential purchasers in a manner designed to obtain the highest possible price for SkyBox's stockholders and not acting in the best interest of stockholders. The complaint also alleged that the Company aided and abetted the breaches of fiduciary duty committed by the other defendants named in the complaint. The complaint sought preliminary and permanent injunctions against consummation of the merger, damages, costs and experts' fees and expenses. This case was dismissed without prejudice.

On March 16, 1995, a complaint purporting to be a class action was filed against SkyBox and certain of SkyBox's officers and directors in the Delaware Court of Chancery, New Castle County, entitled *Krim and Gerber v. SkyBox International Inc., et al.*, C.A. No. 14127. The complaint generally made allegations similar to those contained in the Strougo complaint and sought similar injunctive and other relief. This case was dismissed without prejudice.

The Company is a defendant in a purported class action filed on July 26, 1996 in the United States District Court for the Eastern District of New York entitled *Fishman, et al v. Marvel Entertainment Group, Inc.*, CV-96-3757 (SJ), by four persons who allegedly purchased sports and entertainment cards manufactured by Fleer/SkyBox. The action is directed against standard business practices in the trading card industry, including the practice of randomly

placing insert cards in packages of sports and entertainment trading cards, and alleges that these practices constitute illegal gambling activity in violation of state and federal law. Fleer/SkyBox's principal competitors in the trading card industry have been separately sued for employing the same or similar practices. On March 11, 1997, a similar action as Fishman against a competitor of Fleer/SkyBox entitled Schwartz, et. al. v. Upper Deck, No. 96CV3408 - B (AJB) (S.D. Cal.), was dismissed with leave to replead. The plaintiffs in that action filed an amended complaint on March 24, 1997. On April 2, 1997, a similar action as Fishman against another competitor of Fleer/SkyBox entitled Price, et. al. v. Pinnacle Brands, No. 3:96-CV-2150-T (N.D. Tex.), was dismissed with prejudice. In addition, certain of the various sports organizations and entertainment companies that issue licenses to Fleer/SkyBox (as well as the other major trading card companies) in connection with the manufacture of sports and entertainment trading cards have also been separately sued and are alleged to be engaged in aspects of the purportedly illegal gambling operations. Plaintiffs seek certification of a class of persons who within four years prior to the filing of the complaint purchased packages of trading cards that might contain randomly inserted cards, and recovery of treble damages. On September 30, 1996, the Company filed a motion to dismiss the complaint. Plaintiffs filed their opposition to the motion on or about December 2, 1996. No discovery has commenced. Plaintiffs have not specified the amount of damages sought, but generally allege that members of the purported class have been damaged as a result of their purchases of trading cards during the four years preceding the commencement of the action. As set forth above, on or about December 27, 1996, the Company filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware. As a result, the action was automatically stayed pending the outcome of the bankruptcy proceeding. It is not possible at this early stage of the case to predict the outcome with certainty. In the opinion of the Company, the action lacks merit and the Company intends to defend it vigorously.

The Company and two of its officers, William C. Bevins and Terry C. Stewart, are named as defendants in a purported class action entitled Brian Barry SEP IRA v. Marvel Entertainment Group, Inc., pending in the United States District Court for the Southern District of New York. The complaint seeks unspecified damages on behalf of a proposed class of purchasers of the Company's Common Stock from April 11, 1994 to December 31, 1994 for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, as well as Rule 10b-5 promulgated thereunder. Plaintiff alleges that the defendants, through their own statements and those of analysts, artificially inflated the price of Common Stock by creating earnings expectations which the Company did not meet. Plaintiff also contends that the defendants failed to timely disclose softness in the publishing and sports trading card markets which led to the Company's not attaining its purported earnings target. Plaintiff claims that the individual defendants, because of their corporate positions, are liable under the securities laws as control persons of the Company. The defendants moved to dismiss the complaint in its entirety on February 23, 1996. On April 8, 1997, the District Court granted the defendant's motion to dismiss without prejudice. As set forth above, on or about December 27, 1996, the Company filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware. As a result, any further action against the Company is automatically stayed pending the outcome of the bankruptcy proceeding.

Marvel is named as a defendant in two actions which have been consolidated for all purposes with certain related actions in proceedings now pending in the Los Angeles County Superior Court. The consolidated cases center

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around the ownership of certain rights in the production and distribution of a live action motion picture based on the "SPIDER-MAN" character owned by Marvel. Once the automatic stay governing all litigation involving Marvel is lifted by the Delaware Bankruptcy Court, Marvel intends to assert its own claims to those rights.

In the lead case, a dispute between 21st Century Film Corporation ("21st Film"), Carolco Pictures, Inc. ("Carolco") and related entities, 21st Film claims that it still possesses rights under an Agreement with Marvel to produce and distribute a live action film based on the "SPIDER-MAN" character, although it had assigned all of its rights to Carolco. Metro Goldwyn Mayer, Inc. ("MGM") has succeeded to the litigation position of both 21st Film and Carolco in the respective bankruptcy proceeding of those two companies. In addition to its purchase of 21st Film and Carolco litigation positions, MGM is a plaintiff in a separate case that has been deemed related to the lead and consolidated cases. Marvel has answered the complaint denying MGM's allegations.

An additional lawsuit, between Carolco and Columbia Tristar Home Video ("Columbia"), concerns the videocassettes rights to any such film, and a third lawsuit, between Carolco and Viacom International, Inc. ("Viacom"),

involves television rights. Both Columbia and Viacom claim that, before 21st Film assigned its rights under its agreement with Marvel to Carolco, 21st Film had licensed ancillary rights to each company. Each seeks to enforce its respective rights. Viacom, however, brought a separate suit naming Marvel, and Marvel has answered that complaint, denying Viacom's allegations.

In its answer and other pleadings, Marvel contends that it is the sole and exclusive holder of the unencumbered right to produce and distribute a live action based on the "SPIDER-MAN" character. Marvel contends that all rights to produce or distribute a "SPIDER-MAN" film under its agreement with Carolco and 21st Film have reverted to Marvel.

Marvel has notified the Court in the consolidated action that Marvel has filed for bankruptcy protection, and that the bankruptcy court filing stays all further proceedings in the consolidated lawsuit as to Marvel. Subject to further proceedings in the bankruptcy court, Marvel has stated that it intends to defend vigorously the Viacom Lawsuit and the MGM Lawsuit, and to defend vigorously and assert its exclusive rights to produce and distribute a live action film based on the "SPIDER-MAN" character.

The Company is involved in various other legal proceedings and claims incident to the normal conduct of its business. Although it is impossible to predict the outcome of any outstanding legal proceeding, the Company believes that all of its legal proceedings and claims, individually and in the aggregate, are not likely to have a material adverse effect on its financial condition or results of operations. As a result of the Debtors Companies filing of petitions pursuant to the Bankruptcy Code, the Company's legal proceedings, other than the Debtor Companies bankruptcy proceedings, have been automatically stayed. The Company has obtained a lifting of the automatic stay in the Fishman case in order to allow the Company to pursue its motion to dismiss.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company's common stock, par value \$.01 per share ("Common Stock"), is listed and traded on the New York Stock Exchange under the symbol "MRV". The following table sets forth the range of high and low closing sale prices for Common Stock as reported by the New York Stock Exchange.

1996 ----	HIGH ----	LOW ---
First Quarter Ended March 31, 1996-----	13 1/4	10 1/4
Second Quarter Ended June 30, 1996-----	12	9 3/8
Third Quarter Ended September 30, 1996-----	9 3/4	7 3/4
Fourth Quarter Ended December 31, 1996-----	8 1/8	1 5/8
1995 ----	HIGH ----	LOW ---
First Quarter Ended March 31, 1995-----	17 3/8	13 1/2
Second Quarter Ended June 30, 1995-----	16 3/4	14 3/4
Third Quarter Ended September 30, 1995-----	16 1/4	14
Fourth Quarter Ended December 31, 1995-----	15 7/8	10 5/8

As of the close of business on March 28, 1997, there were 14,230 holders of record of shares of Common Stock.

The Company has not declared a cash dividend on shares of Common Stock subsequent to the initial public offering, which was consummated on July 22, 1991.

The declaration and payment of dividends are subject to the discretion of the Board of Directors of the Company and to certain limitations under the General Corporation Law of the State of Delaware. The timing, amount and form of dividends, if any, will depend on, among other things, the Company's results of operations, financial condition, cash requirements, restrictions under the Company's Credit Agreements an DIP Loan, restrictions on an entity operating

under chapter 11 of the Bankruptcy Code and other factors deemed relevant by the Board of Directors. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and Note 5 of "Notes to Consolidated Financial Statements".

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data have been derived from the Consolidated Financial Statements of the Company for each of the five years ended December 31, 1996. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and the Notes thereto included elsewhere in this Annual Report.

The historical financial data for each of the periods presented are not comparable due to several factors, including the effects of the acquisition of Fleeer on September 1, 1992, the effects of the acquisition of Panini on September 1, 1994, the consolidation of Toy Biz since the initial public offering by Toy Biz on March 2, 1995 (the "Toy Biz IPO"), and the effects of the acquisition of SkyBox on April 27, 1995.

<TABLE>
<CAPTION>

	For the years ended December 31,				
	1996 (a)	1995 (b)	1994 (d)	1993	1992 (e)
	-----	-----	-----	-----	-----
STATEMENTS OF OPERATIONS DATA:					
<S>	<C>	<C>	<C>	<C>	<C>
Net revenues-----	\$ 745.5	\$ 828.9	\$ 514.8	\$ 415.2	\$223.8
Cost of sales-----	536.4	533.3	273.4	214.2	112.3
Selling, general and administrative expenses-----	244.5	226.7	117.6	84.2	42.5
Restructuring charges-----	15.8	25.0	-	-	-
Depreciation and amortization-----	31.8	21.2	4.0	2.2	1.2
Amortization of goodwill, intangibles and deferred charges-----	303.3	17.9	10.9	10.1	4.6
Interest expense, net-----	58.9	43.2	17.1	14.6	6.5
Foreign exchange loss/(gain), net	1.1	(0.4)	(0.6)	-	-
Gain on sale of Toy Biz common stock---	22.0	14.3	-	-	-
Equity in net income of unconsolidated subsidiaries and other, net-----	(1.2)	1.7	11.9	4.5	-
(Loss) income before reorganization items, provision for income taxes, minority interest and extraordinary item-----	(425.5)	(22.0)	104.3	94.4	56.7
Reorganization items-----	5.5	-	-	-	-
(Loss) income before provision for income taxes, minority interest and extraordinary item-----	(431.0)	(22.0)	104.3	94.4	56.7
Provision for income taxes-----	21.7	5.7	42.5	38.4	24.1
(Loss) income before minority interest and extraordinary item-----	(452.7)	(27.7)	61.8	56.0	32.6
Minority interest in earnings of Toy Biz	11.7	17.4	-	-	-
(Loss) income before extraordinary item--	(464.4)	(45.1)	61.8	56.0	32.6
Extraordinary item, net of taxes-----	-	(3.3) (c)	-	-	-
Net (loss) income-----	\$ (464.4)	\$ (48.4)	\$ 61.8	\$ 56.0	\$ 32.6
(Loss) earnings per share: (f)					
(Loss) income before extraordinary item--	\$ (4.56)	\$ (0.45)	\$ 0.60	\$ 0.55	\$ 0.33
Extraordinary item-----	-	(0.03) (c)	-	-	-
Net (loss) income-----	\$ (4.56)	\$ (0.48)	\$ 0.60	\$ 0.55	\$ 0.33

</TABLE>

ITEM 6. SELECTED FINANCIAL DATA (CONT'D)

BALANCE SHEET DATA:

<TABLE>
<CAPTION>

(Dollars in millions)

DECEMBER 31

	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Goodwill and other intangibles, net-----	\$ 317.6	\$ 604.0	\$ 433.6	\$ 299.0	\$ 302.0
Total assets-----	\$ 844.0	\$ 1,226.3	\$ 828.7	\$ 472.0	\$ 440.0
Long-term debt (including current portion)-----	\$ 155.6	\$ 586.5	\$ 384.3	\$ 250.2	\$ 236.3
Liabilities subject to settlement under reorganization (g)-----	\$ 503.2	-	-	-	-
Total stockholders' (deficit) equity-----	\$ (256.3)	\$ 207.8	\$ 243.0	\$ 147.3	\$ 84.7

- (a) Includes fourth quarter charges comprised of: a write-down of goodwill and other intangibles of approximately \$278.5 million and a valuation allowance of approximately \$32.2 million provided to offset deferred tax assets of certain subsidiaries that were previously recorded. These charges were reflected in "Amortization of goodwill, intangibles and deferred charges", and "Provision for income taxes", respectively. These charges were of a non-cash nature.
- (b) The Company's statements of operations and financial position include the operations and financial position of Toy Biz since the Toy Biz IPO on March 2, 1995 and the operations and financial position of SkyBox since its acquisition on April 27, 1995.
- (c) During 1995, the Company recorded a \$3.3 extraordinary loss, net of taxes of \$2.1, which represents a write-off of the related deferred financing costs associated with the term loan portion of its Amended and Restated Credit Agreement.
- (d) The Company's statements of operations and financial position include the operations of Panini since its acquisition on September 1, 1994.
- (e) The Company's statements of operations and financial position include the operations of Fleer since its acquisition on September 1, 1992.
- (f) Earnings per share have been computed using the weighted average number of common and common equivalent shares, except for 1995 and 1996, where the effect of common equivalent shares is antidilutive.
- (g) Certain liabilities have been classified to "Liabilities Subject to Settlement Under Reorganization" in accordance with bankruptcy reporting as prescribed in Statement of Position 90-7.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

GENERAL

The Company is a leading creator, publisher and distributor of youth entertainment products for domestic and international markets based on fictional action adventure characters owned by the Company, licenses from professional athletes, sports teams and leagues and popular entertainment characters and other properties owned by third parties. The Company also licenses the Marvel Characters and properties for consumer products, television and film projects, on-line and interactive software, and advertising promotions. The Company's products include comic book and other children's publications, sports and entertainment trading cards, activity stickers, toys, adhesives and confectionery products.

RESULTS OF OPERATIONS

In recent years there has been an overall decline in the comic book market, and more specifically, a significant reduction in speculative purchases of comic books and reduced readership, which has adversely affected the Company's publishing business. In response, the Company has undertaken several strategic actions to mitigate the effect of such contraction. However, to date these actions have not been successful in overcoming the overall decline in the comic book market.

Similarly, there has been a significant contraction in the sports trading card market related in part to lower speculative purchases. In addition, as a result of the baseball, hockey and basketball labor situations in 1994 and 1995, fan interest declined which adversely affected sports trading card sales and increased returns for those periods. The level of fan interest, although showing some signs of improvement during 1996, has not returned to the levels experienced prior to the labor situations in professional sports. The Company believes that these factors have negatively affected the sports trading card business, causing the Company to experience lower sales, higher returns

and higher inventory obsolescence. The level of demand for entertainment trading cards is dependent on, among other factors, the commercial success and media exposure of the Marvel Characters and third party licensed products, as well as the market conditions in the comic book specialty stores. In 1994 and 1995, the sale of entertainment cards based on the Marvel Characters and third party licensed characters substantially offset the decline in sports trading cards. However, in 1996, the Company's sales of entertainment trading cards has been adversely affected by lack of commercial success of properties licensed from third parties as well as the lower demand for trading cards based on comic book characters. The result of the minimum royalty and advertising contractual commitments to licensors coupled with declines in the Company's trading card net revenues have significantly and adversely affected the profit margins of the trading card business and the Company anticipates a continued significant adverse effect on profit margins due to the current contractual commitments. In response, the Company has undertaken several strategic actions to increase sales in the face of the contraction in the sports trading card and entertainment card businesses. However, to date these actions have not been sufficient to overcome the overall market decline in the sales of sports trading cards and entertainment cards.

As described above, continuing operating losses in the trading card and publishing businesses through the third quarter of 1996, as well as significant long-term changes in industry conditions, indicated to the Company, at that time, that there may be asset impairment. During the fourth quarter of 1996, the Company evaluated the recoverability of the carrying value of long-lived assets, including goodwill and other intangibles, in accordance with its previously stated accounting policies and recorded a non-cash charge of approximately \$278.5 million, substantially all related to the Company's trading card operations. See Note 13 of "Notes to Consolidated Financial Statements."

In the fourth quarter of 1996, the Company instituted a series of actions to reduce its operating costs. These actions include, the termination of certain employees and the closure of certain facilities and given the underlying weaknesses in certain of the Company's markets and the negative impact associated with the uncertainty surrounding its chapter 11 proceeding, the Company made additional provisions for returns and inventory obsolescence and provided additional reserves for other assets which may not be realized. The aggregate amount of the foregoing charges are approximately \$69.3 million, which includes restructuring charges of \$15.8 million. These charges were reflected in various line items in the statement of operations.

During the fourth quarter of 1996, the Company recorded a charge of approximately \$32.2 million to income tax expense to reduce the carrying value of deferred tax assets of certain subsidiaries. This adjustment is

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required given the Company's inability, based on the projected financial results of the Company, to utilize the benefits of net operating losses ("NOLs") against future taxable income from operations.

Substantially all of the charges mentioned above were of a non-cash nature. See Notes to Consolidated Financial Statements.

The Company experienced significant operating losses during 1995 and 1996, and failed to satisfy certain financial covenants contained in the Credit Agreements (as defined below, see Note 5 of "Notes to Consolidated Financial Statements") beginning in the Fall of 1996. The Company commenced discussions in the Fall of 1996 with Andrews Group, its indirect parent, regarding an equity infusion in order to provide for the Company's cash requirements and with The Chase Manhattan Bank, agent bank for the Credit Agreements, regarding a restructuring of the Credit Agreements.

On December 27, 1996, Marvel along with certain of its operating and inactive subsidiaries, Fleer; SkyBox; Marvel Characters, Inc.; Heroes World Distribution, Inc.; The Asher Candy Company; Malibu; Frank H. Fleer Corp. and Marvel Direct Marketing Inc. filed petitions for relief and a plan of reorganization under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Panini, Marvel Restaurants (a general partner in the Joint Venture developing the Marvel Mania restaurants, see "Business -- Strategic Initiatives -- Marvel Mania") and Toy Biz, all of which are active, as well as certain inactive subsidiaries did not file petitions under the Bankruptcy Code. See "Business - Reorganization".

The Debtor Companies received approval from the Bankruptcy Court to pay on time and in full undisputed pre-petition obligations including salaries, wages and benefits to all of its employees, trade creditors and independent contractors and to continue funding its strategic initiatives. On January 24, 1997 the Bankruptcy Court approved a \$100 million DIP Loan, which is provided

by a syndicate of lenders, including The Chase Manhattan Bank, as agent bank, and is available to the Company until June 30, 1997. The DIP Loan is subject to covenants and events of default including a change of control of Marvel (as defined therein). See Note 5 of "Notes to Consolidated Financial Statements".

The Company believes that since, and in part as a result of, the commencement of the Company's chapter 11 proceedings, the Company has continued to experience greater than expected weakness in certain businesses, including trading cards, due to, among other things, certain mass merchandisers maintaining lower than expected levels of inventory of the Company's products.

Currently there is no plan of reorganization. There can be no assurance that any plan of reorganization under the Bankruptcy Code reflecting the Committee Proposal or a proposal made by any other party will be proposed, or that if a plan is proposed, such plan of reorganization will be confirmed under the Bankruptcy Code. If the Company is unable to obtain confirmation of a plan of reorganization, its creditors or equity security holders may seek other alternatives for the Company, including bids for the Company or parts thereof through an auction process. There can be no assurance that upon consummation of a plan of reorganization that there will be improvement in any of such businesses. The Company has, and will continue to incur professional fees and other cash demands typically incurred in bankruptcy. From December 27, 1996 through March 28, 1997 these amounts approximated \$6.3 million.

YEAR ENDED DECEMBER 31, 1996 COMPARED WITH THE YEAR ENDED DECEMBER 31, 1995

The Company's net revenues were \$745.5 million and \$828.9 million in 1996 and 1995, respectively, a decrease of \$83.4 million or 10.1%. This reflects a decrease of \$44.7 million in net publishing revenues, a decrease of \$56.7 million in net trading card and sticker revenues, and a decrease of \$34.7 million in licensing revenues, partially offset by a \$41.0 million increase in toy revenues and an \$11.7 million increase in other revenues. The decrease in net publishing revenues was due to the impact on the Company of the continuing decline in the overall comic book market, the reduction of marginally profitable titles resulting from the implementation of the Company's business strategy, and beginning in July 1995 the discontinuance of distribution by Heroes World of comic book publications other than the Company's titles. The decrease in trading card net revenues was primarily due to the continuing general decline in the demand for trading cards as well as the change in the Company's distribution of its trading cards to concentrate on trading card specialty stores and select mass market accounts which generally resulted in lower net revenues in 1996. In addition, entertainment card net revenues decreased due to lower sales of cards based on Marvel's comic book characters due in part to market conditions in the comic book specialty store market, as well as lower sales of cards based on properties licensed from third parties resulting from

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lower commercial success of such properties in 1996 as compared to 1995. However, as compared to 1995, provisions for trading card sales returns were significantly lower, reflecting the change in distribution and the inclusion in 1995 of a significant increase in sales returns allowances and reserves. Such lower sales return provisions, combined with the inclusion of net revenues from SkyBox for a full year in 1996 versus only eight months in 1995 (the acquisition of SkyBox was consummated on April 27, 1995), partially offset the lower sales discussed above. These decreases in trading card net revenues were partially offset by an increase in net revenues of stickers. This increase was due to the 1996 European Cup soccer tournament and expansion into new markets such as Brazil and Russia, and was partially offset by higher provisions for returns for stickers in 1996. In addition, the Company experienced lower net revenues in certain European markets principally due to lower net revenues from entertainment stickers based on properties licensed from third parties as a result of lower commercial success of such properties in 1996 as compared to 1995. Licensing revenues decreased in 1996 as compared to 1995 primarily as a result of an insufficient amount of new media exposure of the Company's characters as well as an unfavorable comparison to 1995 licensing revenues which included the recording of revenues from certain large long term licenses for certain licensing categories. Pursuant to the agreement between FKW and the Company, the Company expects to have a new animation series based on the SILVER SURFER on FCN in the 1997-1998 broadcast season. Licensing revenues will vary from period to period depending on the volume and extent of licensing agreements entered into during any particular financial period, as well as the level and commercial success of the media exposure of the Marvel Characters. The increase in toy revenues was principally due to Toy Biz's expanded product offerings, increased international distribution of products and the consolidation of Toy Biz for a full year in 1996 as compared to ten months in 1995, offset in part by lower revenues due to lower sales of certain products based on the Marvel Characters. The improvement in other revenues was due to increased sales of adhesive paper by Panini.

Gross profit was \$209.1 million and \$295.6 million in 1996 and 1995, respectively, a decrease of \$86.5 million. As a percentage of net revenues, gross profit was 28.0% in 1996 as compared to 35.7% in 1995. The decrease in gross profit as a percentage of net revenues was due primarily to the effect of higher return provisions for stickers, the effect of lower licensing revenues, an unfavorable product mix for trading cards and toys as compared to 1995 and the effect of lower trading card net revenues without a corresponding decrease in royalty expense given minimum payment obligations for trading cards in 1996.

Selling, General & Administrative ("SG&A") expenses were \$244.5 million and \$226.7 million in 1996 and 1995, respectively. The increase of \$17.8 million was mainly attributable to the increase in advertising, promotion and selling expenses of Panini and Toy Biz, the consolidation of Toy Biz's results for a full year in 1996 as compared to ten months in 1995, the inclusion of SkyBox for a full year in 1996 as compared to eight months in 1995, and the effect of certain charges related to the termination of employees and other items. This increase was partially offset by a general reduction in overhead expenses associated with the restructuring of the trading card, publishing and confectionery operations. As a percentage of net revenues, SG&A was 32.8% in 1996 as compared to 27.3% in 1995.

During the fourth quarter of 1996, the Company recorded a \$15.8 million restructuring charge, which primarily represents the costs related to the closure of facilities, including severance related to terminated employees and other costs associated with the restructuring of its comic book distribution subsidiary and confectionery businesses. During the fourth quarter of 1995, the Company recorded a \$25.0 million restructuring charge, which primarily represents the costs related to the consolidation and closure of facilities, severance related to terminated employees and other costs associated with its publishing, trading card and confectionery businesses.

Depreciation and amortization was \$31.8 million and \$21.2 million in 1996 and 1995, respectively. The increase of \$10.6 million was primarily due to the consolidation of Toy Biz for a full year in 1996 as compared to only ten months in 1995, higher expense primarily resulting from an increased investment to support Toy Biz's expanded product line and the effect of certain charges related to the write-down of fixed assets.

Amortization of goodwill, intangibles and deferred charges was \$303.3 million and \$17.9 million in 1996 and 1995, respectively. The increase of \$285.4 million mainly reflects the write-down of goodwill and other intangibles related to asset impairment which was primarily due to the significant and long-term changes in industry conditions in trading cards and publishing. See Note 13 of "Notes to Consolidated Financial Statements".

Interest expense, net was \$58.9 million and \$43.2 million in 1996 and 1995, respectively. The increase in interest expense of \$15.7 million primarily reflects the interest expense from the increased borrowings in 1995 under the U.S. Term Loan Facility in connection with the acquisition of SkyBox for a full year in 1996 versus only

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eight months in 1995, increased borrowings under the Credit Agreements and Panini's short term lines of credit, borrowings for the expansion of Panini's Adespan adhesives facility, and higher average borrowing rates.

The gain on sale of Toy Biz common stock was \$22.0 million in 1996 and \$14.3 million from the Toy Biz IPO in 1995 (see Note 4).

Provision for income taxes was \$21.7 million and \$5.7 million in 1996 and 1995, respectively. The net tax provision in 1996 primarily represents a provision for income taxes related to the operations of Toy Biz and the establishment of a valuation allowance against deferred tax assets partially offset by a U.S. federal and foreign tax benefit relating to losses generated from operations. In 1995, the tax provision primarily was a result of taxes on income from foreign and Toy Biz operations offset by a U.S. federal benefit from the balance of its other operations. As a result of the losses incurred during 1996, the Company will be filing for an income tax refund of approximately \$10.5 million under the Company's tax sharing agreement with certain Mafco affiliates and expects to receive this refund during 1997.

Minority interest in earnings of Toy Biz was \$11.7 million and \$17.4 million in 1996 and 1995, respectively. The decrease in minority interest was primarily due to lower net income of Toy Biz partially offset by Marvel's reduced ownership percentage.

In 1995, the Company recorded a \$3.3 million extraordinary loss, net of taxes of \$2.1 million, which represented a write-off of deferred financing costs associated with the term loan portion of the Amended and Restated Credit

YEAR ENDED DECEMBER 31, 1995 COMPARED WITH THE YEAR ENDED DECEMBER 31, 1994

The Company's net revenues were \$828.9 million and \$514.8 million in 1995 and 1994, respectively, an increase of \$314.1 million. This increase reflects a \$75.2 million increase in trading card and sticker net revenues, mainly attributable to the full year impact of Panini, which was acquired in August 1994, and the acquisition of SkyBox in April 1995. This increase was partially offset by a general decline in demand for trading cards as well as the higher provisions for returns in 1995. In March 1995, the Company began to consolidate Toy Biz. For 1995, the Company consolidated toy revenues of \$180.2 million. Previously, the Company reported the results of Toy Biz under the equity basis and did not include Toy Biz revenues in its consolidated net revenues. Toy Biz revenues for the full year ended 1995 was \$196.4 million as compared to \$156.5 million in 1994. The increase in net publishing revenues of \$18.3 million was due to the full year impact of Heroes World, Malibu and Welsh Publishing Group, Inc., partially offset by a reduction in sales due to lower speculative purchases. Primarily as a result of a full year impact of adhesives, other product revenues increased by \$37.7 million in 1995. Licensing revenues increased by \$2.7 million in 1995 as a result of, in part, licensing revenues from certain long term licenses for certain product categories. Licensing revenues will vary from period to period depending on the volume and extent of licensing agreements entered into during any particular financial period, as well as the level and commercial success of the media exposure of the Marvel Characters.

Gross margin was \$295.6 million or 35.7% of sales in 1995 as compared to \$241.4 million or 46.9% in 1994. The decrease in margin percentage was primarily attributable to the Company's increased provisions for returns and product obsolescence for the trading card business. Excluding the results of the trading card operation for 1995 and 1994, the operating results of the Company's other businesses generated gross margin as a percentage of net revenues of 42%, approximating the prior year.

SG&A were \$226.7 million and \$117.6 million in 1995 and 1994, respectively. The increase of \$109.1 million was attributable to the full year impact of Panini, the acquisition of SkyBox sports and entertainment trading cards in 1995, the consolidation of Toy Biz's results, increased corporate overhead to support the expansion of the Company and the effects of the strategic actions taken by the Company in its publishing business. As a percentage of net revenues, SG&A increased to 27.3% in 1995 from 22.8% in 1994. This percentage increase was attributable to the Company's increased return provisions for the trading card business which decreased net revenues, higher SG&A expense as a percentage of net revenues for the publishing operation, in part due to the distribution of comic books through Heroes World, and other factors.

During the fourth quarter of 1995, the Company recorded a \$25.0 million restructuring charge, which primarily represents the costs related to the consolidation and closure of facilities, severance related to terminated employees and other costs associated with its publishing, trading card and confectionery businesses.

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Depreciation and amortization was \$21.2 million and \$4.0 million in the 1995 and 1994 periods, respectively. The increase of \$17.2 million was primarily due to the consolidation of Toy Biz for ten months in 1995 and higher expense primarily resulting from an increased investment to support Toy Biz's expanded product line.

Amortization of goodwill, intangibles and deferred charges was \$17.9 million and \$10.9 million in 1995 and 1994, respectively. The increase of \$7.0 million mainly reflects the amortization related to the acquisitions of Panini and SkyBox.

Interest expense, net was \$43.2 million and \$17.1 million in 1995 and 1994, respectively. The increase of \$26.1 million primarily reflects the interest on the Term Loan Facility in connection with the acquisition of Panini in August 1994, the increased borrowings associated with the U.S. Term Loan Agreement, a portion of which was used to finance the acquisition of SkyBox in April 1995, and higher average borrowing rates.

The gain on sale of Toy Biz common stock in 1995 was \$14.3 million from the Toy Biz IPO (see Note 4).

Equity in net income of unconsolidated subsidiaries and other, net was \$1.7 million and \$11.9 million in 1995 and 1994, respectively. This decrease mainly represents the consolidation of Toy Biz since the Toy Biz IPO. The 1995 amount primarily represents Panini's equity interest in operations which

distribute its product internationally. During the fourth quarter of 1995, Panini acquired the remainder of these operations and as a result, the year end results reflect the consolidation since the acquisition.

For 1995, the provision for income taxes was \$5.7 million as compared to \$42.5 million in 1994. The lower income taxes in 1995 are due primarily to the Company's loss. In 1995, the tax provision primarily was a result of taxes on income from foreign and Toy Biz operations offset by a U.S. federal benefit from remaining operations. The 1994 provision for income taxes includes tax expense related to federal, state and local and foreign income taxes.

The Company recorded a \$3.3 million extraordinary loss, net of taxes of \$2.1 million, which represents a write-off of the deferred financing costs associated with the term loan portion of its Amended and Restated Credit Agreement.

LIQUIDITY AND CAPITAL RESOURCES

The Company experienced significant operating losses during 1995 and 1996, and failed to satisfy certain financial covenants contained in the Credit Agreements (as defined below, see Note 5 of "Notes to Consolidated Financial Statements") beginning in the Fall of 1996. The Company commenced discussions in the Fall of 1996 with Andrews Group, its indirect parent, regarding an equity infusion in order to provide for the Company's cash requirements and with The Chase Manhattan Bank, agent bank for the Credit Agreements, regarding a restructuring of the Credit Agreements.

On December 27, 1996, Marvel along with certain of its operating and inactive subsidiaries, Fleer Corp.; SkyBox International, Inc.; Marvel Characters, Inc.; Heroes World Distribution, Inc.; The Asher Candy Company; Malibu Comics Entertainment, Inc.; Frank H. Fleer Corp. and Marvel Direct Marketing Inc. filed petitions for relief and a plan of reorganization under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Panini S.p.A., Marvel Restaurant Venture Corp. (a general partner in the Joint Venture developing the Marvel Mania restaurants, see "Business -- Strategic Initiatives -- Marvel Mania") and Toy Biz, Inc., all of which are active, as well as certain inactive subsidiaries did not file petitions under the Bankruptcy Code. See "Business - Reorganization".

The Debtor Companies received approval from the Bankruptcy Court to pay on time and in full undisputed pre-petition obligations including salaries, wages and benefits to all of its employees, trade creditors and independent contractors and to continue funding its strategic initiatives. On January 24, 1997 the Bankruptcy Court approved \$100 million DIP Loan, which is provided by a syndicate of lenders, including The Chase Manhattan Bank, as agent bank, and is available to the Company until June 30, 1997. The DIP Loan is subject to covenants and events of default including a change of control of Marvel (as defined therein). See Note 5 of "Notes to Consolidated Financial Statements".

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At March 28, 1997, the Company's outstanding bank indebtedness was approximately \$711.3 million, of which \$56.9 million relates to borrowings under the DIP Loan (including approximately \$6.9 million drawn under letters of credit), \$607.6 million relates to borrowings under the Credit Agreements, approximately Italian Lire 25 billion (approximately \$14.9 million based on exchange rates at March 28, 1997) relates to borrowings for Panini's Adespan adhesives facility and approximately Italian Lire 53.4 billion (approximately \$31.9 million based on exchange rates at March 28, 1997) relates to borrowings under Panini's short term lines of credit. Panini had approximately Italian Lire 4.9 billion (approximately \$3.2 million based on exchange rates at March 28, 1997) available under its foreign credit facilities at March 28, 1997. In addition, there was approximately \$24.5 million (net of letters of credit outstanding) available under the Toy Biz credit agreement at March 28, 1997.

The Credit Agreements and DIP Loan provide that it is an event of default if there is a change of control of Marvel. Toy Biz's credit agreement provides it is an event of default if Marvel does not control Toy Biz, although Toy Biz believes that upon any such default it will be able to obtain an amendment or waiver of such event of default or refinance such indebtedness. There can be no assurance as to the terms and conditions of such amendment or refinancing.

On February 26, 1997, the Bankruptcy Court entered an order granting relief from the automatic stay to allow the Holding Companies' Trustee to vote and to foreclose upon the Pledged Stock. On February 27, 1997, the Company and the Marvel Holding Companies filed a notice of appeal with respect to such order. On March 19, 1997, the Creditors Committee notified the Company that on March 25, 1997 it would cause the Holding Companies' Trustee to vote the Pledged Stock to replace the Board of Directors of the Company and the Holding

Companies. On March 24, 1997, the Court in the Debtor Companies' bankruptcy cases issued a restraining order preventing the Creditors Committee and the Holding Companies' Trustee from voting the Pledged Stock or otherwise replacing the Board of Directors of the Company and determined that the Creditors Committee and the Holding Companies' Trustee must comply with the procedural requirements of section 362 of the Bankruptcy Code to seek relief from the automatic stay to take such action. The Court, however, also ruled that the Creditors Committee and Holding Companies' Trustee could replace the Board of Directors of Marvel Holdings and Parent Holdings. On March 28, 1997, the Creditors Committee and the Holding Companies' Trustee filed a motion to lift the automatic stay in the Debtor Companies' cases in order to permit the Creditors Committee and the Holding Companies' Trustee to replace the Board of Directors of Marvel. A hearing date on such motion has been set for May 14, 1997. On the same date, the Creditors Committee filed an emergency appeal of the restraining order of the Bankruptcy Court issued on March 24, 1997 preventing the replacement of the Board of Directors of Marvel. A briefing schedule has been set for the emergency appeal and a hearing date for such appeal has been set for May 1, 1997.

Although there can be no assurance, the Company believes that borrowings under the DIP Loan and internally generated funds will be sufficient through the date of maturity of the DIP Loan to enable the Debtor Companies to meet their consolidated cash requirements, including debt service. The DIP Loan expires April 30, 1997 and the maturity of the DIP Loan may be extended at the option of Marvel to June 30, 1997. As part of the Plan, a group of lenders had committed to lend \$160 million to Toy Biz which could be used by the Company and its subsidiaries, including Toy Biz, to fund working capital and strategic investments and repay borrowings outstanding under the DIP Loan. Such commitments have been terminated as a result of the withdrawal of the Andrews Investment and the Plan. In addition the DIP Loan is subject to a number of events of default and conditions of borrowing. In the event borrowings under the DIP Loan become due either upon maturity or an event of default, prior to a plan of reorganization being confirmed under the Bankruptcy Code and consummated, then the Debtor Companies will have to seek one or more alternatives to provide for its cash requirements (including the repayment of borrowings under the DIP Loan), including seeking alternative debtor-in-possession financing and/or sales of assets and/or sales of one or more of the Company's businesses. Although there can be no assurance, the Company believes that its Panini subsidiary should be able to meet its cash requirements, including for debt service and repayment, from permissible advances by Marvel of borrowings under the DIP Loan, local borrowings and internally generated funds. The Company anticipates that internally generated funds of Toy Biz and borrowings under Toy Biz's credit agreement will be sufficient to enable Toy Biz to meet its cash requirements, including debt service, for the foreseeable future. See Note 5 of "Notes to Consolidated Financial Statements".

As chapter 11 debtors, the Debtor Companies may sell (subject, in certain circumstances, to Bankruptcy Court approval), or otherwise dispose of assets, and liquidate or settle liabilities for amounts other than those reflected in the consolidated financial statements. The amounts reported in the consolidated financial statements do not give effect to any adjustments to the carrying value of assets or amount of liabilities that might result as a consequence of actions taken pursuant to the bankruptcy or a plan of reorganization. If the Company is unable to obtain confirmation of a plan

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of reorganization, its creditors or equity security holders may seek other alternatives for the Company, including bids for the Company or parts thereof through an auction process. In that event it is possible that certain assets would not be realized and additional liabilities and claims would be asserted which are not presently reflected in the consolidated financial statements and which are not presently determinable. The effect of any such assertion or non-realization could be material. Currently, there is no plan of reorganization that is pending with the Bankruptcy Court. These conditions raise substantial doubt as to the Company's ability to continue as a going concern.

Net cash (used in) provided by operating activities was (\$102.9) million, \$3.5 million and \$12.7 million for the years ended December 31, 1996, 1995 and 1994, respectively. The use of funds in 1996 was principally due to the loss from operations and partially offset by a decrease in working capital. Cash shown on the Consolidated Balance Sheets at December 31, 1996 of \$25.1 million, includes \$6.0 million of Toy Biz cash.

Cash used in investing activities was \$10.8 million, \$230.5 million and \$158.1 million for the years ended December 31, 1996, 1995 and 1994, respectively. The primary use of these funds in 1996 was for capital expenditures for Panini's Adespan adhesives facility and tooling and molds and capitalized product development costs related to Toy Biz partially offset by

net proceeds from the Company's sale of a portion of its investment in Toy Biz. Capital expenditures for the Company (excluding Toy Biz), including software development costs, are expected to be approximately \$25.0 million for the year ending December 31, 1997. Capital expenditures for Toy Biz, including product development and package design costs and software development costs, are projected to approximate \$25.0 million for the year ending December 31, 1997.

In August 1996, Toy Biz sold in a public offering 700,000 shares of its Class A common stock at a price of \$15 per share. As part of Toy Biz's offering, the Company sold 2.5 million shares of Toy Biz Class A common stock. The net proceeds to Toy Biz and the Company were approximately \$9.3 million and \$35.7 million, respectively, after deducting amounts accrued for fees and expenses. As a result of the offering by Toy Biz and the sale of Class A common stock of Toy Biz by the Company, the Company's ownership percentage of Toy Biz decreased to 26.6% and its voting control decreased to 78.4%.

In addition to the Pledged Stock, approximately 2.9 million shares of the Company's common stock are subject to a negative pledge under the indenture to the notes issued by Marvel Holdings and approximately 0.3 million shares of the Company's common stock were pledged to secure letters of credit of subsidiaries of Mafco. The indentures governing the indebtedness of the Marvel Holding Companies contain various covenants relating to the Company, including certain limitations on the Company's indebtedness.

The Company expects to incur approximately \$1 million in net production costs for the INCREDIBLE HULK animated series being produced for the 1997-1998 broadcast year. In addition, with respect to the Company's agreement with FKW, the Company will be required to reimburse FKW a portion of its production costs. One-half of such amounts are expected to be reimbursed to the Company by Toy Biz pursuant to the understanding with respect to Marvel Studios.

The Company, along with its joint venture partner, is continuing development of Marvel theme restaurants. Three restaurants are contemplated, with the first restaurant expected to open in Los Angeles as a joint venture between the Joint Venture and MCA/Universal, in which MCA/Universal has a 70% interest and the Joint Venture has a 30% interest. The Los Angeles restaurant is under construction and is projected to open in the second half of 1997. The Company has posted a standby letter of credit for approximately \$6.1 million to fund development costs associated with the restaurant being constructed in Los Angeles. See "Business -- Strategic Initiatives -- Marvel Mania."

Toy Biz has authorized the repurchase of up to three million shares of Class A Common Stock. The repurchase program requires the consent of Marvel Characters, Inc., a wholly owned subsidiary of Marvel, which has announced that it will seek approval of the bankruptcy court for such consent. Such stock repurchase also requires approval under Toy Biz's credit agreement.

FORWARD-LOOKING STATEMENTS

Statements in this annual report on Form 10-K for the year ended December 31, 1996 such as "intend", "estimated", "believe", "expect", "anticipate" and similar expressions which are not historical are forward-looking statements that involve risks and uncertainties. Such statements include, without limitation, the Company's expectation as to future financial performance. In addition to factors that may be described in the Company's

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Securities and Exchange Commission filings, including this filing, the following factors, among others, could cause the Company's financial performance to differ materially from that expressed in any forward-looking statements made by, or on behalf of, the Company: (i) the ability of the Debtor Companies to successfully reorganize in bankruptcy and the outcome of such bankruptcy proceedings, (ii) the ability of the Debtor Companies to continue to draw on the DIP Loan and to obtain additional DIP Loan financing subsequent to the maturity of the DIP Loan on June 30, 1997 or in the event of an earlier termination of the DIP Loan, (iii) continued weakness in the comic book market which cannot be overcome by the Company's new editorial, production and distribution initiatives in comic publishing; (iv) continued general weakness in the trading card market; (v) the failure of fan interest in baseball to return to traditional levels that existed prior to the 1994 baseball strike thereby negatively affecting the Company's baseball card business; (vi) the effectiveness of the Company's changes to its trading card and publishing distribution; (vii) a decrease in the level of media exposure or popularity of the Company's characters resulting in declining revenues based on such characters; (viii) the lack of continued commercial success of properties owned by major licensors which have granted the Company licenses for its sports and entertainment trading card and sticker businesses; (ix) unanticipated costs or delays in completing projects associated with the

Company's new ventures including media, interactive software and on-line services and theme restaurants; (x) consumer acceptance of new product introductions, including those for toys; and (xi) imposition of tariffs or import quotas on toys manufactured in China as a result of a deterioration in trade relations between the U.S. and China.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Consolidated Financial Statements and supplementary data listed in the accompanying Index to Consolidated Financial Statements and Schedule on page F-1 herein. Information required by other schedules called for under Regulation S-X is either not applicable or is included in the financial statements or notes thereto.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

The information required by Part III, Items 10 through 13, of Form 10-K is incorporated by reference from the Registrant's definitive proxy statement for its 1997 annual meeting of stockholders, and if such proxy is not so filed, it will be filed as an amendment to the Form 10-K.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K

(a) (1 and 2) Financial Statements. See Index to Consolidated Financial Statements and Schedule which appears on page F-1 herein.

(3) Exhibits

EXHIBIT NO. DESCRIPTION

- | | |
|------|--|
| 3.1 | Restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1991 (the "1991 10-K"). |
| 3.2 | Amendment to Restated Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (the "1993 10-K"). |
| 3.3 | Amended and Restated By-laws of the Registrant. Incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1996 (the "1996 Third Quarter 10-Q"). |
| 9.1 | Voting Trust Agreement dated as of March 2, 1995, by and among the Registrant, Avi Arad and Toy Biz, Inc. Incorporated by reference to Exhibit No. 9.1 to the Toy Biz, Inc. Registration Statement on Form S-1 (No. 33-87268) filed February 21, 1995 (the "Toy Biz 1995 Registration Statement"). |
| 9.2 | Voting Trust Agreement dated as of March 2, 1995, by and among the Registrant, Isaac Perlmutter, Isaac Perlmutter T.A. and Toy Biz, Inc. Incorporated by reference to Exhibit 9.2 to the Toy Biz 1995 Registration Statement. |
| 10.1 | Formation and Contribution Agreement dated as of March 19, 1993, among Toy Biz, Inc., Isaac Perlmutter, Isaac Perlmutter T.A., the Registrant, Avi Arad and Toy Biz Acquisition, Inc., as amended as of March 31, 1993, and April 30, 1993. Incorporated by reference to Exhibit 10.29 to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 1993. |
| 10.2 | Distribution Agreement dated as of September 1, 1993, between Curtis Circulation Company and the Registrant. Incorporated by reference to Exhibit 10.3 to the 1993 10-K. Confidential treatment has been granted for portions of this document. |

- 10.3 Marketing and Distribution Agreement dated November 1, 1989, between Publishers Group West Incorporated and the Registrant. Incorporated by reference to Exhibit 10.5 to the 1991 Registrant's Statement on Form S-1 (File No. 33-40574) (the "1991 Registration Statement").
- 10.4 Agreement dated November 9, 1994, between Time Distribution Services and Fleer Corp. Incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 (the "1994 10-K"). Confidential treatment has been granted for portions of this document.
- 10.5 Lease dated as of July 1, 1986, between 387 P.A.S. Enterprises and Cadence Industries Corporation (9th Floor). Incorporated by reference to Exhibit 10.7 to the 1991 Registration Statement.
- 10.6 Lease Modification and Extension Agreement dated as of July 1, 1991, between 387 P.A.S. Enterprises and the Registrant (9th, 10th, 11th and 12th Floors). Incorporated by reference to Exhibit 10.9 to the 1991 10-K.

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EXHIBIT NO. -----	DESCRIPTION -----
10.7	Sublease dated September 13, 1991, between American Banker Bond Buyer and the Registrant (12th Floor). Incorporated by reference to Exhibit 10.10 to the 1991 10-K.
*10.8	Marvel Entertainment Group, Inc. Amended and Restated Stock Option Plan.
10.9	Services Agreement dated as of July 22, 1991, among the Registrant, MacAndrews & Forbes Holdings Inc. and Andrews Group Incorporated. Incorporated by reference to Exhibit 10.13 to the 1991 10-K.
10.10	Tax Indemnification Agreement dated as of July 22, 1991, between the Registrant and Mafco Holdings Inc. Incorporated by reference to Exhibit 10.14 to the 1991 10-K.
10.11	Tax Sharing Agreement dated as of May 18, 1993, among the Registrant, certain of its subsidiaries and Mafco Holdings Inc. Incorporated by reference to Exhibit 10.32 to the Marvel (Parent) Holdings Inc. Registration Statement on Form S-1 (File No. 33-65496).
10.12	Amended and Restated Tax Sharing Agreement dated as of January 1, 1994, between Mafco Holdings Inc., Marvel III Holdings Inc., the Registrant and certain subsidiaries of the Registrant. Incorporated by reference to Exhibit 10.15 to the 1993 10-K.
10.13	Stock Purchase Agreement dated as of July 1, 1993, between Marvel Holdings Inc. and the Registrant. Incorporated by reference to Exhibit 10.16 to the 1993 10-K.
10.14	Term Sheet for License Agreement dated January 25, 1995, between Major League Baseball Properties, Inc. and Fleer Corp. Incorporated by reference to Exhibit 10.20 to the Registrant's 1994 10-K. Confidential treatment has been granted for portions of this document.
10.15	License Agreement dated December 22, 1994, between Major League Baseball Players Association and Fleer Corp. Incorporated by reference to Exhibit 10.21 to the 1994 10-K. Confidential treatment has been granted for portions of this document.
10.16	Amendment dated February 7, 1996, to License Agreement dated December 22, 1994, between Major League Baseball Players Association and Fleer Corp. Incorporated by reference to Exhibit 10.22 to the 1995 10-K. Confidential treatment has been granted for portions of this document.
10.17	Retail Product License Agreement dated July 21, 1995, between NBA Properties, Inc. and the Registrant. Incorporated by reference to Exhibit 10.27 to the 1995 10-K.

Confidential treatment has been granted for portions of this document.

- 10.18 Employment Agreement dated as of August 1, 1995, between the Registrant and Jeffrey L. Kaplan. Incorporated by reference to Exhibit 10.44 to the 1995 10-K.
- *10.19 Employment Agreement dated as of January 26, 1996, between the Registrant and Scott C. Marden.
- 10.20 Employment Agreement dated as of August 13, 1996, between the Registrant and David J. Schreff. Incorporated by reference to Exhibit 10.2 to the 1996 Third Quarter 10-Q.
- 10.21 Joint Venture Agreement dated December 9, 1994, between Marvel Restaurant Venture Corp. and EBCO Management, Inc. Incorporated by reference to Exhibit 10.45 to the 1994 10-K. Confidential treatment has been granted for portions of this document.
- 10.22 Amended and Restated Credit and Guarantee Agreement dated as of August 30, 1994, among the Registrant, Fleer Corp., the banks from time-to-time parties thereto, the Co-Agents and Chemical Bank, as Administrative Agent. Incorporated by reference to Exhibit 10.49 to the Form 8-K filed September 15, 1994 (the "1994 August 8-K").

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EXHIBIT NO.	DESCRIPTION
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10.23	Term Loan and Guarantee Agreement dated as of August 30, 1994, among Marvel Comics Italia S.r.l., the Registrant and Istituto Bancario San Paolo Di Torino, S.p.A. Incorporated by reference to Exhibit 10.50 to the 1994 August 8-K.
10.24	Participation Agreement dated as of August 30, 1994, among Istituto Bancario San Paolo Di Torino, S.p.A., New York Limited Branch, as Italian Lender, Chemical Bank, as Administrative Agent, and the financial institutions signatory thereto, as Participants. Incorporated by reference to Exhibit 10.51 to the 1994 August 8-K.
10.25	Credit and Guarantee Agreement dated as of April 24, 1995, by and among the Registrant, Fleer Corp., Chemical Bank, as Administrative Agent, and the financial institutions parties thereto. Incorporated by reference to Exhibit (b) (3) to the Registrant's Schedule 14D-1 dated March 15, 1995.
10.26	First Amendment dated as of November 22, 1994, to the Amended and Restated Credit and Guarantee Agreement by and among the Registrant, Fleer Corp., Chemical Bank, as Administrative Agent, and the financial institutions parties thereto. Incorporated by reference to Exhibit 10.4 to the Form 8-K of the Registrant filed May 11, 1995.
10.27	Second Amendment dated as of April 24, 1995, to the Amended and Restated Credit and Guarantee Agreement by and among the Registrant, Fleer Corp., Chemical Bank, as Administrative Agent, and the financial institutions parties thereto. Incorporated by reference to Exhibit 10.5 to the Form 8-K of the Registrant filed May 11, 1995.
10.28	Consent Number 1 dated as of February 9, 1996, to the Registrant's Credit Agreements with Chemical Bank, as Administrative Agent, and the financial institutions from time to time parties thereto. Incorporated by reference to Exhibit 10.55 to the 1995 10-K.
10.29	Third Amendment dated as of March 1, 1996, to the Amended and Restated Credit and Guarantee Agreement by and among the Registrant, Fleer Corp., Chemical Bank, as Administrative Agent, and the financial institutions from time to time parties thereto. Incorporated by reference to Exhibit 10.56 to the 1995 10-K.
10.30	Consent Number Two and First Amendment dated as of March 1, 1996, to the Credit and Guarantee Agreement among the Registrant, Fleer Corp., the financial institutions from time to time parties thereto, the Co-Agents and Chemical

Bank, as Administrative Agent. Incorporated by reference to Exhibit 10.56 to the 1995 10-K.

- 10.31 Consent Number Three dated as of June 30, 1996 to the Credit and Guarantee Agreement among the Registrant, Fleer Corp., the financial institutions from time to time parties thereto, and The Chase Manhattan Bank (formerly Chemical Bank) as administrative agent. Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1996 (the "1996 Second Quarter 10-Q").
- 10.32 Consent Number Two and Fourth Amendment, dated as of June 30, 1996, to the Amended and Restated Credit and Guarantee Agreement, by and among the Registrant, Fleer Corp., the financial institutions from time to time parties thereto, and The Chase Manhattan Bank (formerly named Chemical Bank). Incorporated by reference to Exhibit 10.2 to the 1996 Second Quarter 10-Q.
- 10.33 Line of Credit, dated as of March 27, 1996 between Fleer Corp. and The Chase Manhattan Bank (formerly named Chemical Bank). Incorporated by reference to Exhibit 10.3 to the 1996 Second Quarter 10-Q.

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EXHIBIT NO.	DESCRIPTION
10.34	Consent, dated as of September 24, 1996 to the (a) Participation Agreement, dated as of August 30, 1994, among Istituto Bancario San Paolo Di Torino, S. p. A., New York Limited Branch ("San Paolo"), the financial institutions party thereto and The Chase Manhattan Bank (formerly named Chemical Bank), as administrative agent and (b) the Term Loan and Guarantee Agreement among Panini S. p. A. (formerly named Marvel Comics Italia S. r. L.), the Registrant and San Paolo. Incorporated by reference to Exhibit 10.1 to the 1996 Third Quarter 10-Q.
*10.35	Standstill Agreement and Amendment dated as of December 20, 1996 among the signatories thereto.
*10.36	Consent Number Four and Second Amendment dated as of November 25, 1996, to the Credit and Guarantee Agreement among the Registrant, Fleer Corp., the banks and other financial institutions, from time to time as parties thereto and The Chase Manhattan Bank (formerly Chemical Bank) as administrative agent.
*10.37	Waiver Number One or Fifth Amendment, dated as of November 25, 1996, to the Amended and Restated Credit and Guarantee Agreement among the Registrant, Fleer Corp., the banks and other financial institutions from time to time as parties thereto and The Chase Manhattan Bank (formerly Chemical Bank) as administrative agent.
*10.38	Revolving Credit and Guaranty Agreement, dated as of December 27, 1996, among the Registrant, certain subsidiaries of the Registrant, the banks party thereto and The Chase Manhattan Bank, as agent.
*10.39	First Amendment to Revolving Credit and Guaranty Agreement, dated as of January 24, 1997 among the Registrant, certain subsidiaries of the Registrant, the banks party thereto and The Chase Manhattan Bank, as agent.
*10.40	Second Amendment to Revolving Credit and Guaranty Agreement, dated as of February 11, 1997, among the Registrant, certain subsidiaries of the Registrant, the banks party thereto and The Chase Manhattan Bank, as agent.
10.41	Stockholders Agreement dated as of March 2, 1995, by and among the Registrant, Isaac Perlmutter, Isaac Perlmutter T.A., Toy Biz, Inc., Avi Arad and Zib, Inc. Incorporated by reference to Exhibit 10.1 to the Toy Biz 1995 Registration Statement.
10.42	Registration Rights Agreement dated as of March 2, 1995, by and among Toy Biz, Inc., the Registrant, Isaac Perlmutter

and Avi Arad. Incorporated by reference to Exhibit 10.2 to the Toy Biz 1995 Registration Statement.

- 10.43 Services Agreement dated as of January 1, 1995, between Toy Biz, Inc. and the Registrant. Incorporated by reference to Exhibit 10.18 to the Toy Biz 1995 Registration Statement.
- 10.44 License Agreement dated April 30, 1993, by and between Toy Biz, Inc. and the Registrant, as amended December 1, 1994. Incorporated by reference to Exhibit 10.9 to the Toy Biz 1995 Registration Statement.
- *10.45 Amendment dated November 22, 1995, to the License Agreement dated April 30, 1993, as amended, between Toy Biz, Inc. and the Registrant.
- 10.46 Amendment dated February, 1995, to the License Agreement dated April 30, 1993, as amended, between Toy Biz, Inc. and the Registrant. Incorporated by reference to Exhibit 10.9(b) to the Toy Biz 1995 Registration Statement.
- 10.47 License Agreement dated July 1, 1994, between Toy Biz, Inc. and the Registrant. Incorporated by reference to Exhibit 10.12 to the Toy Biz 1995 Registration Statement.
- * 21 Subsidiaries of the Registrant

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EXHIBIT NO. DESCRIPTION

- * 23.1 Consent of Ernst & Young LLP
- * 24.1 Power of Attorney executed by Ronald O. Perelman
- * 24.2 Power of Attorney executed by William C. Bevins
- * 24.3 Power of Attorney executed by Donald G. Drapkin
- * 24.4 Power of Attorney executed by Michael J. Fuchs
- * 24.5 Power of Attorney executed by Frank Gifford
- * 24.6 Power of Attorney executed by E. Gregory Hookstratten
- * 24.7 Power of Attorney executed by Morton L. Janklow
- * 24.8 Power of Attorney executed by Quincy Jones
- * 24.9 Power of Attorney executed by Stan Lee
- * 24.10 Power of Attorney executed by Scott C. Marden
- * 24.11 Power of Attorney executed by Scott M. Sassa
- * 24.12 Power of Attorney executed by David J. Schreff
- * 24.13 Power of Attorney executed by Terry C. Stewart
- * 24.14 Power of Attorney executed by Kenneth Ziffren
- * 27 Financial Data Schedule

*Filed herewith.

(b) Reports on Form 8-K filed during the last quarter of the year ended December 31, 1996.

Form 8-K dated November 20, 1996.

Form 8-K dated December 27, 1996.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant)

April 15, 1997

By: /s/ Scott M. Sassa

 Scott M. Sassa
 Chairman and Chief Executive
 Officer
 (Principal Executive Officer)

Dated: April 15, 1997

By: /s/ Bobby G. Jenkins

 Bobby G. Jenkins
 Executive Vice President and
 Chief Financial Officer
 (Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934,
 this report has been signed below by the following persons on behalf of the
 Registrant and in the capacities and on the dates indicated.

<TABLE>

<CAPTION>

SIGNATURE -----	TITLE -----	DATE -----
<S> Ronald O. Perelman *	<C> Director	<C> April 15, 1997
----- Ronald O. Perelman		
William C. Bevins*	Director	April 15, 1997
----- William C. Bevins		
Donald G. Drapkin *	Director	April 15, 1997
----- Donald G. Drapkin		
Michael J. Fuchs *	Director	April 15, 1997
----- Michael J. Fuchs		
Frank Gifford *	Director	April 15, 1997
----- Frank Gifford		
E. Gregory Hookstratten *	Director	April 15, 1997
----- E. Gregory Hookstratten		
Morton L. Janklow *	Director	April 15, 1997
----- Morton L. Janklow		

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SIGNATURES (continued)

<CAPTION>

SIGNATURE -----	TITLE -----	DATE -----
<S> Quincy Jones*	<C> Director	<C> April 15, 1997
----- Quincy Jones		
Stan Lee *	Director	April 15, 1997
----- Stan Lee		

Scott C. Marden* Director April 15, 1997

 Scott C. Marden
 /s/ Scott M. Sassa Director April 15, 1997

 Scott M. Sassa
 David J. Schreff* Director April 15, 1997

 David J. Schreff
 Terry C. Stewart* Director April 15, 1997

 Terry C. Stewart
 Kenneth Ziffren * Director April 15, 1997

 Kenneth Ziffren
 </TABLE>

* The undersigned by signing his name hereto does hereby execute this Annual Report pursuant to powers of attorney filed as exhibits to this Annual Report.

By: /s/ Steven R. Isko

 Steven R. Isko
 Attorney-in-fact

MARVEL ENTERTAINMENT GROUP, INC.
 (DEBTOR-IN-POSSESSION)
 INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

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* - All other schedules prescribed by the accounting regulations of the Commission are not required or are inapplicable and therefore have been omitted.

Stockholders and Board of Directors
Marvel Entertainment Group, Inc.

We have audited the accompanying consolidated balance sheets of Marvel Entertainment Group, Inc. (Debtor-in-Possession) ("Company") as of December 31, 1996 and 1995, and the related consolidated statements of operations, changes in stockholders' (deficit) equity, and cash flows for each of the three years in the period ended December 31, 1996. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with 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 evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marvel Entertainment Group, Inc. at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, on December 27, 1996, the Company, together with eight of its subsidiaries, filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Company is currently operating its business as a Debtor-in-Possession under the jurisdiction of the Bankruptcy Court, and continuation of the Company as a going concern is contingent upon, among other things, the ability to formulate a plan of reorganization which will gain approval of requisite parties under the United States Bankruptcy Code and confirmation of the Bankruptcy Court, the ability to comply with its debtor-in-possession financing agreement, and the Company's ability to generate sufficient cash from operations and obtain financing sources to meet its future obligations. In addition, the Company has experienced recurring operating losses, working capital deficiencies, negative operating cash flows and is currently in default under substantially all of its debt agreements (other than the Toy Biz, Inc. debt agreement). These matters raise substantial doubt about the Company's ability to continue as a going concern. In the event a plan of reorganization is accepted, continuation of the business thereafter is dependent on the Company's ability to achieve sufficient cash flow to meet its restructured debt obligations. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of these uncertainties.

Ernst & Young LLP

New York, New York
March 28, 1997

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN MILLIONS)

<TABLE>
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December 31,

	1996	1995
	<C>	<C>
<S>		
ASSETS		
Current assets:		
Cash	\$ 25.1	\$ 53.6
Accounts receivable, net	229.1	236.7
Inventories, net	78.1	82.4
Deferred income taxes	6.2	50.4
Income tax receivable	11.8	24.6
Prepaid expenses and other	49.2	42.9
	-----	-----
Total current assets	399.5	490.6
Property, plant and equipment, net	79.5	71.3
Goodwill and other intangibles, net	317.6	604.0
Deferred charges and other	47.4	60.4
	-----	-----
Total Assets	\$ 844.0	\$1,226.3
	=====	=====
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	\$ 98.5	\$ 104.8
Accrued expenses and other	174.7	194.8
Short term borrowings	47.3	13.3
Current portion of long-term debt	10.6	5.2
Liabilities subject to settlement under reorganization	14.7	-
	-----	-----
Total current liabilities	345.8	318.1
Long-term debt	145.0	581.3
Other long-term liabilities	20.4	48.7
Liabilities subject to settlement under reorganization	488.5	-
	-----	-----
Total liabilities	999.7	948.1
Minority interest in Toy Biz	100.6	70.4
	-----	-----
Stockholders' (deficit) equity:		
Preferred stock, \$.01 par value; 50,000,000 shares authorized, none issued	-	-
Common Stock, \$.01 par value; 250,000,000 shares authorized, 101,809,657 and 101,702,664 shares issued and outstanding at December 31, 1996 and 1995, respectively	1.0	1.0
Additional paid-in capital	93.1	92.4
(Accumulated deficit) retained earnings	(350.3)	114.1
Cumulative translation adjustment	(0.1)	0.3
	-----	-----
Total Stockholders' (Deficit) Equity	(256.3)	207.8
	-----	-----
Total Liabilities and Stockholders' (Deficit) Equity	\$ 844.0	\$1,226.3
	=====	=====

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

<TABLE>
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	For the years ended December 31,		
	1996	1995	1994
	<C>	<C>	<C>
Net revenues	\$ 745.5	\$ 828.9	\$ 514.8
Cost of sales	536.4	533.3	273.4
Selling, general & administrative expenses	244.5	226.7	117.6
Restructuring charges	15.8	25.0	-
Depreciation and amortization	31.8	21.2	4.0
Amortization of goodwill, intangibles and deferred charges	303.3	17.9	10.9
Interest expense, net	58.9	43.2	17.1

Foreign exchange loss/(gain), net	1.1	(0.4)	(0.6)
Gain on sale of Toy Biz common stock	22.0	14.3	-
Equity in net (loss) income of unconsolidated subsidiaries and other, net	(1.2)	1.7	11.9
<hr/>			
(Loss) income before reorganization items, provision for income taxes, minority interest and extraordinary item	(425.5)	(22.0)	104.3
Reorganization items	5.5	-	-
<hr/>			
(Loss) income before provision for income taxes, minority interest and extraordinary item	(431.0)	(22.0)	104.3
Provision for income taxes	21.7	5.7	42.5
<hr/>			
(Loss) income before minority interest and extraordinary item	(452.7)	(27.7)	61.8
Minority interest in earnings of Toy Biz	11.7	17.4	-
<hr/>			
(Loss) income before extraordinary item	(464.4)	(45.1)	61.8
Extraordinary item, net of taxes	-	(3.3)	-
<hr/>			
Net (loss) income	===== (\$464.4)	===== (\$48.4)	===== \$61.8
<hr/>			
(Loss) earnings per share:			
(Loss) income before extraordinary item	(\$4.56)	(\$0.45)	\$.60
Extraordinary item	-	(0.03)	-
<hr/>			
Net (loss) income	===== (\$4.56)	===== (\$0.48)	===== \$.60
<hr/>			
Weighted average number of common and common equivalent shares outstanding (in millions)	101.8	101.7	103.7
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</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' (DEFICIT) EQUITY
(DOLLARS IN MILLIONS)

<TABLE>
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	Common Stock	Additional Paid-in Capital	(Accumulated Deficit)/ Retained Earnings	Cumulative Translation Adjustment	Total
<S>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1994	\$1.0	\$47.0	\$100.7	(\$1.4)	\$147.3
Exercise of stock options	-	22.0	-	-	22.0
Tax benefit from exercise of stock options	-	12.2	-	-	12.2
Currency translation adjustment	-	-	-	(0.3)	(0.3)
Net income	-	-	61.8	-	61.8
<hr/>					
Balance at December 31, 1994	1.0	81.2	162.5	(1.7)	243.0
Exercise of stock options	-	8.1	-	-	8.1
Tax benefit from exercise of stock options	-	3.1	-	-	3.1
Currency translation adjustment	-	-	-	2.0	2.0
Net loss	-	-	(48.4)	-	(48.4)
<hr/>					
Balance at December 31, 1995	1.0	92.4	114.1	0.3	207.8
Exercise of stock options	-	0.5	-	-	0.5
Tax benefit from exercise of stock options	-	0.2	-	-	0.2
Currency translation adjustment	-	-	-	(0.4)	(0.4)
Net loss	-	-	(464.4)	-	(464.4)
<hr/>					
Balance at December 31, 1996	===== \$1.0	===== \$93.1	===== (\$350.3)	===== (\$0.1)	===== (\$256.3)

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN MILLIONS)

<TABLE>
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	For the years ended December 31,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net (loss) income	(\$464.4)	(\$48.4)	\$ 61.8
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	56.6	39.2	14.9
Writedown of goodwill and other intangibles	278.5	-	-
Provision (benefit) for deferred income taxes	24.2	(5.2)	6.0
Extraordinary item, net	-	3.3	-
Undistributed earnings of unconsolidated subsidiaries	(0.8)	(1.7)	(10.2)
Distributions from unconsolidated subsidiary	-	3.0	-
Gain from sale of Toy Biz common stock	(22.0)	(14.3)	-
Minority interest in earnings of Toy Biz	11.7	17.4	-
Other	-	(0.5)	(1.7)
Changes in assets and liabilities, net of effect of acquisitions and a previously unconsolidated subsidiary:			
Decrease (increase) in accounts receivable, net	8.1	(7.5)	(79.7)
Decrease (increase) in inventories	2.1	(9.1)	(9.3)
Decrease (increase) in other assets	6.7	(19.3)	(16.9)
(Decrease) increase in accounts payable	(8.3)	14.9	4.3
Increase in accrued expenses and other	4.7	31.7	43.5
Total adjustments	361.5	51.9	(49.1)
Net cash (used in) provided by operating activities	(102.9)	3.5	12.7
Cash flows from investing activities:			
Capital expenditures (including product development and package design costs)	(43.2)	(42.5)	(4.2)
Net proceeds from sale of investment in Toy Biz	35.7	-	-
Acquisition of SkyBox, net of cash and cash equivalents acquired	-	(162.5)	-
Acquisition of Panini, net of cash and cash equivalents acquired	-	-	(133.2)
Other acquisitions, net of cash and cash equivalents acquired	-	(27.5)	(15.6)
Other investing activities	(3.3)	2.0	(5.1)
Net cash used in investing activities	(10.8)	(230.5)	(158.1)
Cash flows from financing activities:			
Net (repayments) borrowings under term portion of credit agreements	(5.3)	184.8	92.3
Net borrowings under revolving portion of credit agreement	47.5	5.0	44.5
Net borrowings under DIP Loan	10.0	-	-
Net borrowings (repayments) under former credit agreement and other debt	27.0	20.2	(9.5)
Net proceeds to Toy Biz from common stock offerings	9.3	44.1	-
Proceeds from exercise of stock options	0.5	8.1	22.0
Debt issuance costs	(3.2)	(9.6)	(2.2)
Other financing activities	(1.0)	0.4	-
Net cash provided by financing activities	84.8	253.0	147.1
Effect of exchange rate changes on cash	0.4	2.0	(0.6)
Cash balance from previously unconsolidated subsidiary	-	7.5	-
Net (decrease) increase in cash	(28.5)	35.5	1.1
Cash, at beginning of period	53.6	18.1	17.0
Cash, at end of period	\$25.1	\$53.6	\$18.1

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

1. BACKGROUND AND BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying consolidated financial statements include the accounts of Marvel Entertainment Group, Inc. ("Marvel") and its subsidiaries (collectively, the "Company"). The consolidated financial statements of the Company include the operations of SkyBox International Inc. and its subsidiaries (collectively, "SkyBox") from the date of its acquisition on April 27, 1995, the operations of Panini S.p.A. and its subsidiaries (collectively, "Panini") from the date of its acquisition on August 31, 1994 and the consolidation of Toy Biz, Inc. and its subsidiaries (collectively "Toy Biz") since its initial public offering on March 2, 1995 (the "Toy Biz IPO") (See Note 4). The Company's operations consist of (i) the publication and sale of comic books and children's magazines, (ii) the manufacture and distribution of sports and entertainment trading cards and children's activity sticker collections, (iii) consumer products, media and advertising-promotion licensing of the various characters owned by the Company, (iv) the design, marketing and distribution of toys and (v) the manufacture and distribution of adhesives and confectionery products. All significant intercompany transactions and accounts have been eliminated in consolidation.

Marvel was incorporated on December 2, 1986, in the State of Delaware. Marvel (Parent) Holdings Inc. ("Parent Holdings"), an indirect wholly owned subsidiary of Andrews Group Incorporated ("Andrews Group"), a wholly owned subsidiary of MacAndrews & Forbes Holdings Inc. ("MacAndrews Holdings"), a corporation wholly owned through Mafco Holdings Inc. ("Mafco" and together with MacAndrews Holdings, "MacAndrews & Forbes") by Ronald O. Perelman, together with additional subsidiaries of Mafco, owned approximately 81.2% of the common stock, par value, \$.01 per share, ("Common Stock") of the Company as of December 31, 1996. See Note 3.

The Company experienced significant operating losses during 1995 and 1996, and failed to satisfy certain financial covenants contained in the Credit Agreements (as defined below, see Note 5) beginning in the Fall of 1996. The Company commenced discussions in the Fall of 1996 with Andrews Group, its indirect parent, regarding an equity infusion in order to provide for the Company's cash requirements and with The Chase Manhattan Bank, agent bank for the Credit Agreements, regarding a restructuring of the Credit Agreements.

On December 27, 1996, Marvel along with certain of its operating and inactive subsidiaries, Fleer Corp. ("Fleer"); SkyBox International, Inc. ("SkyBox"); Marvel Characters, Inc.; Heroes World Distribution, Inc. ("Heroes World"); The Asher Candy Company; Malibu Comics Entertainment, Inc. ("Malibu"); Frank H. Fleer Corp. and Marvel Direct Marketing Inc. (along with Marvel, the "Debtor Companies") filed petitions for relief and a plan of reorganization under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware. Panini S.p.A. ("Panini"), Marvel Restaurant Venture Corp. ("Marvel Restaurants") (a general partner in the Joint Venture developing the Marvel Mania restaurants (each as defined below), see "Business -- Strategic Initiatives -- Marvel Mania") and Toy Biz, Inc. ("Toy Biz"), all of which are active, as well as certain inactive subsidiaries did not file petitions under the Bankruptcy Code.

The Debtor Companies received approval from the Bankruptcy Court to pay on time and in full undisputed pre-petition obligations including salaries, wages and benefits to all of its employees, trade creditors and independent contractors and to continue funding its strategic initiatives. On January 24, 1997 the Bankruptcy Court approved a \$100 debtor-in-possession financing facility (the "DIP Loan"), which is provided by a syndicate of lenders, including The Chase Manhattan Bank, as agent bank, and is available to the Company until June 30, 1997. The DIP Loan is subject to covenants and events of default including a change of control of Marvel (as defined therein). See Note 5.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Sales are recorded upon shipment of products. Sales made on a returnable basis are recorded net of provisions for estimated returns. These estimates are revised, as necessary, to reflect actual experience and market conditions. Subscription revenues generally are collected in advance for a one year subscription and are recognized as income on a

MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

pro-rata basis over the subscription period. Income from licensing of characters owned by the Company is recorded at the time characters are available to the licensee and collection is reasonably assured. Receivables due more than one year beyond the balance sheet date are discounted to their present value.

ADVERTISING EXPENSE

Advertising production costs are expensed when the advertisement is first run. Media advertising costs are expensed on the projected sales method during interim periods. Advertising expense was \$69.0, \$69.2, and \$38.5 in 1996, 1995, and 1994, respectively. The amount of advertising costs included in prepaid expenses and other as of December 31, 1996 and 1995 was \$2.2 and \$2.8, respectively.

ROYALTIES

Minimum guaranteed royalties, as well as royalties in excess of minimum guarantees, are generally expensed as incurred based on sales of related products.

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 amounts 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. The principal areas of judgment relate to provision for returns and other sales allowances, doubtful accounts, the realizability of inventories, goodwill and other intangible asset impairment and pro forma information related to stock options.

INVENTORIES

Inventories are valued at the lower of cost (first-in, first-out (FIFO)) or market.

PROPERTY, PLANT AND EQUIPMENT

All expenditures for additions and improvements to property, plant and equipment are capitalized and normal repairs and maintenance are charged to expense as incurred. Construction-in-progress principally includes machinery and equipment being constructed for the Company by outside vendors under contract.

GOODWILL AND OTHER INTANGIBLES

Goodwill and other intangibles, except goodwill related to the trading card business, are amortized on the straight-line basis principally over 40 years. The Company's accounting policy regarding the assessment of the recoverability of the carrying value of goodwill and other intangibles is to review the carrying value of goodwill and other intangibles if the facts and circumstances suggest that they may be impaired. If this review indicates that goodwill and other intangibles will not be recoverable, as determined based on the undiscounted future cash flows of the Company, the carrying value of goodwill and other intangibles will be reduced to its estimated fair value.

During the fourth quarter of 1996, the Company recorded a noncash write-down to goodwill and other intangibles of approximately \$273.0 that has been classified as amortization of goodwill and other intangibles. Remaining goodwill associated with the Company's trading cards operations is approximately \$110.0, which will be amortized on the straight-line basis over 15 years. See Note 13.

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DEFERRED CHARGES

Deferred charges and other includes deferred debt issue costs, which are mainly costs associated with the Company's credit facilities that are amortized over the remaining term of the related agreements (see Note 5).

TRANSLATION OF FOREIGN CURRENCIES

The financial position and results of operations of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of subsidiaries are translated at the exchange rate in effect at year-end. Income statement accounts and cash flows are translated at the average rate of exchange prevailing during the period. Translation adjustments arising from the use of differing exchange rates are included in the cumulative translation adjustment account in stockholders' equity. Transaction adjustments arising from the use of differing exchange rates, including intercompany account balances, are included in net income.

EARNINGS PER SHARE

Earnings per share have been computed using the weighted average number of common and common equivalent shares for the respective period, except for 1995 and 1996, where the effect of common equivalent shares is antidilutive.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform with the current year presentation.

3. CHAPTER 11 REORGANIZATION

Certain significant and long-term changes in market conditions associated with the Company's publishing and trading cards businesses have significantly and adversely affected the Company's net revenues and operating results in recent periods.

The Company experienced significant operating losses during 1995 and 1996, and failed to satisfy certain financial covenants contained in the Credit Agreements (as defined below, see Note 5) beginning in the Fall of 1996. The Company commenced discussions in the Fall of 1996 with Andrews Group, its indirect parent, regarding an equity infusion in order to provide for the Company's cash requirements and with The Chase Manhattan Bank, agent bank for the Credit Agreements, regarding a restructuring of the Credit Agreements.

On December 27, 1996, the Debtor Companies filed petitions for relief and a plan of reorganization under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. Panini, Marvel Restaurants and Toy Biz, all of which are active, as well as certain inactive subsidiaries did not file petitions under the Bankruptcy Code.

The Plan of Reorganization, filed on December 27, 1996 (as amended, the "Plan"), contemplated that pursuant to the Stock Purchase Agreement dated December 26, 1996, between Andrews Group and Marvel, Andrews Group, or an affiliate thereof, would acquire from Marvel, a number of shares of Common Stock (or its equivalent) that would represent 80.1% of the shares of reorganized Marvel after giving effect to such acquisition, in consideration for \$365 in cash or, at the option of Andrews Group, shares of class A common stock, par value \$.01 per share of Toy Biz (the "Class A Common Stock") or a combination of the foregoing (the "Andrews Investment"). The Plan contemplated that in connection with the Andrews Investment, the Company would acquire the Class A Common Stock not owned by Marvel, Andrews Group or their affiliates pursuant to a Merger Agreement between Andrews Group and Toy Biz and a Stock Purchase Agreement with the two other principal stockholders of Toy Biz. The Plan also contemplated a new \$160 credit facility for Toy Biz to be used for working capital purposes of the Company, including Toy Biz, and to fund the Company's strategic initiatives. See "Business -- Strategic Initiatives." As of

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

March 14, 1997, the Company owned 7,394,000 shares of class B common stock of Toy Biz (the "Class B Common Stock"), representing 26.6% of the equity of Toy Biz, and 78.4% of the voting power relating to Toy Biz. This plan has since been withdrawn as described below.

The Debtor Companies received approval from the Bankruptcy Court to pay on time and in full undisputed pre-petition obligations including salaries, wages and benefits to all of its employees, trade creditors and independent contractors and to continue funding its strategic initiatives. On January 24, 1997 the Bankruptcy Court approved a \$100 DIP Loan, which is provided by a syndicate of lenders, including The Chase Manhattan Bank, as agent bank, and is available to the Company until June 30, 1997. The DIP Loan is subject to covenants and events of default including a change of control of Marvel (as defined therein). See Note 5.

In 1993, Marvel Holdings Inc. ("Marvel Holdings") issued approximately \$517.4 principal amount at maturity of Senior Secured Discount Notes due 1998. In 1993, Parent Holdings issued approximately \$251.7 principal amount at maturity of Senior Secured Discount Notes due 1998 (the "Parent Holdings Notes"). In 1994, Marvel III Holdings Inc. ("Marvel III" and collectively with Marvel Holdings and Parent Holdings, the "Marvel Holding Companies") issued \$125 principal amount of 9-1/8% Senior Secured Notes due 1998 (the "Marvel III Notes"). Marvel Holdings and Parent Holdings have, in the aggregate, pledged 77,302,326 shares of the Company's common stock to secure such notes (the "Pledged Common Stock"), and an additional approximately 2.9 million shares are subject to a negative pledge under the indenture to the notes issued by Marvel Holdings. In addition, Parent Holdings has pledged the common stock of Marvel Holdings to secure the Parent Holding Notes, and Marvel III has pledged the common stock of Parent Holdings to secure the Marvel III Notes (collectively with the Pledged Common Stock, the "Pledged Stock").

On December 27, 1996, the Marvel Holding Companies filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the District of Delaware. The chapter 11 cases commenced by the Marvel Holding Companies have not been procedurally consolidated and are not jointly administered with the Debtor Companies' chapter 11 cases.

On January 9, 1997, the United States Trustee appointed a committee of creditors holding unsecured claims against the Marvel Holding Companies (the "Creditors Committee") under section 1102(a) of the Bankruptcy Code. The members of the Creditors Committee, as originally appointed, include: The Bank of New York, High River Limited Partnership, Westgate International, L.P., Schultz Investments, WHERCO, Inc., M3, LLC and United Equities Commodities Company.

On January 13, 1997, the Creditors Committee filed a motion (the "Stay Relief Motion") in the Holdings Companies' chapter 11 cases seeking (i) relief from the automatic stay to permit LaSalle National Bank, as successor indenture trustee (the "Holding Companies' Trustee"), on behalf of the holders of the notes issued by the Marvel Holding Companies, to foreclose upon, and vote, the Pledged Stock and (ii) dismissal of the Marvel Holding Companies' chapter 11 cases. On February 26, 1997, the Bankruptcy Court entered an order granting relief from the automatic stay to allow the Holding Companies' Trustee to vote and to foreclose upon the Pledged Stock. On February 27, 1997, the Company and the Marvel Holding Companies filed a notice of appeal with respect to such order.

On February 12, 1997, the Office of the United States Trustee appointed a committee of equity security holders of the Debtor Companies under section 1102(a)(1) of the Bankruptcy Code (the "Equity Committee"). The Equity Committee presently consists of: Barclay's Global Investors, Marty Solomon, Robert A. Della Camera, Peter E. Kelly, Jr., Gladys V. Veidemanis and Ronald Cantor.

On March 7, 1997, Andrews Group exercised its right to terminate the Stock Purchase Agreement with the Company. On the same date, Andrews Group informed Toy Biz and the two principal stockholders of Toy Biz that, as a result of the termination of the Andrews Investment, a condition to closing under the Merger Agreement with Toy Biz and the Stock Purchase Agreement would not be satisfied, that Andrews Group did not intend to waive the

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MARVEL ENTERTAINMENT GROUP, INC.
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(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

satisfaction of such condition and therefore the transaction contemplated by such agreements would not be consummated. As a consequence of the termination of the Stock Purchase Agreement, the Plan has been withdrawn.

On March 7, 1997, the Creditors Committee indicated that it would make a proposal whereby the holders of Common Stock (other than Mafco and its

affiliates) and holders of the notes of the Marvel Holding Companies would make a \$365 infusion into the Company as part of a new Plan of Reorganization through a rights offering that would be backstopped by certain members of the Creditors Committee, including an entity controlled by Carl Icahn (the "Icahn Group") (as subsequently amended, the "Committee Proposal"). The Committee Proposal did not specify whether all of the \$365 would be added to the equity of the Company or whether a portion of the proceeds would be used to repay borrowings under the Credit Agreements, and does not contemplate Toy Biz becoming a wholly owned subsidiary of Marvel. The Committee Proposal contemplated that prior to confirmation of any plan of reorganization reflecting the Committee Proposal, the current Board of Directors of the Company would be replaced by designees of the Creditors Committee. Such proposal was subject to further negotiations with the Company and the Company's bank lenders, but an agreement with these entities was never reached.

On March 19, 1997, the Creditors Committee notified the Company that on March 25, 1997 it would cause the Holding Companies' Trustee to vote the Pledged Stock to replace the Board of Directors of the Company and the Holding Companies. On March 24, 1997, the Court in the Debtor Companies' bankruptcy cases issued a restraining order preventing the Creditors Committee and the Holding Companies' Trustee from voting the Pledged Stock or otherwise replacing the Board of Directors of the Company and determined that the Creditors Committee and the Holding Companies' Trustee must comply with the procedural requirements of Section 362 of the Bankruptcy Code to seek relief from the automatic stay to take such action. The Court, however, also ruled that the Creditors Committee and Holding Companies' Trustee could replace the Board of Directors of Marvel Holdings and Parent Holdings. On March 28, 1997, the Creditors Committee and the Holding Companies' Trustee filed a motion to lift the automatic stay in the Debtor Companies' cases in order to permit the Creditors Committee and the Holding Companies' Trustee to replace the Board of Directors of Marvel. A hearing date on such motion has been set for May 14, 1997. On the same date, the Creditors Committee filed an emergency appeal of the restraining order of the Bankruptcy Court issued on March 24, 1997 preventing the replacement of the Board of Directors of Marvel. A briefing schedule has been set for the emergency appeal and a hearing date for such appeal has been set for May 1, 1997.

There can be no assurance that any plan of reorganization under the Bankruptcy Code reflecting the Committee Proposal or a proposal made by any other party will be proposed, or that if a plan is proposed, such plan of reorganization will be confirmed under the Bankruptcy Code.

If the Company is unable to obtain confirmation of a plan of reorganization, its creditors or equity security holders may seek other alternatives for the Company, including bids for the Company or parts thereof through an auction process.

The accompanying consolidated financial statements have been prepared on a going concern basis, which assumes continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. However, as a result of the Chapter 11 filings and circumstances relating to these events, such realization of assets and liquidation of liabilities is subject to significant uncertainty. These conditions raise substantial doubt as to the Company's ability to continue as a going concern.

Although there can be no assurance, the Company believes that borrowings under the DIP Loan and internally generated funds will be sufficient through the date of maturity of the DIP Loan to enable the Debtor Companies to meet their consolidated cash requirements, including debt service. The DIP Loan expires April 30, 1997 and the maturity of the DIP Loan may be extended at the option of Marvel to June 30, 1997. As part of the Plan, a group of lenders had committed to lend \$160 to Toy Biz which could be used by the Company and its subsidiaries, including Toy Biz, to fund working capital and strategic investments and repay borrowings outstanding under the DIP Loan. Such

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commitments have been terminated as a result of the withdrawal of the Andrews Investment and the Plan. In addition the DIP Loan is subject to a number of events of default and conditions of borrowing. In the event borrowings under the DIP Loan become due either upon maturity or an event of default, prior to a plan of reorganization being confirmed under the Bankruptcy Code and consummated, then the Debtor Companies will have to seek one or more alternatives to provide for its cash requirements (including the repayment of borrowings under the DIP Loan), including seeking alternative

debtor-in-possession financing and/or sales of assets and/or sales of one or more of the Company's businesses. Although there can be no assurance, the Company believes that its Panini subsidiary should be able to meet its cash requirements, including for debt service and repayment, from permissible advances by Marvel of borrowings under the DIP Loan, local borrowings and internally generated funds. The Company anticipates that internally generated funds of Toy Biz and borrowings under Toy Biz's credit agreement will be sufficient to enable Toy Biz to meet its cash requirements, including debt service, for the foreseeable future. See Note 5.

As part of the chapter 11 process, the Debtor Companies have received a significant amount of proofs of claims. The Company is currently in the process of reviewing these claims and have found that a majority of these claims are without merit. Although the Company feels that reserves as of December 31, 1996 are adequate to cover the ultimate liability of these claims, there can be no assurances that these claims will not be settled for amounts in excess of these reserves.

Financial accounting and reporting during a Chapter 11 proceeding is prescribed in Statement of Position No. 90-7, "Financial Reporting by Entities in Reorganization Under Bankruptcy Code" ("SOP 90-7"). Accordingly, certain pre-petition obligations, which may be subject to settlement, have been classified as obligations subject to Chapter 11 reorganization proceedings and include the following estimated amounts at December 31, 1996:

Total accrued expenses	\$14.7
	=====
Debt:	
U.S. Term Loan Agreement	\$350.0
Amended and Restated Credit Agreement	120.0
Additional Revolving Credit Facility	15.0

Total debt	485.0
Other long-term liabilities	3.5

Total long-term liabilities	\$488.5
	=====

Total bankruptcy reorganization items of \$5.5 for the year ended December 31, 1996 include professional charges and other costs typical to those incurred by entities in bankruptcy.

4. TOY BIZ COMMON STOCK OFFERINGS

On March 2, 1995, Toy Biz, completed the Toy Biz IPO in which it issued and sold 2,750,000 shares of Class A Common Stock at \$18 per share. As part of the Toy Biz IPO, a stockholder sold 700,000 shares of Class A Common Stock at \$18 per share. The net proceeds to Toy Biz, after deducting commissions and offering expenses, of \$44.1 were used to pay outstanding amounts due under subordinated notes held by the Company and the sole stockholder of the predecessor to Toy Biz and for working capital and general corporate purposes. In 1995, the Company recorded a gain of \$14.3 on the Toy Biz IPO in recognition of the net increase in value of the Company's investment in Toy Biz. In August 1996, Toy Biz sold in an offering 700,000 shares of its Class A Common Stock at a price to the public of \$15 per share. As part of the Toy Biz offering, the Company sold 2.5 million shares of its Toy Biz Class A Common Stock. In the third quarter of 1996, the Company recorded a gain on the sale of this common stock of approximately \$22.0. The net proceeds to Toy Biz and the Company were approximately \$9.3 and \$35.7, respectively, after deducting amounts accrued for fees and expenses.

In conjunction with the Toy Biz IPO, the Company's equity ownership percentage of Toy Biz decreased to 36.6% and its voting control increased to 85.3% and, as a result of the increase in voting control, the consolidated

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financial statements of the Company include the result of operations, financial position and cash flows of Toy Biz. For periods prior to the Toy Biz IPO, Toy Biz was accounted for under the equity method. As a result of the Company's sale of Class A Common Stock of Toy Biz in August 1996, the Company's ownership percentage of Toy Biz decreased to 26.6% and its voting control decreased to 78.4%.

In connection with the Toy Biz IPO, Marvel, Mr. Perlmutter, certain

affiliates of Mr. Perlmutter, Mr. Arad and Toy Biz entered into a stockholders' agreement (the "Stockholders' Agreement"). The Stockholders' Agreement provides that , upon a change of control of Marvel, Marvel is obligated to convert its shares of Class B Common Stock into Class A Common Stock, unless Mr. Perlmutter and Mr. Arad consent to such shares remaining Class B Common Stock. In such an event the Company would cease to consolidate Toy Biz's results in the consolidated financial statements of the Company.

5. SHORT-TERM BORROWINGS AND DEBT

Under credit arrangements for short-term borrowings arranged with a group of banks, Panini may borrow up to Italian Lire 69.5 billion (approximately \$45.4 based on exchange rates at December 31, 1996) on such terms as Panini and the banks may mutually agree upon. These arrangements generally do not have termination dates but are reviewed annually for renewal. At December 31, 1996, the unused portion of the credit lines was Italian Lire 12.4 billion (approximately \$8.1 based on exchange rates at December 31, 1996). The weighted average interest rate on short-term borrowings as of December 31, 1996 was 6.3%.

The Company experienced significant operating losses during 1996 and failed to satisfy certain financial covenants contained in the Credit Agreements (as defined below). In addition, the filing of petitions for relief under chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware by the Debtor Companies is an event of default under the Credit Agreements (as defined below).

At the time that the Debtor Companies commenced their reorganization cases, they anticipated that their financing needs would be satisfied through a working capital facility extended by a group of financial institutions. Prior to the Petition Date, the Debtor Companies undertook to arrange such financing through different financial institutions and selected Chase Securities Inc. to arrange such financing. No principal payments on the pre-petition debt of the Debtor Companies will be made without the approval from the Bankruptcy Court or until a plan of reorganization defining the repayment terms has been confirmed. The Debtor Companies received approval from the Bankruptcy Court to pay, on time and in full, interest on the pre-petition debt of the Debtor Companies calculated at the applicable non-default rate or rates provided for pursuant to the Credit Agreements (as defined below).

On the Petition Date, the Bankruptcy Court approved the DIP Loan dated as of December 27, 1996, among the Company, as borrower, the other Debtor Companies, as guarantors, and The Chase Manhattan Bank, as lender, on an interim basis and authorized the Company to borrow up to \$20 thereunder based upon the anticipated cash needs of the Company for a specified period pending a final hearing thereon.

On January 24, 1997, the Bankruptcy Court entered an order (the "DIP Order") approving the DIP Loan, as amended by the parties thereto to incorporate resolutions to issues articulated by the Bankruptcy Court at the final hearing to consider approval of the DIP Loan. The DIP Order authorized the Company to incur obligations under the DIP Loan not exceeding the commitment amount of \$100. The DIP Loan is scheduled to expire 120 days from the Petition Date (extendible at Marvel's option in the absence of default) and the date of the occurrence of certain specified events.

The liens securing the DIP Loan prime the liens securing the Credit Agreements (as defined below). The DIP Loan is necessary to the successful prosecution of the reorganization cases and confirmation of a plan of reorganization. Loans under the DIP Loan bear interest at a rate per annum equal to the one month Eurodollar Rate rounded upwards to the next 1/16 of 1% (as defined in the DIP Loan) , or Alternate Base Rate (as defined in the DIP Loan) plus the Applicable Margin of 2 1/2% with respect to Eurodollar Loans and 1 1/2% with respect with Alternate Base Rate loans. The interest rate on Alternate Base Rate Loans at December 31, 1996, was 9.75%. Interest on Eurodollar Rate Loans is payable at the end of the applicable interest period, and interest on Alternate Base Rate Loans is payable monthly in arrears. As of December 31, 1996, \$10.0 was borrowed under this facility. At March 28, 1997, amounts available to borrow under this facility, net of amounts reserved under letters of credit, were \$43.1.

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In connection with the Credit Agreements, each of the Debtor Companies executed security agreements and other collateral documents under which such

Debtor Companies granted the lenders under the Credit Agreements security interests, liens, and mortgages in all or substantially all of their respective properties and interests in property as collateral security for the payment and performance of the obligations owing to such lenders. As at the Petition Date, such lenders asserted liens against, and claimed an entitlement to adequate protection of their liens on such properties and interest in property.

The DIP Loan includes various restrictive covenants prohibiting the Company from, among other things, incurring additional indebtedness, with certain limited exceptions, making investments, except for certain limited exceptions, including for the Company's strategic initiatives, and making dividend, redemption and certain other payments on its capital stock. The DIP Loan also contains certain customary financial covenants and events of default for financing of this type, including a change of control covenant and an event of default if the royalty free license from Marvel to Toy Biz is rejected in the Company's bankruptcy proceedings.

In connection with approval of the DIP Loan and entry of the DIP Order, the Debtor Companies consented to a grant of adequate protection to the holders of Senior Secured Claims in consideration for the right to use cash collateral and obtain post-petition financing under sections 363 and 364 of the Bankruptcy Code. Under the DIP Order, the holders of Senior Secured Claims (as defined in the DIP Order) were granted the following consideration as adequate protection to the extent of any diminution in the value of their collateral: (i) a priority claim as contemplated by section 507(b) of the Bankruptcy Code, (ii) periodic cash payments in an amount equal to current interest at the applicable non-default rate or rates provided for pursuant to the Credit Agreements and accrued letter of credit fees calculated at the rate or rates provided for in the Credit Agreements, and (iii) a lien on the properties and interests in property of Marvel and the guarantors of the Credit Agreements (including the capital stock of Toy Biz owned by Marvel), which lien shall have a priority junior to the priming and other liens to be granted in favor of The Chase Manhattan Bank under the DIP Loan.

Debt consists of the following:

	December 31, 1996	December 31, 1995
	-----	-----
U.S. Term Loan Agreement-----	\$ 350.0	\$ 350.0
Amended and Restated Credit Agreement-----	120.0	87.5
Additional Revolving Credit Facility-----	15.0	-
Term Loan Agreement-----	139.3	139.5
Other long term debt-----	16.3	9.5
	-----	-----
Subtotal-----	640.6	586.5
Less amount reclassified*-----	(485.0)	-
Less current maturities-----	(10.6)	(5.2)
	-----	-----
Long-term debt-----	\$ 145.0	\$ 581.3
	=====	=====

* - Amounts as of December 31, 1996 have been reclassified to "Liabilities subject to settlement under reorganization" in accordance with bankruptcy reporting prescribed by Statement 90-7. See Note 3.

On December 20, 1996, the banks and financial institutions that were parties to the Credit Agreements entered into a Standstill Agreement and Amendment (the "Standstill Agreement") which grants the Company the right, for any outstanding loans under the Credit Agreements to remain as either Eurodollar or Eurocurrency Loans during the Standstill Period (as defined below). The Standstill Agreement also provides that the commitments under the Credit Agreements will not automatically terminate or be accelerated upon the commencement of the reorganization cases but rather will be suspended and reinstated upon confirmation of the Plan. Unless a payment default is continuing or certain other termination events are triggered, each lender under the Credit Agreements will agree not to exercise any remedies against any subsidiary of the Company which is not one of the Debtor Companies during the Standstill Period. Each lender under the Credit Agreements agreed not to transfer such Claim

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to any entity that does not agree to be bound by the Standstill Agreement or support the Plan. Pursuant to the Standstill Agreement, the lenders under the Credit Agreements will permit the loans outstanding thereunder to be

outstanding as Eurodollar Loans (or the equivalent) during the Standstill Period provided that, in the event that the interest period for any such Eurodollar Loans is longer than one month, such interest period shall have a scheduled expiry on or prior to June 30, 1997. The Standstill Period is the period commencing on December 27, 1996 and ending on June 30, 1997 (or, sooner, if a Final Order is entered confirming the Plan prior to such date or a payment default occurs).

The Company's indebtedness is principally represented by the outstanding balance under the U.S. Term Loan Agreement, as defined below, the Amended and Restated Credit Agreement effective August 30, 1994 between the Company, a syndicate of banks, the Co-Agents and The Chase Manhattan Bank, as administrative agent (the "Amended and Restated Credit Agreement"), and the outstanding balance of the Term Loan Agreement, as defined below. The Applicable Margin under the Amended and Restated Credit Agreement for Alternate Base Rate loans is 2% and for Eurodollar Rate loans is 3%. The interest rate on Eurodollar Rate Loans at December 31, 1996 was approximately 8-17/32% to 8-7/8% per annum, depending upon the length of the relevant interest period.

In April 1995, the Company entered into a \$350.0 term loan agreement with a syndicate of banks, the Co-Agents and The Chase Manhattan Bank, as administrative agent (the "U.S. Term Loan Agreement"). Loans under the U.S. Term Loan Agreement bear interest at a rate per annum equal to the Eurodollar Rate (as defined in the U.S. Term Loan Agreement), or the Alternate Base Rate (as defined in the U.S. Term Loan Agreement) plus, in each case, the Applicable Margin (as defined in this paragraph). Eurodollar Rate Loans will, at the option of the Company, have interest periods of one, two, three or six months. Applicable Margin means (a) with respect to Eurodollar Rate loans, 3% and (b) with respect to Alternate Base Rate loans, 2%. The interest rate on Eurodollar Rate Loans at December 31, 1996, was approximately 8 19/32% to 8 11/16% depending upon the length of the relevant interest period. Interest on Alternate Base Rate Loans is payable quarterly in arrears, and interest on Eurodollar Rate Loans is payable at the end of the applicable interest period, except that if the interest period is six months, interest is payable ninety days after the commencement of the interest period and at the end of the interest period.

On August 30, 1994, the Company, Marvel Italia Srl (now Panini S.p.A.) and Istituto Bancario San Paolo Di Torino S.p.A. (the "Lender"), entered into a term loan and guarantee agreement (the "Term Loan Agreement") providing for a term loan credit facility of Italian Lire 244.5 billion (approximately \$154.0 based on exchange rates in effect on the date of acquisition) (the "Term Loan Facility").

The Term Loan Facility bears interest at a rate per annum equal to the Eurocurrency Rate (as defined in the Term Loan Agreement) or, in certain limited circumstances, the Negotiated Rate (as defined in the Term Loan Agreement), in each case plus the Applicable Margin (as defined in this paragraph). Eurocurrency Rate Loans have, at the option of Panini, interest periods of one, two, three or six months. Applicable Margin means (a) with respect to Eurocurrency Loans 3% and (b) with respect to Negotiated Rate Loans, 2%. The interest rate on Eurocurrency Rate Loans at December 31, 1996, was approximately 10 5/32%. Interest on Negotiated Rate Loans is payable quarterly in arrears and interest on Eurocurrency Rate Loans is payable at the end of the applicable interest period, except that if the interest period is six months, interest is payable ninety days after the commencement of the interest period and at the end of the interest period.

The U.S. Term Loan Agreement (through incorporation by reference to the Amended and Restated Credit Agreement), the Amended and Restated Credit Agreement and the Term Loan Agreement include various restrictive covenants prohibiting the Company from, among other things, incurring additional indebtedness, with certain limited exceptions, and making dividend, redemption and certain other payments on its capital stock. The U.S. Term Loan Agreement, the Amended and Restated Credit Agreement and the Term Loan Agreement also contain certain customary financial covenants and events of default for financing of this type, including a change of control covenant. Mandatory prepayments are required to be made out of net proceeds from sales of assets by the Company, with certain exceptions, and from certain excess cash flow (as defined in the Amended and Restated Credit Agreement).

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During March 1996 and August 1996, the Company amended the U.S. Term Loan Agreement, the Amended and Restated Credit Agreement and the Term Loan

Agreement to, among other things: (1) provide for an additional \$25.0 revolving credit facility which was subsequently reduced to \$15.0; (2) secure the borrowings with substantially all of the Company's domestic assets, other than the Company's investment in common stock of Toy Biz, and all of the capital stock of the Company's domestic subsidiaries and 65% of the capital stock of the Company's first tier foreign subsidiaries; and (3) amend certain financial covenants. The additional revolving credit facility is pari passu with the loans extended by the banks pursuant to the Company's existing loan agreements (collectively with the U.S. Term Loan Agreement, the Amended and Restated Credit Agreement, the additional revolving credit facility, the additional revolving credit facility and the Term Loan Agreement, the "Credit Agreements"). The additional revolving credit facility bears interest at a rate per annum equal to the Eurodollar Rate (as defined in the Term Loan Agreement), plus 2 3/4%, or the Alternate Base Rate (as defined in the Term Loan Agreement) plus 1 3/4%. The interest rate on the additional revolving credit facility at December 31, 1996 was 8.5%.

In conjunction with the Toy Biz IPO, Toy Biz entered into a three year \$30.0 revolving line of credit with a syndicate of banks for which The Chase Manhattan Bank serves as administrative agent. Substantially all of the assets of Toy Biz have been pledged to secure borrowings under the Toy Biz credit facility. Borrowings under the credit facility bear interest at either The Chase Manhattan Bank's alternate base rate or at the Eurodollar rate plus, in each case, the applicable margin. The applicable margin is 1% unless Toy Biz meets specific financial operating levels, in which case the applicable margin decreases to 3/4 of 1%. The credit facility requires Toy Biz to pay a commitment fee of 3/8 of 1% per annum on the average daily unused portion of the credit facility.

The Toy Biz credit facility contains various financial covenants, as well as restrictions, on the incurrence of new indebtedness, prepaying or amending subordinated debt, acquisitions and similar investments, the sale or transfer of assets, capital expenditures, limitations on restricted payments, dividends, issuing guarantees and creating liens. The credit facility also requires that (a) the Company control Toy Biz and (b) that the exclusive, royalty free perpetual worldwide license agreement between Toy Biz and the Company remain in effect. The Toy Biz credit facility is not guaranteed by the Company.

The average cost of borrowings for the U.S. Term Loan Agreement, the Amended and Restated Credit Agreement and the Term Loan Agreement was approximately 8.83% for the year ended December 31, 1996. The average cost of borrowings for the U.S. Term Loan Agreement, the Amended and Restated Credit Agreement and the Term Loan Agreement was approximately 8 7/8% for the year ended December 31, 1995. The average cost of borrowings for the Amended and Restated Credit Facility for the year ended December 31, 1994 was 5.6% , and the average cost of borrowings for the Term Loan Agreement was 9 1/2 % for the four months ended December 31, 1994.

The average cost of borrowings for the Toy Biz credit facility was approximately 8 1/4% and 8 1/2% for the years ended December 31, 1996 and 1995, respectively.

Interest expense was \$60.8, \$47.1, and \$19.1 in 1996, 1995, and 1994, respectively. Interest paid was \$60.6, \$42.7, and \$18.1 in 1996, 1995, and 1994, respectively. The revolving credit portion of the Amended and Restated Credit Agreement at December 31, 1996 was fully drawn. The Amended and Restated Credit Agreement requires the Company to pay a commitment fee of 1/4 to 3/8 of 1% per annum on the unused portion.

Due to the extenuating circumstances involving the Credit Facilities and other debt as a result of the chapter 11 filings, it is not practicable to estimate the fair value of these obligations as of December 31, 1996.

Financing charges of \$21.2 were incurred in connection with the Company's credit facilities which were deferred and are being amortized over the remaining term of the respective facilities.

On February 27, 1997, the Bankruptcy Court entered an order lifting the automatic stay in the chapter 11 cases of the Marvel Holding Companies. On March 19, 1997, the Creditors Committee notified the Company that

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on March 25, 1997 it would cause the Holding Companies' Trustee to vote the

Pledged Stock to replace the Board of Directors of the Company and the Holding Companies. On March 24, 1997, the Court in the Debtor Companies' Bankruptcy cases issued a restraining order preventing the Creditors Committee and the Holding Companies' Trustee from voting the Pledged Stock or otherwise replacing the Board of Directors of the Company. On March 28, 1997, the Creditors Committee and the Holding Companies' Trustee filed a motion with the Bankruptcy Court seeking a lifting of the automatic stay in the Debtors Companies' cases in order to permit the Creditors Committee and the Holding Companies' Trustee to replace the Board of Marvel. A hearing date on such motion has been set for May 14, 1997. On the same date, the Creditors Committee filed an emergency appeal of the restraining order of the Bankruptcy Court issued on March 24, 1997 preventing the replacement of the Board of Directors of Marvel. A briefing schedule has been set for the emergency appeal and a hearing date for such appeal has been set for May 1, 1997. If the Holding Companies' Trustee were to among other things, vote the Pledged Stock to replace the Board of Directors of Marvel, such action would likely be a change of control of Marvel and therefore a default under, among other agreements, the DIP Loan.

The scheduled aggregate maturities of the Company's long term debt, not subject to settlement under reorganization, per the underlying credit agreements that support each debt facility are as follows:

	For the Years Ending December 31,

1997-----	\$ 10.6
1998-----	17.2
1999-----	27.8
2000-----	56.5
2001-----	43.5
2002 and thereafter-----	-

	\$ 155.6
	=====

The scheduled aggregate maturities of the Company's long term debt which is subject to settlement under reorganization per the underlying credit agreements that support each debt facility are as follows:

	For the Years Ending December 31,

1997-----	\$ 15.0
1998-----	-
1999-----	57.5
2000-----	125.0
2001-----	187.5
2002 and thereafter-----	100.0

	\$ 485.0
	=====

6. EMPLOYEE BENEFIT PLANS

SAVINGS PLANS

The Marvel Entertainment Group, Inc. Savings and Investment Plan is a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended, covering all full-time non-union salaried and hourly employees who have at least one year of service and matches contributions by employees in an amount equal to 100% of the first 3% of eligible compensation contributed and 25% of the next 3% of eligible compensation contributed, up to a maximum of 3.75% of the employees' compensation. In addition, Toy Biz has a 401(k) Profit Sharing Plan and Trust that covers all employees of Toy Biz over the age of twenty who have been employed by Toy Biz for at least six months. Toy Biz matches contributions by employees in an amount equal to 20% of that employee's contribution that does not exceed 6% of the employee's compensation for that period. The provisions for contributions under these plans were \$.5 in 1996, 1995 and 1994.

PENSION PLANS AND POSTRETIREMENT BENEFITS

Fleer and SkyBox have noncontributory defined benefit pension plans for salaried employees. Effective as of September 1, 1996, such pension plans were merged with Fleer becoming the plan sponsor. The benefits are based on the employee's years of service and highest five years of compensation. Contributions are intended to provide for benefits attributed to service to date and for those expected to be earned in the future. Employees are eligible to participate in the pension plan after two years of service at which time they are fully vested. The projected benefit obligation was \$17.7 and \$17.9 and plan assets were approximately \$14.5 and \$15.0 at December 31, 1996 and 1995,

respectively. Pension expense for all periods was insignificant.

Fleer has a postretirement medical and life insurance plan for salaried employees who retire after the age of 62. The Company accounts for these benefits in accordance with Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions". Benefits include postretirement coverage of medical insurance for the life of the retiree and spouse. The plan has only a limited number of participants. The Company's policy is to fund postretirement benefit costs as payments are made to participants. At December 31, 1996, 1995 and 1994, and for the years then ended, the postretirement benefit obligation and expense were insignificant.

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STOCK OPTION PLAN

Under the terms of the Marvel Entertainment Group, Inc. Amended and Restated Stock Option Plan (the "Stock Option Plan"), incentive stock options ("ISOs"), non-qualified stock options ("NQSOs") and stock appreciation rights ("SARs") may be granted to key employees of, or consultants to, the Company and any of its affiliates from time to time. In May 1995, the Company was authorized to increase the aggregate number of shares of Common Stock as to which options and rights may be granted under the Stock Option Plan from 11,000,000 to 16,000,000 shares, including options described below.

Information with respect to options under the Stock Option Plan follows:

<TABLE>
<CAPTION>

	Shares	Option price per share	Weighted Average Exercise Price
<S>	<C>	<C>	<C>
Outstanding at January 1, 1994-----	9,120,333	\$ 2.0625 - \$26.75	
Canceled-----	(10,001)	\$ 2.0625 - \$14.50	
Exercised-----	(3,012,732)	\$ 2.0625 - \$14.50	
Granted-----	1,975,000	\$ 13.6875 - \$18.50	
Outstanding at December 31, 1994-----	8,072,600	\$ 2.0625 - \$26.75	
Exercised-----	(1,046,940)	\$ 2.0625 - \$14.50	
Canceled-----	(1,267,002)	\$ 2.0625 - \$17.625	
Granted-----	2,200,000	\$ 14.25 - \$15.50	
Outstanding at December 31, 1995-----	7,958,658	\$ 2.0625 - \$26.75	
Exercised-----	(106,993)	\$ 2.0625 - \$7.75	\$11.945
Canceled-----	(1,128,668)	\$ 2.0625 - \$26.75	\$15.658
Granted-----	1,745,000	\$ 5.00 - \$12.625	\$9.850
Outstanding at December 31, 1996-----	8,467,997	\$ 2.0625 - \$16.75	

</TABLE>

At December 31, 1996, 6,078,867 shares (6,656,000 shares at December 31, 1995) were exercisable and 1,722,343 shares (1,732,000 shares at December 31, 1995) were available for future grants of options and rights. The weighted average fair value of options granted under the Stock Option Plan during 1996 was \$.67 per share.

<TABLE>
<CAPTION>

Ranges of Exercise Prices	Options Outstanding		Options Exercisable	
	Number Outstanding at December 31, 1996	Weighted Average Remaining Contractual Life	Number Exercisable at December 31, 1996	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>
\$2.00-\$5.00	1,546,000	5.4	1,296,000	\$2.06
\$5.01-\$10.00	3,468,300	6.7	3,067,500	\$8.90
\$10.01-\$15.00	2,973,700	8.3	1,502,033	\$13.99

\$15.01-\$20.00	479,997	8.2	\$16.26	213,334	\$16.04
	-----			-----	
	8,467,997	7.1	\$9.83	6,078,867	\$9.83
	=====			=====	

</TABLE>

Toy Biz's 1995 Stock Option Plan provides for the issuance of stock options ("Toy Biz Options") and SARs for up to 1,350,000 shares of Class A Common Stock at a fair market value at the time of grant. One-third of the Toy Biz Options become exercisable at the date of grant (the "Grant Date"), and the balance of the Toy Biz Options become exercisable in equal increments on the first and second anniversaries of the Grant Date. At December 31, 1996 and 1995, Toy Biz Options for 691,211 and 329,187, respectively were exercisable. As of December 31,

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1996, no SARs have been granted and Toy Biz Options with respect to 186,321 shares of Class A Common Stock are available for future grant. The weighted average fair value of Toy Biz Options granted during 1995 and 1996 were \$6.85 per share and \$6.15 per share, respectively.

Information with respect to options under Toy Biz's 1995 Stock Option Plan follows:

	Shares	Weighted Average
	-----	Exercise Price

Outstanding at January 1, 1995	--	--
Forfeited	(33,268)	\$18.000
Exercised	(20,130)	\$18.000
Granted	1,049,000	\$18.173

Outstanding at December 31, 1995	995,602	\$18.183
Exercised	(22,664)	\$18.000
Forfeited	(47,303)	\$18.119
Granted	195,250	\$17.111

Outstanding at December 31, 1996	1,120,885	\$18.002
	=====	

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on date of grant, no compensation expense is recognized. The Company has adopted the disclosure-only provisions under FASB Statement No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"). For the purposes of SFAS 123 pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	1996	1995
	-----	-----
Net loss, as reported	(\$464.4)	(\$48.4)
Pro Forma net loss	(\$470.4)	(\$52.0)
Pro Forma net loss per share	(\$4.62)	(\$0.51)
	=====	=====

The fair value for each option grant under the Stock Option Plan was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the various grants made during 1995 and 1996: risk free interest rates ranging from 5.40% to 6.53%; no dividend yield; expected volatility ranging from .466 to .487 and expected life of three years. The fair value for each option grant under Toy Biz's 1995 Stock Option Plan was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the various grants made during 1995 and 1996: risk free interest rates ranging from 5.26% to 7.19%; no dividend yield; expected volatility of .354 and expected lives of three to five years. The option valuation models were developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, the option valuation models require

the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The value of the options granted under the Stock Option Plan is directly related to the value of the Common Stock. The closing sale prices for Common Stock and Class A Common Stock as of March 27, 1997 were \$2.50 per share and \$9.25 per share, respectively. Presently, there is no plan of reorganization. There can be no assurances

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that the holders of equity interests of Marvel will receive any consideration for such equity interests under any plan of reorganization.

7. INCOME TAXES

The Company, with the exception of Toy Biz, is included in the consolidated federal income tax return, and in some cases the state income tax returns, of Mafco and its subsidiaries. Toy Biz files separate federal and state income tax returns. For all periods presented, federal and state income taxes are provided as if the Company filed its own income tax returns.

The Company records income taxes using a liability approach for financial accounting and reporting which results in the recognition and measurement of deferred tax assets based on the likelihood of realization of tax benefits in future years.

Since May 19, 1993, the Company has been operating under a tax sharing agreement with Mafco or an affiliate of Mafco which provides that federal income taxes be paid as if the Company were a separate taxpayer. The Company filed separate federal income tax returns for the periods July 23, 1991 (the date of the initial public offering) through May 18, 1993. Federal income taxes paid to Mafco affiliates were \$0.1 and \$13.6 in 1995 and 1994, respectively. Refunds received from Mafco affiliates were \$17.1 in 1996 relating to prior years. Total income taxes paid (refunded), including the payments to and from Mafco affiliates, were \$(6.1), \$16.5 and \$15.9 in 1996, 1995 and 1994, respectively.

Components of the provision for income taxes consisted of the following:

<TABLE>
 <CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Income (loss) before provision for taxes:			
Domestic.....	\$ (421.2)	\$ (56.6)	\$ 92.7
Foreign.....	(9.8)	34.6	11.6
	-----	-----	-----
	\$ (431.0)	\$ (22.0)	\$ 104.3
	=====	=====	=====
Provision (Benefit) for income taxes:			
Current:			
Federal.....	\$ (5.0)	\$ (0.1)	\$ 25.9
State and local.....	2.9	2.9	5.7
Foreign.....	(0.4)	8.1	4.3
	-----	-----	-----
	(2.5)	10.9	35.9
	-----	-----	-----
Deferred:			
Federal.....	22.8	(12.9)	3.2
State and local.....	4.2	1.0	1.7
Foreign.....	(2.8)	6.7	1.7
	-----	-----	-----
	24.2	(5.2)	6.6

-----	-----	-----
\$ 21.7	\$ 5.7	\$ 42.5
=====	=====	=====

</TABLE>

During 1996, the Company recorded a valuation allowance against its domestic and certain foreign deferred tax assets as management determined that it was not more likely than not that such assets would be realized in the future.

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A portion of the deferred foreign tax provision for the year ended December 31, 1994 has been recorded as a credit to goodwill.

Deferred taxes result from temporary differences in the recognition of income and expenses for financial and income tax reporting purposes and differences between the fair value of assets acquired in business combinations accounted for as purchases and their tax bases. The approximate effect of temporary differences that gave rise to deferred tax balances at December 31, 1996 and 1995, were as follows:

<TABLE>
<CAPTION>

	1996	1995
	-----	-----
<S>	<C>	<C>
Deferred tax assets:		
Accounts receivable.....	\$3.5	\$5.2
Inventory.....	13.6	2.8
Sales returns reserves.....	21.7	35.2
Restructuring reserves.....	22.4	10.4
Reserve related to foreign investments.....	7.5	7.3
Net operating loss carryforwards.....	61.4	18.1
Tax credit carry forwards.....	4.7	-
Other.....	11.2	4.6
	-----	-----
Total gross deferred tax assets.....	146.0	83.6
Less valuation allowance.....	(112.5)	(17.4)
	-----	-----
Net deferred tax assets.....	33.5	66.2
	-----	-----
Deferred tax liabilities:		
Equity investments.....	3.4	8.6
Depreciation/ amortization.....	20.9	14.3
Licensing income.....	6.6	14.4
Other.....	2.5	1.2
	-----	-----
Total gross deferred tax liabilities.....	33.4	38.5
	-----	-----
Net deferred tax asset.....	\$ 0.1	\$ 27.7
	=====	=====

</TABLE>

The total valuation allowance for 1996 and 1995 includes \$12.8, which if realized, will be accounted for as a reduction of goodwill.

The income tax on (loss) income before provision for income taxes, minority interest and extraordinary item varies from the current statutory federal income tax as follows:

<TABLE>
<CAPTION>

	For the years ended December 31,		
	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Statutory rate.....	(35.0)%	(35.0)%	35.0%
State and local taxes, net.....	(2.2)	16.0	4.6
Non-deductible amortization expense.....	21.5	17.5	2.4
Dividends received deduction.....	-	-	(2.3)
Foreign taxes.....	(0.8)	18.8	0.7
Increase in Valuation Allowance.....	21.6	-	-

Other.....	(0.1)	8.6	0.3
Total provision for income taxes.....	5.0%	25.9%	40.7%

</TABLE>

The Company has not provided for taxes on undistributed foreign earnings of approximately \$3.9, \$26.0 and \$6.0 at December 31, 1996, 1995 and 1994, respectively as the Company intends to permanently reinvest these earnings in the future growth of the business. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

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At December 31, 1996, the Company had available under the tax sharing agreement a federal net operating loss carry forward of approximately \$95 million. In addition, at December 31, 1996 the Company has foreign net operating loss carry forwards in various foreign tax jurisdictions.

In the event that the stock ownership in Marvel by members of the Mafco affiliated group were to decline below 80% (measured by vote or value), Marvel and its subsidiaries would cease to be members of the Mafco affiliated group at such time for tax purposes (a "deconsolidation"). A deconsolidation would occur, if among other things, the Holding Companies' Trustee were to foreclose on the Pledged Stock or the Holding Companies' Trustee were to seek to exercise certain remedies under the indentures pursuant to which the Marvel Holding Companies issued their respective notes, such as the right to exercise all voting rights with respect to the Pledged Stock.

In the event of a deconsolidation, net operating losses ("NOLs") incurred by the Company through the date of such deconsolidation, to the extent absorbed by the Mafco affiliated group pursuant to the federal income tax laws, in Mafco's consolidated federal income tax return for the taxable year in which the deconsolidation occurs (or prior taxable years), would not be available to offset the taxable income of the Company subsequent to such deconsolidation.

8. DETAIL OF CERTAIN BALANCE SHEET ACCOUNTS

ACCOUNTS RECEIVABLE, NET:

<TABLE>		
<CAPTION>		
	1996	1995
	-----	-----
<S>	<C>	<C>
Accounts receivable	\$ 275.3	\$ 314.6
Less: Allowances.....	(46.2)	(77.9)
	-----	-----
	\$ 229.1	\$ 236.7
	=====	=====

</TABLE>

The allowance as of December 31, 1995 includes provisions recorded by the Company in the fourth quarter of 1995 in connection with the discontinuance of certain mass market points of distribution for the trading card business for which there were no similar provisions of such magnitude in 1996.

The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Receivables generally are due within 30-90 days. At December 31, 1996, the Company did not have any significant concentrations of credit risk.

INVENTORIES:

<TABLE>		
<CAPTION>		
	1996	1995
	-----	-----
<S>	<C>	<C>
Finished goods-----	\$ 69.4	\$ 58.8
Work in process-----	16.3	22.3
Raw materials-----	22.0	23.7
Less: Reserve for obsolescence-----	(29.6)	(22.4)

\$ 78.1	\$ 82.4
---------	---------

</TABLE>

The increase in the reserve for obsolescence is primarily due to the increased provisions recorded by the Company for the trading card business.

PROPERTY, PLANT AND EQUIPMENT (AT COST), NET:

Depreciation and amortization of property, plant and equipment are provided on the straight-line basis over the estimated asset lives indicated below.

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<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Land and buildings (20 to 33 years for buildings)-----	\$ 35.5	\$ 31.5
Machinery and equipment (3 to 10 years)-----	65.1	54.1
Furniture and fixtures (5 to 10 years)-----	6.2	6.0
Leasehold improvements and other (3 to 10 years)-----	2.5	2.6
Construction-in-progress-----	1.8	0.2
	111.1	94.4
Less: Accumulated depreciation and amortization-----	(31.6)	(23.1)
	\$ 79.5	\$ 71.3

</TABLE>

Depreciation and amortization was \$19.1, \$13.3 and \$2.8 in 1996, 1995 and 1994, respectively. This increase primarily resulted from an increased investment in product tooling to support Toy Biz's expanded product line.

GOODWILL AND OTHER INTANGIBLES, NET:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Goodwill and other intangibles-----	\$ 376.1	\$ 645.7
Less: Accumulated amortization-----	(58.5)	(41.7)
	\$ 317.6	\$604.0

</TABLE>

Amortization was \$16.8, \$15.0 and \$8.9 in 1996, 1995 and 1994, respectively.

ACCRUED EXPENSES AND OTHER:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Royalties and incentives-----	\$ 23.0	\$ 21.4
Reserve for returns-----	51.2	59.0
Income taxes payable-----	10.9	19.7
Other-----	104.3	94.7
Less amounts reclassified to liabilities subject to settlement under reorganization (See Note 3)-----	(14.7)	-
	\$ 174.7	\$ 194.8

</TABLE>

9. RELATED PARTY TRANSACTIONS

The Company is charged for certain services provided by affiliates of Mafco on behalf of the Company. These charges did not exceed 1/2 of 1% of the Company's net revenues for the years ended December 31, 1996, 1995, and 1994.

During the years ended December 31, 1996, 1995 and 1994, Toy Biz accrued royalties of \$1.8, \$5.7 and \$6.5, respectively, to Mr. Arad, a director and stockholder of Toy Biz, for toys he invented or designed.

The Company is reimbursed for certain services provided by the Company on behalf of Toy Biz. These amounts did not exceed 1/2 of 1% of the Company's net revenues for the years ended December 31, 1996, 1995 and 1994.

During 1994, the Company entered into an apparel license with Classic Heroes, Inc., an affiliate of Toy Biz controlled by a non-Mafco director of Toy Biz. Under the contract, the Company recognized \$5.0 of income in 1994. In 1995, the Company, at its initiation, terminated the contract and incurred \$4.0 of costs, which has been charged to operations.

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During 1993, the Company entered into agreements to license certain of the Company's characters to New World Communications Group Incorporated ("New World"), then a subsidiary of Mafco, for the production of animated series for television. These agreements provide for New World to participate in licensing and other revenues generated from the exhibition of certain animated series. Results of operations for 1996, 1995 and 1994 includes an expense for this participation that did not exceed 1/2 of 1% of the Company's net revenues for the years ended December 31, 1996, 1995 and 1994, respectively. During 1996, the Company and New World entered into an agreement whereby New World produced for the Company episodes 1-13 of THE INCREDIBLE HULK animated television series at the cost of approximately \$4 million.

During 1995, the Company extended two unsecured loans totaling \$0.5 to one of its executive officers. The unpaid principal and accrued interest on such loans are payable February 15, 1999. The unpaid principal balance bears interest at a rate per annum equal to the interest rate paid by the Company, from time to time, on outstanding balances under the Amended and Restated Credit Agreement.

The Company is party to a tax sharing agreement with certain of its affiliates (see Note 7).

10. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

Consolidated rent expense under operating leases covering production facilities, office facilities, warehouse facilities and equipment was \$7.9, \$7.0 and \$4.3 for the years ended December 31, 1996, 1995 and 1994, respectively. These leases expire through 2005 and are subject to price escalations for certain costs. Aggregate future minimum rental commitments, excluding amounts included within restructuring charges, for these leases as of December 31, 1996 were as follows:

<TABLE>	
<CAPTION>	
	For the Years Ending December 31,

<S>	<C>
1997-----	\$ 4.9
1998-----	3.9
1999-----	3.2
2000-----	2.5
2001-----	1.3
2002 and thereafter-----	0.7
</TABLE>	

SPORTS AND ENTERTAINMENT LICENSING CONTRACTS

Minimum payments under the Company's sports and entertainment license agreements are \$66.0, \$55.3, \$33.8, \$6.1 and \$6.7 in 1997, 1998, 1999, 2000 and 2001 respectively and \$6.0 for 2002 and thereafter.

LEGAL MATTERS

On December 27, 1996, the Debtor Companies filed petitions under Chapter 11 of the Bankruptcy Code and in connection with such filing have been parties to various legal proceedings. See Note 3.

The Holding Companies' Trustee has alleged that events of defaults under each of the Marvel Holding Companies indentures have occurred by reason of the commencement of the Debtor Companies' cases under the Bankruptcy Code. The Holding Companies' Trustee has also alleged that the majority ownership and the anti-injunction provisions of each of the indentures have been violated. The Company is not a party to any of the indentures governing the notes issued by the Marvel Holding Companies. In addition, the Company believes the allegations of the Holding Companies' Trustee are either without merit or will be resolved in connection with the prosecution of the reorganization cases of the Marvel Holding Companies. The Holding Companies' Trustee has also

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alleged that it may assert a claim based on alleged "tortious interference" occasioned by the Company's filing of the Plan. The Company believes that any such allegations are completely without merit.

There are twenty-seven purported class and derivative actions brought by stockholders of the Company and holders of bonds issued by the Marvel Holding Companies and one action brought by a purported class of Toy Biz shareholders presently pending in the Delaware Court of Chancery (collectively, the "Delaware Actions") that challenge, among other things, the Andrews Investment.

Twenty-one of the twenty-seven Delaware Actions assert either claims on behalf of a purported class of all Marvel shareholders or shareholder derivative claims on behalf of Marvel, or both. The complaints allege, among other things, that the Andrews Investment represents a breach of defendants' fiduciary duties because the proposed purchase price per share is unfair and such purchase would dilute the minority shareholders' interest in Marvel. Plaintiffs in these actions seek to enjoin the Andrews Investment, to rescind the Andrews Investment if it is in fact consummated prior to the entry of the Court's judgment, to recover damages for defendants' alleged conduct and to recover costs and disbursements in pursuing these actions, including reasonable attorneys' fees. These actions have been consolidated for all purposes by order of the Delaware Court of Chancery. A consolidated complaint has not yet been filed.

Six of the Delaware Actions assert claims on behalf of a purported class consisting of the holders of bonds issued by the Marvel Holding Companies. These complaints allege, among other things, that the Andrews Investment, if consummated, would be a breach of defendants' duty of fair dealing and good faith owed to the holders of the bonds because the Andrews Investment would result in the substantial dilution of Marvel's outstanding stock, which is security for the bonds, and will thus diminish the value of the bonds. These actions have been separately consolidated by order of the Delaware Court of Chancery. The consolidated complaint in these six actions do not name any of the chapter 11 Debtor Companies as defendant. The parties to the consolidated complaint have agreed to defer the filing of an answer.

All of the foregoing Delaware Actions name varying defendants consisting in the aggregate of Marvel, Andrews Group, MacAndrews Holdings, Parent Holdings, Marvel III, Marvel Holdings, Ronald O. Perelman, William C. Bevens, Donald G. Drapkin, Michael Fuchs, Frank Gifford, E. Gregory Hookstratten, Morton L. Janklow, Quincy Jones, Stan Lee, Scott C. Marden, Terry C. Stewart and Kenneth Ziffren.

One of the pending Delaware Actions asserts claims on behalf of a purported class of all Toy Biz shareholders. *Holl v. Toy Biz, Inc.*, Marvel Entertainment Group, Inc., Andrews Group, Inc., Ronald O. Perelman, Joseph M. Ahearn, Avi Arad and Issac Perlmutter, C.A. No. 15359, was filed on November 15, 1996. The complaint alleges, among other things, that defendants Perelman, Ahearn, Arad and Perlmutter are breaching their fiduciary duties in pursuing the proposed offers of Marvel and Andrews Group to purchase Toy Biz stock. In addition, the complaint alleges that defendant Marvel is aiding and abetting the individual defendants in their unlawful conduct. Damages in an unspecified amount are sought for the alleged breach of fiduciary duties by defendants. Plaintiffs also seek to enjoin the consummation of the transaction, to rescind the transaction in the event it is consummated and to recover costs and

disbursements and reasonable allowances for plaintiff's counsel. This case has been stayed by stipulation of the parties.

No classes have been certified in any of the Delaware Actions. On December 27, 1996, Marvel filed a petition for protection under chapter 11 of the United States Bankruptcy Code. As a result of Marvel's filing, all of the Delaware Actions with respect to Marvel are automatically stayed pursuant to 11 U.S.C. Section 362. On March 7, 1997, Andrews Group terminated the Stock Purchase Agreement with Marvel and withdrew the proposal for the Andrews Investment. On the same date, Andrews Group informed Toy Biz and the two other principal stockholders of Toy Biz that the transactions contemplated by the Merger Agreement and the Stock Purchase Agreements with Toy Biz and each of such principal stockholders, respectively, would not be consummated.

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Piels v. Marvel Entertainment Group, Inc., Ronald O. Perelman, Andrews Group, Inc. and MacAndrews & Forbes Holdings Inc., Index No. 96-605702, was commenced on November 14, 1996. This action, filed in New York Supreme Court, County of New York, asserts claims on behalf of a purported class of all Marvel shareholders. Named as defendants are Marvel, Ronald O. Perelman, Andrews Group and MacAndrews Holdings. The complaint alleges, among other things, that the defendants have breached their fiduciary duties in connection with the Andrews Investment. Specifically, plaintiff alleges that Marvel's minority shareholders are being directly damaged by defendants' actions with respect to the Andrews Investment. Plaintiff seeks injunctive relief, damages in an unspecified amount and costs and disbursements, including reasonable attorneys' fees. By orders dated February 25, 1997, the New York Supreme Court denied plaintiff's motion for a preliminary injunction and granted defendants' motion to dismiss the action based on forum non conveniens.

OTHER LEGAL PROCEEDINGS

On March 9, 1995, a complaint purporting to be a class action was filed against SkyBox, certain of SkyBox's officers and directors and the Company in the Delaware Court of Chancery, New Castle County, entitled Strougo v. Lorber, et al., C.A. No. 14107 ("Strougo"). The complaint generally alleged that SkyBox and certain of its officers and directors breached their fiduciary duties by agreeing to be acquired by the Company at an allegedly unfair and inadequate price, failing to consider other potential purchasers in a manner designed to obtain the highest possible price for SkyBox's stockholders and not acting in the best interest of stockholders. The complaint also alleged that the Company aided and abetted the breaches of fiduciary duty committed by the other defendants named in the complaint. The complaint sought preliminary and permanent injunctions against consummation of the merger, damages, costs and experts' fees and expenses. This case was dismissed without prejudice.

On March 16, 1995, a complaint purporting to be a class action was filed against SkyBox and certain of SkyBox's officers and directors in the Delaware Court of Chancery, New Castle County, entitled Krim and Gerber v. SkyBox International Inc., et al., C.A. No. 14127. The complaint generally made allegations similar to those contained in the Strougo complaint and sought similar injunctive and other relief. This case was dismissed without prejudice.

The Company is a defendant in a purported class action filed on July 26, 1996 in the United States District Court for the Eastern District of New York entitled Fishman, et al v. Marvel Entertainment Group, Inc., CV-96-3757 (SJ), by four persons who allegedly purchased sports and entertainment cards manufactured by Fleer/SkyBox. The action is directed against standard business practices in the trading card industry, including the practice of randomly placing insert cards in packages of sports and entertainment trading cards, and alleges that these practices constitute illegal gambling activity in violation of state and federal law. Fleer/SkyBox's principal competitors in the trading card industry have been separately sued for employing the same or similar practices. On March 11, 1997, a similar action as Fishman against a competitor of Fleer/SkyBox entitled Schwartz, et. al. v. Upper Deck, No. 96CV3408 - B (AJB) (S.D. Cal.), was dismissed with leave to replead. The plaintiffs in that action filed an amended complaint on March 24, 1997. On April 2, 1997, a similar action as Fishman against another competitor of Fleer/SkyBox entitled Price, et. al. v. Pinnacle Brands, No. 3:96-CV-2150-T (N.D. Tex.), was dismissed with prejudice. In addition, certain of the various sports organizations and entertainment companies that issue licenses to Fleer/SkyBox (as well as the other major trading card companies) in connection with the manufacture of sports and entertainment trading cards have also been separately sued and are alleged to be engaged in aspects of the purportedly illegal

gambling operations. Plaintiffs seek certification of a class of persons who within four years prior to the filing of the complaint purchased packages of trading cards that might contain randomly inserted cards, and recovery of treble damages. On September 30, 1996, the Company filed a motion to dismiss the complaint. Plaintiffs filed their opposition to the motion on or about December 2, 1996. No discovery has commenced. Plaintiffs have not specified the amount of damages sought, but generally allege that members of the purported class have been damaged as a result of their purchases of trading cards during the four years preceding the commencement of the action. As set forth above, on or about December 27, 1996, the Company filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware. As a result, the action was automatically stayed pending the outcome of the bankruptcy proceeding. It is not possible at this early stage of the case to predict the outcome with certainty. In the opinion of the Company, the action lacks merit and the Company intends to defend it vigorously.

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The Company and two of its officers, William C. Bevins and Terry C. Stewart, are named as defendants in a purported class action entitled Brian Barry SEP IRA v. Marvel Entertainment Group, Inc., pending in the United States District Court for the Southern District of New York. The complaint seeks unspecified damages on behalf of a proposed class of purchasers of the Company's Common Stock from April 11, 1994 to December 31, 1994 for alleged violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, as well as Rule 10b-5 promulgated thereunder. Plaintiff alleges that the defendants, through their own statements and those of analysts, artificially inflated the price of Common Stock by creating earnings expectations which the Company did not meet. Plaintiff also contends that the defendants failed to timely disclose softness in the publishing and sports trading card markets which led to the Company's not attaining its purported earnings target. Plaintiff claims that the individual defendants, because of their corporate positions, are liable under the securities laws as control persons of the Company. The defendants moved to dismiss the complaint in its entirety on February 23, 1996. On April 8, 1997, the District Court granted the defendant's motion to dismiss without prejudice. As set forth above, on or about December 27, 1996, the Company filed a voluntary petition in the United States Bankruptcy Court for the District of Delaware. As a result, any further action against the Company is automatically stayed pending the outcome of the bankruptcy proceeding.

Marvel is named as a defendant in two actions which have been consolidated for all purposes with certain related actions in proceedings now pending in the Los Angeles County Superior Court. The consolidated cases center around the ownership of certain rights in the production and distribution of a live action motion picture based on the "SPIDER-MAN" character owned by Marvel. Once the automatic stay governing all litigation involving Marvel is lifted by the Delaware Bankruptcy Court, Marvel intends to assert its own claims to those rights.

In the lead case, a dispute between 21st Century Film Corporation ("21st Film"), Carolco Pictures, Inc. ("Carolco") and related entities, 21st Film claims that it still possesses rights under an Agreement with Marvel to produce and distribute a live action film based on the "SPIDER-MAN" character, although it had assigned all of its rights to Carolco. Metro Goldwyn Mayer, Inc. ("MGM") has succeeded to the litigation position of both 21st Film and Carolco in the respective bankruptcy proceeding of those two companies. In addition to its purchase of 21st Film and Carolco litigation positions, MGM is a plaintiff in a separate case that has been deemed related to the lead and consolidated cases. Marvel has answered the complaint denying MGM's allegations.

An additional lawsuit, between Carolco and Columbia Tristar Home Video ("Columbia"), concerns the videocassettes rights to any such film, and a third lawsuit, between Carolco and Viacom International, Inc. ("Viacom"), involves television rights. Both Columbia and Viacom claim that, before 21st Film assigned its rights under its agreement with Marvel to Carolco, 21st Film had licensed ancillary rights to each company. Each seeks to enforce its respective rights. Viacom, however, brought a separate suit naming Marvel, and Marvel has answered that complaint, denying Viacom's allegations.

In its answer and other pleadings, Marvel contends that it is the sole and exclusive holder of the unencumbered right to produce and distribute a live action based on the "SPIDER-MAN" character. Marvel contends that all rights to produce or distribute a "SPIDER-MAN" film under its agreement with Carolco and

Marvel has notified the Court in the consolidated action that Marvel has filed for bankruptcy protection, and that the bankruptcy court filing stays all further proceedings in the consolidated lawsuit as to Marvel. Subject to further proceedings in the bankruptcy court, Marvel has stated that it intends to defend vigorously the Viacom Lawsuit and the MGM Lawsuit, and to defend vigorously and assert its exclusive rights to produce and distribute a live action film based on the "SPIDER-MAN" character.

The Company is involved in various other legal proceedings and claims incident to the normal conduct of its business. Although it is impossible to predict the outcome of any outstanding legal proceeding, the Company believes that all of its legal proceedings and claims, individually and in the aggregate, are not likely to have a material adverse effect on its financial condition or results of operations. As a result of the Debtors Companies filing of petitions

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

pursuant to the Bankruptcy Code, the Company's legal proceedings, other than the Debtor Companies bankruptcy proceedings, have been automatically stayed. The Company has obtained a lifting of the automatic stay in the Fishman case in order to allow the Company to pursue its motion to dismiss.

11. GEOGRAPHIC SEGMENTS

The Company operates in a single business segment. Information related to the Company's geographic segments for the years ended December 31, 1996, 1995 and 1994 is presented below. Substantially all of the Company's foreign net revenues were derived from Europe.

Operating profit, as presented below, is total sales less operating expenses, amortization of goodwill and other intangibles, restructuring charges, and identifiable miscellaneous income and expense. Unallocated income and expenses represent interest expense, net interest and investment income, foreign exchange loss (gain), gain on sale of Toy Biz common stock, equity in net income of unconsolidated subsidiaries, reorganization item and general corporate expenses incurred to manage all of the Company's activities.

Identifiable assets, as presented below, are those assets used in each geographic area. Corporate assets are principally cash, certain property and equipment and nonoperating assets. Export sales, including those to affiliates, are not significant.

The majority of the Company's foreign sales and thus the majority of the risk of foreign currency fluctuations relate to Panini. As a hedge against foreign currency fluctuation, the financing for the acquisition of Panini in 1994 has been denominated in Panini's functional currency. Additionally, from time to time, Panini may enter into foreign currency forward exchange contracts, swaps and options as hedges of various intercompany transactions. At December 31, 1996 and 1995, outstanding forward exchange contracts were insignificant. Additionally, the fluctuation in Panini's functional currency for the years ended December 31, 1996 and 1995 was not significant.

GEOGRAPHIC AREAS:

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1996	1995	1994
Net sales:			
<S>	<C>	<C>	<C>
Domestic-----	\$ 462.8	\$ 579.9	\$ 427.5
Foreign-----	309.9	278.6	97.5
Eliminations-----	(27.2)	(29.6)	(10.2)
	-----	-----	-----
	\$ 745.5	\$ 828.9	\$ 514.8
	=====	=====	=====
Operating profit:			
Domestic-----	(\$ 384.4)	(\$ 28.6)	\$ 95.7
Foreign-----	13.1	44.6	19.4
	-----	-----	-----
	(371.3)	16.0	115.1

Unallocated expenses, net -----	(59.7)	(38.0)	10.8
(Loss) income before provision for income taxes-----	(\$ 431.0)	(\$ 22.0)	\$ 104.3
Identifiable assets:			
Domestic-----	\$ 455.6	\$ 786.7	
Foreign-----	342.3	324.0	
Corporate-----	46.1	115.6	
	\$ 844.0	\$1,226.3	

</TABLE>

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

12. QUARTERLY FINANCIAL SUMMARIES (UNAUDITED)

<TABLE>
<CAPTION>

	For the years ended December 31,			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter*
<S>	<C>	<C>	<C>	<C>
1996				
Net revenues-----	\$ 189.6	\$182.2	\$209.4	\$164.3
Gross profit-----	75.7	66.8	66.3	0.3
Net (loss) income-----	(4.4)	(11.0)	(12.5)	(436.5)
Loss per share-----	\$ (.04)	\$ (.11)	\$ (.12)	\$ (4.29)
1995				
Net revenues-----	\$ 157.9	\$169.2	\$269.0	\$232.8
Gross profit-----	61.0	52.3	130.2	52.1
Income (loss) income before extraordinary item-----	8.2	(14.4)	19.6	(58.5)
Net income (loss)-----	8.2	(17.7)	19.6	(58.5)
Earnings per share:				
Income (loss) before extraordinary item-----	\$.08	\$ (.14)	\$.19	\$ (.58)
Net income (loss)-----	\$.08	\$ (.17)	\$.19	\$ (.58)

</TABLE>

* - Reflects fourth quarter charges, including: a write-down of goodwill and other intangibles of approximately \$278.5 and a valuation allowance of approximately \$32.2 provided to offset deferred tax assets of certain subsidiaries that were previously recorded. These charges were reflected in "Amortization of goodwill, intangibles and deferred charges" and "Provision for income taxes", respectively. These charges were of a non-cash nature.

13. UNUSUAL CHARGES

RESTRUCTURING:

In the fourth quarter of 1995, the Company recorded restructuring charges of \$25.0 related primarily to publishing and confections operations. As part of the restructuring, the Company terminated approximately 275 employees, covering editorial, production, distribution and administrative employee groups and, accordingly, provided for \$10.7 of termination benefits, of which \$8.8 has been paid as of December 31, 1996. Additionally, approximately \$6.7 of the restructuring charges relates to facility closure, of which \$5.4 has been paid as of December 31, 1996, and \$7.6 of the restructuring charges relates to other costs, of which \$4.7 has been paid as of December 31, 1996. A substantial portion of the remaining amount of \$6.1 as of December 31, 1996, which is included in accrued expenses and other, is scheduled to be paid in accordance with the terms of various agreements.

In the fourth quarter of 1996, the Company recorded restructuring charges of \$15.8 related primarily to the publishing and trading card operations; the closing of the comic book distribution subsidiary and the closing of a certain confections facility. As part of the restructuring, the Company has terminated approximately 200 employees, covering editorial, production, distribution and administrative employee groups and, accordingly, provided for \$6.6 of termination benefits. Additionally, approximately \$9.2 of

the restructuring charges relates to write-down of fixed assets and facility closure.

GOODWILL AND OTHER INTANGIBLES WRITE-DOWN:

Goodwill related to the trading card operations of Fleer and SkyBox was initially recorded at the time of their respective acquisitions. This goodwill represented the excess of the purchase price over the valuation of the net assets acquired in each acquisition. Among other things, the purchase price was based on the Company's expectations of future performance at the time of acquisition, considering historical performance and industry trends. These expectations assumed various growth rates in revenue and sufficient cash flow from operations to repay acquisition indebtedness.

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

There has been a significant and continued contraction in the trading card market since the Fleer and SkyBox acquisitions, related in part to lower speculative purchases. In addition as a result of the baseball, hockey and basketball labor situations in 1994 and 1995, fan interest declined which adversely affected sports trading card sales and increased returns for those periods. The level of fan interest, although showing some signs of improvement during 1996, has not returned to the levels experienced prior to the 1994 strike. The Company believes that all of these factors have negatively affected the sports trading card business, causing the Company to experience lower sales, higher returns and higher inventory obsolescence.

The level of demand for entertainment trading cards is dependent on, among other factors, the commercial success and media exposure of the Marvel Characters and third party licensed products, as well as the market conditions in the comic book specialty stores. In 1994 and 1995, the sale of entertainment cards based on the Marvel Characters and third party licensed characters substantially offset the decline in sports trading cards. However, in 1996, the Company's sales of entertainment trading cards has been adversely affected by lack of commercial success of properties licensed from third parties as well as the lower demand for trading cards based on comic book characters. In response, the Company has undertaken several strategic actions to mitigate the effect of such contraction. However, to date these actions have not been sufficient to overcome the overall decline in the sales of entertainment cards.

As described above, continuing operating losses in the trading card and publishing businesses, as well as significant long-term changes in industry conditions, indicated to the Company that there may be asset impairment. During the fourth quarter of 1996, the Company evaluated the recoverability of the carrying value of long-lived assets, including goodwill and other intangibles, in accordance with its previously stated accounting policies and recorded a non-cash charge of approximately \$252.9 million related to Fleer and SkyBox that has been classified as amortization of goodwill and other intangibles. The Company recognized an impairment on a going concern basis related to certain assets of the trading card business because the future undiscounted cash flows of the assets were estimated to be insufficient to recover their related carrying value. The write down was recorded based on the difference between the carrying value of the asset and the fair value estimated by independent valuations on a going concern basis. As part of the bankruptcy proceedings and reorganization efforts involving the Company, certain valuations of the Company's business units were prepared by investment banking firms. No such adjustment was required for the assets of the Company's ongoing publishing activity. Considerable judgment was used to estimate future cash flows and fair value. Accordingly, actual results could vary significantly from such estimates. Remaining goodwill associated with the Company's trading cards operations is approximately \$110.0, which will be amortized over 15 years.

The foregoing charge was based upon a going concern assumption. In the event of a sale of assets, there can be no assurance that actual results or valuations will not vary significantly from the foregoing.

In addition, the Company has recorded, in the fourth quarter of 1996, an approximate \$19.8 noncash write-down of goodwill and other intangibles related to the write off of long-lived assets, including goodwill and other intangibles, related to the closing of Heroes World and the discontinuance of certain magazines for children. This charge has been classified as amortization of goodwill and other intangibles.

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

14. FINANCIAL STATEMENTS OF ENTITIES OPERATING UNDER CHAPTER 11

The combined condensed balance sheet as of December 31, 1996 of the Debtor Companies is as follows (See Note 3):

<TABLE>
<CAPTION>
<S> <C>

ASSETS	
Current assets:	
Cash.....	\$ 15.2
Accounts receivable, net.....	57.5
Inventories, net.....	22.1
Income tax receivable.....	11.8
Prepaid expenses and other.....	6.6

Total current assets.....	113.2
Property, plant and equipment, net.....	9.3
Goodwill and other intangibles, net.....	193.0
Deferred charges and other.....	25.2
Investments in and advances to subsidiaries, at cost ..	50.2

Total Assets	\$ 390.9
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable.....	\$ 29.2
Accrued expenses and other	93.2
Short term borrowings.....	10.0
Liabilities subject to settlement under reorganization.....	14.7

Total current liabilities.....	147.1
Other long-term liabilities.....	11.6
Liabilities subject to settlement under reorganization.....	488.5

Total Liabilities.....	647.2

Stockholders' deficit:	
Additional paid-in capital.....	94.1
Accumulated deficit.....	(349.7)
Cumulative translation adjustment.....	(0.7)

Total Stockholders' Deficit.....	(256.3)

Total Liabilities and Stockholders' Deficit	\$ 390.9
	=====

</TABLE>

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

The combined condensed statement of operations for the year ended December 31, 1996 of the Debtor Companies is as follows:

<TABLE>
<CAPTION>
<S> <C>

Net revenues.....	\$ 290.1
Cost of sales.....	236.7
Selling, general & administrative expenses.....	127.3
Restructuring charges.....	15.8

Depreciation and amortization	10.7
Amortization of goodwill, intangibles and deferred charges	299.2
Interest expense, net.....	39.3
Gain on sale of Toy Biz common stock.....	22.0
Equity in net loss of unconsolidated subsidiaries and other, net	(23.4)

Loss before reorganization items, provision for income taxes, minority interest and extraordinary item.....	(440.3)
Reorganization items.....	5.5

Loss before provision for income taxes.....	(445.8)
Provision for income taxes.....	18.6

Net loss.....	(\$ 464.4)
	=====

</TABLE>

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MARVEL ENTERTAINMENT GROUP, INC.
(DEBTOR-IN-POSSESSION)
SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

DESCRIPTION	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts (c)	Deductions	Balance at End of Period
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1996					
Deducted from asset accounts:					
Allowance for returns	\$ 61.6	\$ 41.0	\$ -	(\$ 83.9) (a)	\$ 18.7
Allowance for doubtful accounts and other allowances.....	16.3	52.7	-	(41.5) (b)	27.5
Reserve for inventory obsolescence.....	22.4	23.5	-	(16.3)	29.6
Included in Accrued Expenses & Other:					
Reserve for Returns	59.0	129.1	-	(136.9) (a)	51.2
Totals	\$ 159.3	\$ 246.3	\$ -	\$ (278.6)	\$ 127.0
	=====	=====	=====	=====	=====
Year ended December 31, 1995					
Deducted from asset accounts:					
Allowance for returns.....	\$ 21.0	\$ 101.5	\$ 3.8	(\$ 64.7) (a)	\$ 61.6
Allowance for doubtful accounts and other allowances.....	2.5	24.1	4.0	(14.3) (b)	16.3
Reserve for inventory obsolescence.....	1.7	33.6	9.8	(22.7)	22.4
Included in Accrued Expenses & Other:					
Reserve for Returns	47.6	163.7	7.5	(159.8) (a)	59.0
Totals	\$ 72.8	\$ 322.9	\$ 25.1	\$ (261.5)	\$ 159.3
	=====	=====	=====	=====	=====
Year ended December 31, 1994					
Deducted from asset accounts:					
Allowance for returns.....	\$ 15.8	\$ 86.4	\$ -	\$ (81.2) (a)	\$ 21.0
Allowance for doubtful accounts9	.2	1.9	(.5) (b)	2.5
Reserve for inventory obsolescence.....	.7	7.3	.3	(6.6)	1.7
Included in Accrued Expenses & Other:					
Reserve for Returns	12.1	97.9	15.6	(78.0) (a)	47.6
Totals	\$ 29.5	\$ 191.8	\$ 17.8	\$ (166.3)	\$ 72.8
	=====	=====	=====	=====	=====

</TABLE>

-
- (a) Actual returns processed.
(b) Write-off uncollectible accounts.

(c) Represents amounts acquired, including amounts from the consolidation of Toy Biz commencing in 1995.

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MARVEL ENTERTAINMENT GROUP, INC.
AMENDED AND RESTATED
STOCK OPTION PLAN

1. PURPOSE

This Amended and Restated Stock Option Plan (the "Plan") is intended to encourage stock ownership by employees, directors and consultants of Marvel Entertainment Group, Inc. (the "Company") and Affiliate Corporations (as defined in Section 2(a)), so that they may acquire or increase their proprietary interest in the Company, and to encourage such employees, directors and consultants to remain in the employ or service of the Company and to put forth maximum efforts for the success of the business of the Company. It is further intended that options granted pursuant to Section 6 of the Plan shall constitute "incentive stock options" ("Incentive Stock Options") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations issued thereunder (the "Code"), and options granted pursuant to Section 7 of the Plan shall constitute "nonqualified stock options" ("Nonqualified Stock Options"). Stock appreciation rights ("Rights") related to stock options granted under the Plan ("Options"), and Rights that are not related to Options, may be granted under the Plan, as hereinafter set forth.

2. DEFINITIONS

As used in the Plan, the following words and phrases shall have the meanings indicated:

"Affiliate Corporation" shall mean any corporation, directly or indirectly, through one or more intermediaries, controlling, controlled by or under common control with the Company.

"Disability" shall mean an Optionee's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

"Fair Market Value" per share as of a particular date shall mean (i) the closing price per share of Common Stock (as defined in Section 5) on a national securities exchange or on the

NASDAQ stock market for the last preceding date on which there was a sale of Common Stock on such exchange, or (ii) if the shares of Common Stock are then

traded on any other over-the-counter market, the average of the closing bid and asked prices for the shares of Common Stock in such over-the-counter market for the last preceding date on which there was a sale of Common Stock in such market or (iii) if the shares of Common Stock are not then listed on a national securities exchange or traded in an over-the-counter market, such value as the Committee in its discretion may determine.

"Parent Corporation" shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of granting an Option, each of such corporations (other than the Company) owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"Subsidiary Corporation" shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of granting an Option, each of such corporations (other than the last corporation in an unbroken chain) owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

"Ten Percent Stockholder" shall mean an Optionee who, at the time an Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of its Parent or Subsidiary Corporations.

3. ADMINISTRATION

Unless otherwise determined by the Board of Directors of the Company (the "Board"), the Plan shall be administered by the Management Compensation and Stock Option Committee ("Compensation Committee"), which shall consist of two or more members of the Board who are "outside directors" within the meaning of section 162(m) of the Code. The Compensation Committee may, in its discretion, delegate to a subcommittee its duties hereunder, including the grant of Options and Rights. The full Board shall also have the authority, in its discretion, to grant Options and

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Rights under the Plan and to administer the Plan. For all purposes under the Plan, any entity which performs the duties described herein, shall be referred to as the "Committee."

The Committee shall have the authority in its discretion, subject to and not inconsistent with the express provisions of the Plan, to administer the Plan and to exercise all the powers and authorities either specifically granted to it under the Plan or necessary or advisable in the administration of the Plan, including, without limitation, the authority to grant Options and Rights; to determine which Options shall constitute Incentive Stock Options and which Options shall constitute Nonqualified Stock Options; to determine which Options, if any, shall be accompanied by Rights; to determine the purchase

price of the shares of Common Stock covered by each Option (the "Option Price"); to determine the persons to whom, and the time or times at which, Options shall be granted; to determine the number of shares to be covered by each Option; to interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; to determine the terms and provisions of the Option Agreements and Award Agreements (which need not be identical) entered into in connection with Options and Rights granted under the Plan; and to make all other determinations deemed necessary or advisable for the administration of the Plan. The Committee may delegate to one or more of its members or to one or more agents such administrative duties as it may deem advisable, and the Committee or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan.

No member of the Committee shall be liable for any action taken or determination made in good faith with respect to the Plan or any Option or Right granted hereunder.

4. ELIGIBILITY

Options or Rights, or both, may be granted to key employees (including, without limitation, officers) and directors (whether or not such directors are employees) of, or consultants to, the Company or its present or future Affiliate Corporations, except that Incentive Stock Options shall be granted only to individuals who, on the date of such grant, are employees of the Company or a Parent Corporation or a Subsidiary Corporation. In determining

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the persons to whom Options and Rights shall be granted and the number of shares to be covered by each Option and any Rights, the Committee shall take into account the duties of the respective persons, their present and potential contributions to the success of the Company and such other factors as the Committee shall deem relevant in connection with accomplishing the purpose of the Plan. A person to whom an Option or a Right has been granted hereunder is sometimes referred to herein as an "Optionee."

An Optionee shall be eligible to receive more than one grant of an Option or Rights during the term of the Plan, but only on the terms and subject to the restrictions hereinafter set forth.

5. STOCK

(a) The stock subject to Options and Rights hereunder shall be shares of the Company's common stock, par value \$0.01 per share ("Common Stock"). Such shares may, in whole or in part, be authorized but unissued shares or shares that shall have been or that may be reacquired by the Company. The aggregate number of shares of Common Stock with respect to which Options and Rights may be granted from time to time under the Stock Plan shall not exceed 16,000,000 shares of Common Stock. The limitation established by the preceding sentence

shall be subject to adjustment as provided in Section 8(h).

(b) The maximum number of shares with respect to which Options or Rights may be granted to any participant shall be 250,000 shares in each calendar year. The limitation established by the preceding sentence shall be subject to adjustment as provided in Section 8(h).

6. INCENTIVE STOCK OPTIONS

Options granted pursuant to this Section 6 are intended to constitute Incentive Stock Options and shall be subject to the following special terms and conditions, in addition to the general terms and conditions specified in Section 8.

Value of Shares. The aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the shares of Common Stock with respect to which Options granted under the Plan and all other option plans of the Company, any Parent Corporation and any Subsidiary Corporation become

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exercisable for the first time by an Optionee during any calendar year shall not exceed \$100,000.

Ten Percent Stockholder. In the case of an Incentive Stock Option granted to a Ten Percent Stockholder, (i) the Option Price shall not be less than one hundred ten percent (110%) of the Fair Market Value of a share of Common Stock on the date of grant of such Incentive Stock Option, and (ii) the exercise period shall not exceed five (5) years from the date of grant of such Incentive Stock Option.

7. NONQUALIFIED STOCK OPTIONS

Options granted pursuant to this Section 7 are intended to constitute Nonqualified Stock Options and shall be subject only to the general terms and conditions specified in Section 8.

8. TERMS AND CONDITIONS OF OPTIONS

Each Option granted pursuant to the Plan shall be evidenced by a written stock option agreement ("Option Agreement") between the Company and the Optionee, which shall comply with and be subject to the following terms and conditions:

(a) Number of Shares. Each Option Agreement shall state the number of shares of Common Stock to which the Option relates.

(b) Option Price. Each Option Agreement shall state the Option Price per share of Common Stock, which, in the case of Incentive Stock Options, shall be not less than one hundred percent (100%) of the Fair Market Value of a share of

Common Stock on the date of grant of the Option. The Option Price shall be subject to adjustment as provided in Section 8(h). The date on which the Committee adopts a resolution expressly granting an Option shall be considered the day on which such Option is granted.

(c) Medium and Time of Payment. The Option Price shall be paid in full, at the time of exercise, in cash or in shares of Common Stock having a Fair Market Value equal to the Option Price or in a combination of cash and such shares, and may be effected in whole or in part with monies borrowed from the Company pursuant to repayment terms and conditions as shall be determined from time to time by the Committee, in its discretion, separately

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with respect to each exercise of Options and each Optionee; provided, however, that each such method and time for payment and each such borrowing and terms and conditions of security, if any, and repayment shall be permitted by and be in compliance with applicable law.

(d) Term and Exercise of Options. Options shall be exercisable over the exercise period as and at the times and upon the conditions that the Committee may determine, as reflected in the Option Agreement; provided, however, that the Committee shall have the authority to accelerate the exercisability of any outstanding Option at such time and under such circumstances as it, in its sole discretion, deems appropriate. The exercise period shall be determined by the Committee; provided, however, that in the case of an Incentive Stock Option, such exercise period shall not exceed ten (10) years from the date of grant of such Incentive Stock Option. The exercise period shall be subject to earlier termination as provided in Section 8(e) and 8(f). An Option may be exercised, as to any or all full shares of Common Stock as to which the Option has become exercisable, by giving written notice of such exercise to the Compensation Committee; provided, however, that an Option may not be exercised at any time as to fewer than 100 shares (or such number as to which the Option is then exercisable if such number of shares is less than 100).

(e) Termination of Employment or Service. Except as provided in this Section 8(e) and in Section 8(f), an Option may not be exercised unless the Optionee is then in the employ of, or a director of, or a consultant to (1) the Company, (2) an Affiliate Corporation or (3) a corporation issuing or assuming the Option in a transaction to which Section 424(a) of the Code applies or a Parent Corporation or Subsidiary Corporation of the corporation described in clauses (1), (2) or (3) above in this Section 8(e) (any such corporation, an "Employer") and unless the Optionee has remained continuously so employed or in such service since the date of grant of the Option. Unless otherwise determined by the Committee, in the event that the employment or service of an Optionee shall terminate (other than by reason of death, Disability or retirement), then all Options of such Optionee that are not exercisable as of the date of such termination shall be forfeited, and all Options that are exercisable as of the date of such termination may, unless earlier terminated in accordance with their terms, be exercised by no later

of the last day of the three-month period commencing on the date of such termination. Any Options that have not been exercised by the end of such three-month period shall be forfeited. Nothing in the Plan or in any Option or Right granted pursuant hereto shall confer upon an individual any right to continue in the employ of, or as a director of, or a consultant to the Employer or interfere in any way with the right of the Employer to terminate such employment or service at any time.

(f) Death, Disability or Retirement of Optionee. Unless otherwise determined by the Committee, if an Optionee shall die while employed by, or a director of, or a consultant to the Employer, or within three (3) months after the termination of such Optionee's employment or service, or if the Optionee's employment or service shall terminate by reason of Disability or retirement, then all Options of such Optionee that are not exercisable as of the date of such death, disability or retirement shall be forfeited, and all Options that are exercisable as of the date of such death, disability or retirement may, unless earlier terminated in accordance with their terms, be exercised by no later than 5 p.m. of the last day of the one-year period commencing on the date of such death, disability or retirement. Any Options that have not been exercised by the end of such one-year period shall be forfeited.

(g) Nontransferability of Options. Unless otherwise determined by the Committee, the Options shall not be transferable otherwise than by will or by the laws of descent and distribution, and Options may be exercised, during the lifetime of the Optionee, only by the Optionee or by the guardian or legal representative of the Optionee.

(h) Effect of Certain Changes.

(1) If there is any change in the number of shares of Common Stock as a result of the declaration of stock dividends, recapitalization resulting in stock splits or combinations or exchanges of such shares, the number of shares of Common Stock available for Options and Rights, the number of such shares covered by outstanding Options and Rights, and the price per share of such Options or the applicable market value of Rights shall be proportionately adjusted by the Compensation Committee to reflect any increase or decrease in the number of issued shares of Common Stock; provided, however, that any fractional shares resulting from such adjustment shall be eliminated.

(2) In the event of a change in the Common Stock of the Company as presently constituted, which is limited to a change of all of its authorized shares with par value into the same number of shares with a

different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

(3) To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Compensation Committee, whose determination shall be final, binding and conclusive, provided that each Incentive Stock Option granted pursuant to the Plan shall not be adjusted in a manner that causes such option to fail to continue to qualify as an Incentive Stock Option within the meaning of Section 422 of the Code.

(i) Rights as a Stockholder. An Optionee or a transferee of an Option shall have no rights as a stockholder with respect to any shares covered by the Option until the date of the issuance of a stock certificate to him or her for such shares. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distribution of other rights for which the record date is prior to the date such stock certificate is issued, except as provided in Section 8(h).

(j) Other Provisions. The Option Agreements authorized

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under the Plan shall contain such other provisions, including, without limitation, (i) the granting of Rights, (ii) the imposition of restrictions upon the exercise of an Option and (iii) in the case of an Incentive Stock Option, the inclusion of any condition not inconsistent with such Option's qualifying as an Incentive Stock Option, as the Committee shall deem advisable.

9. STOCK APPRECIATION RIGHTS

(a) Grant and Exercise. Rights may be granted either alone ("Free Standing Rights") or in conjunction with all or part of any Option granted under the Plan ("Related Rights"). In the case of a Nonqualified Stock Option, Related Rights may be granted either at or after the time of the grant of such Option. In the case of an Incentive Stock Option, Related Rights may be granted only at the time of the grant of the Incentive Stock Option.

A Related Right or applicable portion thereof granted with respect to any Option shall terminate and no longer be exercisable upon the termination or exercise of the related Option, except that, unless otherwise determined by the Committee, a Related Right granted with respect to less than the full number of shares covered by a related Option shall only be reduced if and to the extent that the number of shares covered by the exercise or termination of the related Option exceeds the number of shares not covered by the Right immediately prior to such termination or exercise.

A Related Right may be exercised in accordance with paragraph (b) of this Section 9, by surrendering the applicable portion of the related Option. Upon

such exercise and surrender, the Optionee shall be entitled to receive an amount determined in the manner prescribed in paragraph (b) of this Section 9. Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the Related Rights have been exercised.

(b) Terms and Conditions. Rights shall be subject to such terms and conditions not inconsistent with the provisions of the Plan as shall be determined from time to time by the Committee, including the following:

(1) Related Rights shall be exercisable only at such

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time or times and to the extent that the Options to which the Related Rights relate shall be exercisable in accordance with the provisions of Sections 6, 7 and 8 and this Section 9 of the Plan.

(2) Upon the exercise of a Related Right, an Optionee shall be entitled to receive up to, but not more than, an amount in cash or shares of Common Stock equal in value to the excess of the Fair Market Value of one share of Common Stock over the Option Price per share specified in the related Option multiplied by the number of shares in respect of which the Related Right shall have been exercised, with the Committee having the right to determine the form of payment.

(3) Unless otherwise determined by the Committee, Related Rights shall be transferable only when and to the extent (and subject to the same restrictions) that the underlying Option would be transferable under Section 8(g) of the Plan.

(4) Upon an exercise of a Related Right, the Option or part thereof to which the Related Right relates shall terminate but the number of shares available for issuance set forth in Section 5 of the Plan shall be reduced only by the number of shares actually issued upon the exercise of such Related Right.

(5) A Related Right granted in connection with an Incentive Stock Option may be exercised only if and when the market price of the Common Stock subject to the Incentive Stock Option exceeds the exercise price of such Option.

(6) Each Free Standing Right granted pursuant to the Plan shall be evidenced by a written award agreement ("Award Agreement") between the Company and the recipient. Free Standing Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at or after grant thereof.

(7) The term of each Free Standing Right shall be fixed by the Committee.

recipient shall be entitled to receive up to, but not more than, an amount in cash or shares of Common Stock equal in value to the excess of the Fair Market Value of one share of Common Stock over the price per share specified in the Award Agreement multiplied by the number of shares in respect of which such Right is being exercised, with the Committee having the right to determine the form of payment.

(9) Unless otherwise determined by the Committee, Free Standing Rights shall not be transferable otherwise than by will or by the laws of descent and distribution, and may be exercised, during the lifetime of the recipient, only by the recipient or by the guardian or legal representative of the recipient.

(10) In the event of the termination of employment or service of a recipient of a Free Standing Right or the death, disability or retirement of such recipient of a Free Standing Right, such Free Standing Right shall be exercisable to the same extent that an Option would have been exercisable in accordance with the provisions of Sections 8(e) and (f), in the event of the termination of employment or service or the death, disability or retirement of the Optionee.

10. AGREEMENT BY OPTIONEE REGARDING WITHHOLDING TAXES

If the Committee shall so require as a condition of exercise, each Optionee shall agree that

(a) no later than the date of exercise of any Option or Right granted hereunder, the Optionee will pay to the Company or make arrangements satisfactory to the Committee regarding payment of any federal, state or local taxes of any kind required by law to be withheld upon the exercise of such Option or Right; and

(b) the Company shall have the right, to the extent permitted or required by law, to deduct from any payment of any kind otherwise due to the Optionee, federal, state and local taxes of any kind required by law to be withheld upon the exercise of such Option or Right.

11. TERM OF PLAN

Options and Rights may be granted pursuant to the Plan from time to time within a period of ten (10) years from the date the Plan is adopted by the Board.

12. AMENDMENT AND TERMINATION OF THE PLAN

The Board at any time and from time to time may suspend, terminate, modify or amend the Plan and the Compensation Committee shall have concurrent power with the Board to increase the number of shares of Common Stock subject to Options and Rights hereunder pursuant to Section 5(a) and the maximum number of shares with respect to which Options and Rights may be granted to any participant in each calendar year pursuant to Section 5(b). Except as provided in Section 8, no suspension, termination, modification or amendment of the Plan may adversely affect any Option or Right previously granted, unless the written consent of the Optionee is obtained.

13. EFFECT OF HEADINGS

The section and subsection headings contained herein are for convenience only and shall not affect the construction of the Plan.

14. COMPLIANCE WITH CERTAIN LAWS

This Plan is intended to comply with the requirements of Section 162(m) of the Code and shall be interpreted accordingly.

Employment Agreement

EMPLOYMENT AGREEMENT, dated as of January 26, 1996, between Marvel Entertainment Group, Inc., a Delaware corporation (the "Company") and Scott C. Marden (the "Executive").

The Company wishes to employ the Executive, and the Executive wishes to accept such employment, on the terms and conditions set forth in this Agreement.

Accordingly, the Company and the Executive hereby agree as follows:

1. Employment, Duties and Acceptance.

1.1 Employment, Duties. The Company hereby employs the Executive for the Term (as defined in Section 2.1), to render exclusive and full-time services to the Company as Executive Vice President of the Company and to serve as President of a unit to be formed within the Company ("Newco") which will include those areas of the Company's licensing business which involve electronic products (for example, video games, compact discs and on-line services) and publishing in an electronic form and a newly formed subsidiary (to be known as "Marvel Software") to conduct the Company's electronic software business. The Executive shall report directly to the Company's President and/or Chief Executive Officer and shall be the most senior officer responsible for the Company's electronic software business other than the Company's Chief Executive Officer and/or President. The Executive shall be elected to serve as a member of the Company's Board of Directors and a member of the Board of Directors of Marvel Software (and any of its subsidiaries). The Executive shall also serve in such other executive position as may be mutually agreed upon by the Company and the Executive, and to perform such other duties consistent with such position as may be assigned to the Executive by the Board of Directors or any

officer of the Company senior to the Executive. The Executive shall have duties commensurate with those of a senior executive and shall have an appropriate office with secretarial and other support services suitable to his position. The Executive shall be permitted to serve as a member of the board of unaffiliated companies with the prior consent of the Company's President,

Chief Executive Officer or Board of Directors, which consent shall not be unreasonably withheld. From the date hereof until the commencement of the Term set forth in Section 2.1, Executive shall serve as a consultant to the Company. The Executive shall receive no additional compensation for such services.

1.2 Acceptance. The Executive hereby accepts such employment and agrees to render the services described above. During the Term, the Executive agrees to serve the Company faithfully and to the best of the Executive's ability, to devote the Executive's entire business time, energy and skill to such employment, and to use the Executive's best efforts, skill and ability to promote the Company's interests. The Executive further agrees to accept election, and to serve during all or any part of the Term, as an officer or director of the Company and of any subsidiary or affiliate of the Company (with such other duties as may be mutually agreed), without any compensation therefor other than that specified in this Agreement, if elected to any such position by the shareholders or by the Board of Directors of the Company or of any subsidiary or affiliate, as the case may be.

1.3 Location. The duties to be performed by the Executive hereunder shall be performed primarily at the principal executive office of the Company in New York City, subject to reasonable travel requirements on behalf of the Company.

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2. Term of Employment; Certain Post-Term Benefits.

2.1 The Term. The term of the Executive's employment under this Agreement (the "Term") shall commence on February 19, 1996 and shall end on February 18, 1999 or such later date to which the Term is extended pursuant to Section 2.2.

2.2 End-of-Term Provisions. At any time on or after February 1, 1998 the Company shall have the right to give written notice of non-renewal of the Term. In the event the Company gives such notice of non-renewal, the Term automatically shall be extended so that it ends twelve months after the last day of the month in which the Company gives such notice. Said notice shall be deemed given on February 18, 1999, if not given prior to such date, unless the parties have otherwise agreed to a new agreement.

2.3 Special Curtailment. The Term shall end earlier than the original February 18, 1999 termination date provided in Section 2.1 or any extended termination date provided in Section 2.2, in either case if sooner terminated pursuant to Section 4. Non-extension of the Term shall not be deemed to be a wrongful termination of the Term or this Agreement by the Company pursuant to Section 4.4.

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3. Compensation; Benefits.

3.1 Salary. As compensation for all services to be rendered pursuant to this Agreement, the Company agrees to pay the Executive during the Term a base salary, payable semi-monthly in arrears, at the annual rate of not less than \$750,000 through February 18, 1997, \$800,000 through February 18, 1998 and \$850,000 through the remainder of the Term, less such deductions or amounts to be withheld as required by applicable law and regulations (the "Base Salary"). In the event that the Company, in its sole discretion, from time to time determines to increase the Base Salary, such increased amount shall, from and after the effective date of the increase, constitute "Base Salary" for purposes of this Agreement.

3.2 Bonus. In addition to the amounts to be paid to the Executive pursuant to Section 3.1, the Executive shall receive a bonus of up to 100% of Base Salary in each year upon Newco achieving the operating plan established for it in consultation with the Executive for the preceding year. Such bonus shall be payable during the Term in respect of each calendar year. The Company shall use its best efforts to pay such bonus within 90 days after the end of each such year but in no event shall such bonus be paid more than 120 days after the end of such calendar year. Notwithstanding the foregoing, the bonus payable shall not be less than \$500,000 in respect of the portion of 1996 in which the Executive served and not less than \$150,000 in respect of each of the following two calendar years. No bonus shall be payable for the portion of the calendar year 1999 unless the stated Term of this Agreement is extended.

3.3 Business Expenses. The Company shall pay or reimburse the Executive for all reasonable expenses actually incurred or paid by the Executive during the Term in the performance of the Executive's services under this Agreement, upon presentation of expense statements or vouchers or such other supporting information as the Company customarily may require of its officers provided, however, that the maximum amount available for such expenses

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during any period may be fixed in advance by the Chairman or Vice Chairman of the Board of Directors, the President of the Company, or the Board of Directors. The Executive shall be entitled to travel first class and stay at first class hotels while travelling on behalf of the Company.

3.4 Vacation. During the Term, the Executive shall be entitled to a vacation period or periods of four weeks taken in accordance with the vacation policy of the Company during each year of the Term. Vacation time not used by the end of a year shall be forfeited.

3.5 Fringe Benefits. During the Term, the Executive

shall be entitled to all benefits for which the Executive shall be eligible under any qualified pension plan, 401(k) plan, group insurance or other so-called "fringe" benefit plan which the Company provides to its employees or senior executive officers generally, together with executive medical benefits for the Executive, the Executive's spouse and the Executive's children as from time to time in effect for officers of the Company generally.

3.6 Marvel Software Equity. The Executive shall receive a 1.5% equity interest in the Company's newly established subsidiary to be known as Marvel Software (such interest referred to herein as the "Software Equity"). It is the intent of the parties that the Software Equity should at all times represent one and one-half percent of the aggregate profits and distributions received by the Company and the Executive subject to the following: The Software Equity shall receive one and one-half percent (1.5%) of such profits and distributions after return to the Company of the carrying cost of its investment (whether in the form of cash, property or other rights) in Marvel Software (the "Software Carrying Cost"). Marvel shall have the right to royalty payments (at a rate of 10%) for any property rights licensed to Marvel Software. Upon disposition or liquidation of Marvel Software, the Software Equity shall be entitled to receive one and one-half percent (1.5%) of the aggregate value, after return to the Company of said investment and any accrued and unpaid Software

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Carrying Cost, received by the Company and the Executive. By way of illustration only, if the Software Equity consists of Common Stock, the Company could own the other 98.5% of the Common Stock, and its investment could take the form of either (a) preferred stock bearing a dividend equal to the Software Carrying Cost and having a liquidation preference equal to the amounts invested by the Company or (b) debt in a face amount equal to the amounts invested by the Company and bearing interest at a rate equal to the Software Carrying Cost. However, the parties agree to consider any other capital structure which accomplishes the general principles set forth above. For purposes of this Agreement, the Software Carrying Cost shall equal the daily average rate of all outstanding indebtedness of the Company.

The Software Equity shall be issued as soon as practicable after execution of this Agreement. Simultaneously therewith, the parties shall enter into a Stockholders' Agreement regarding Marvel Software which shall provide the Executive with the following:

(i) Anti-dilution rights relative to the combined interest of the Executive and the Company (net of the Company's investment and accrued and unpaid Software Carrying Cost);

(ii) Piggyback registration rights;

(iii) Tag along sale rights;

(iv) the ability to exercise the Put and Call described below in the event of a Change of Control (as defined below) of the Company. In the event of a sale of Marvel Software to other than an affiliate of the Company, the Software Equity shall receive one and one-half percent (1.5%) of the total consideration received by the Executive and the Company after deduction of the Company's investment and accrued and unpaid Software Carrying Cost. In the event of a sale of Marvel Software to an affiliate of the Company, the Software Equity shall receive the Established Value (as defined below). Upon termination of

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the Term for any reason, the Executive shall have the right to require the Company to purchase the Executive's Software Equity (the "Put") and the Company shall have the right to require the Executive to sell the Executive's Software Equity to the Company (the "Call"). In the event of a public offering of Marvel Software equity, the Company shall have the right to Call the Software Equity at a purchase price equal to the public offering price or the Established Value, (as defined below) at the option of the Software Equity. Any purchase or sale pursuant to the Put or Call shall be at the Established Value thereof. "Established Value" shall be the applicable percentage of the value of Marvel Software, such value to be determined by an appraisal performed by an appraiser mutually agreed to by the Executive and the Company. If the Executive and the Company fail to agree on an appraiser, then the Executive and the Company each shall select an appraiser and such two appraisers shall select a third appraiser. The appraisal which results in neither the highest nor lowest value shall be deemed to be the Established Value. The parties agree that as soon as practicable after the commencement of the Term, they shall execute an agreement mutually satisfactory to both parties governing the terms and conditions of the Software Equity consistent with the general principles set forth herein.

3.7. Stock Options. The Company shall grant to the Executive options to purchase 250,000 shares of the Company's common stock at or about the first day of each year of the Term (the first grant to be on the date hereof at an exercise price of \$12.50). The options will have an exercise price equal to the stock price on the date of grant. The options will vest immediately in the case of the first grant and in the case of the grants made in the second and third years will vest 1/3 on each of the first, second and third anniversaries of grant. In the event that the Executive terminates this Agreement pursuant to Section 4.4 or the Executive shall die during the Term or the Term is terminated pursuant to Section 4.2 all stock options granted shall immediately vest. The Company will permit "cashless exercise" of vested options and use reasonable efforts to afford the Executive (or his permitted succes-

sor) the ability to utilize such "cashless exercise." The Company shall take all actions necessary to assure that sufficient shares of the Company's common stock are authorized and reserved for issuance upon exercise of the stock options granted hereunder.

3.8 Additional Benefits. During the Term, the Executive shall be entitled to such other benefits as are specified in Appendix I to this Agreement.

4. Termination.

4.1 Death. If the Executive shall die during the Term, the Term shall terminate and no further amounts or benefits shall be payable hereunder, except that the Executive's legal representatives shall be entitled to receive continued payments in an amount equal to 60% of the Base Salary and the 60% minimum bonus guaranteed pursuant to Section 3.2, in the manner specified in Sections 3.1 and 3.2, as applicable, until the end of the Term (as in effect immediately prior to the Executive's death) or, if the Company has not then given written notice of non-renewal pursuant to Section 2.2, for a period of twelve months after the last day of the month in which termination described in this Section 4.1 occurred, whichever is longer.

4.2 Disability. If during the Term the Executive shall become physically or mentally disabled, whether totally or partially, such that the Executive is unable to perform the Executive's services hereunder for (i) a period of six consecutive months or (ii) for shorter periods aggregating six months during any twelve month period, the Company may at any time after the last day of the six consecutive months of disability or the day on which the shorter periods of disability shall have equalled an aggregate of six months, by written notice to the Executive (but before the Executive has recovered from such disability), terminate the Term and no further amounts or benefits shall be payable hereunder, except that the Executive shall be entitled to receive continued payments in an amount equal to 60% of the Base Salary and the 60% minimum

bonus guaranteed pursuant to Section 3.2, in the manner specified in Sections 3.1 and 3.2 until the end of the Term (as in effect immediately prior to such termination) or, if the Company has not then given notice of non-renewal pursuant to Section 2.2, for a period of twelve months after the last day of the month in which termination described in this Section 4.2 occurred, whichever is longer. If the Executive shall die before receiving all payments to be made by the Company in accordance with the foregoing, such payments shall be made to a beneficiary designated by the Executive on a form

prescribed for such purpose by the Company, or in the absence of such designation to the Executive's legal representative. Notwithstanding anything to the contrary in the Company's stock option plan, Executive shall be permitted to exercise all vested options for twelve months after a termination for disability under this Section 4.2.

4.3 Cause. In the event of gross neglect (as described in reasonable detail in any notice of termination but without a right to cure) by the Executive of the Executive's duties hereunder, conviction of the Executive of any felony, or conviction of the Executive of any lesser crime or offense involving the property of the Company or any of its subsidiaries or affiliates, or willful misconduct by the Executive in connection with the performance of any material portion of the Executive's duties hereunder, or breach by the Executive of any material provision of this Agreement or any other conduct on the part of the Executive which would make the Executive's continued employment by the Company materially prejudicial to the best interests of the Company, the Company may at any time by written notice to the Executive terminate the Term and, upon such termination, this Agreement shall terminate and the Executive shall be entitled to receive no further amounts or benefits hereunder, except any as shall have been earned to the date of such termination.

4.4 Company Breach. In the event of the breach of any material provision of this Agreement by the Company, the Executive shall be entitled to terminate the Term upon 60 days' prior written notice to the Company.

Upon such termination, or in the event the Company terminates the Term or this Agreement other than pursuant to the provisions of Section 4.2 or 4.3, the Company shall continue to provide the Executive both (i) payments of Base Salary, in the manner and amount specified in Section 3.1 and any guaranteed bonus provided for in Section 3.2 and (ii) fringe benefits and additional benefits in the manner and amounts specified in Sections 3.5 and 3.8 until the end of the Term (as in effect immediately prior to such termination) or, if the Company has not then given written notice of non-renewal pursuant to Section 2.2, for a period of twelve months after the last day of the month in which termination described in this Section 4.4 occurred, whichever is longer (the "Damage Period"). To the extent that the Executive shall earn compensation during the Damage Period (without regard to when such compensation is paid), the Base Salary payments to be made by the Company pursuant to this Section 4.4 shall be correspondingly reduced.

In the event that a Change in Control has occurred and within 120 days thereafter either (x) the Company terminates the Term or this Agreement other than pursuant to the provisions of Section 4.1, 4.2 or 4.3 or (y) the Executive terminates this Agreement pursuant to Section 4.4, the Company shall pay the Executive, in addition to any other amounts owing

hereunder, an amount equal to (i) 750,000 less the number of options granted to the Executive (whether or not vested) times (ii) the difference between the closing price for the Company's common stock on the date of termination (or if such day is not a trading day then on the immediately preceding trading day) and the option exercise price of the stock options granted to the Executive upon the commencement of the Term.

For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to occur (A) if during the Term, Ronald O. Perelman, individually, or his estate, heirs or personal representatives or any trust created for the benefit of his wife or children, or any corporation or other entity which such persons control (collectively, "Permitted Holders"), directly or indirectly, cease to maintain "beneficial ownership" (as defined in

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Rule 13d-3 ("Rule 13d-3") of the Securities Exchange Act of 1934, as amended), individually or in the aggregate, of securities of the Company representing twenty percent (20%) or more of the combined ordinary voting power of the Company's then outstanding securities and any "person" (as defined in Rule 13d-3) or "persons" acting in concert, other than one or more Permitted Holders, is or becomes the "beneficial owner" (as defined in Rule 13d-3), directly or indirectly, individually or in the aggregate, of securities of the Company representing twenty percent (20%) or more of the combined ordinary voting power of the Company's then outstanding securities or (B) upon the merger or other business combination of the Company with or into another corporation, partnership, or other entity in which the Company does not survive or survives as a subsidiary of another entity, and in such case immediately after such event Permitted Holders, directly or indirectly, cease to maintain "beneficial ownership" (as defined in Rule 13d-3) individually or in the aggregate, of securities of the entity which survives the merger or other business combination representing twenty percent (20%) or more of the combined ordinary voting power of such entity's then outstanding securities and any "person" (as defined in Rule 13d-3) or "persons" acting in concert, other than one or more Permitted Holders, is or becomes the "beneficial owner" (as defined in Rule 13d-3), directly or indirectly, individually or in the aggregate, of securities of such entity representing twenty percent (20%) or more of the combined ordinary voting power of such entity's then outstanding securities or (C) upon the sale of substantially all of the assets of the Company to a non-affiliate of the Company.

4.5 Litigation Expenses. Except as provided for in Section 5.7, if the Company and the Executive become involved in any action, suit or proceeding relating to the alleged breach of this Agreement by the Company or the Executive, and if a judgment in such action, suit or proceeding is rendered in favor of the Executive, the Company shall reimburse the Executive for all expenses (including reasonable attorneys' fees) incurred by the Executive in connection with such action, suit or proceeding. Such costs shall

be paid to the Executive promptly

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upon presentation of expense statements or other supporting information evidencing the incurrence of such expenses.

4.6 Additional Payments. To the extent that the Company agrees to provide to any other senior executive of the Company upon death or disability continued payments of Base Salary in excess of the 60% set forth in Section 4.1 or 4.2, this Agreement shall be deemed to be amended to provide to the Executive such greater benefit. In any dispute concerning the provisions of this paragraph, an affidavit from the Chief Executive Officer or Chief Financial Officer of the Company shall be deemed for all purposes to be conclusive evidence of whether any other senior executive contract contains any such provisions. Executive expressly waives any right to obtain copies of contracts of other executives or employees of the Company, including in the event of litigation concerning this Agreement.

4.7 Late Payments. In the event of any dispute during which the Company withholds payment which is ultimately determined to be due hereunder, any and all amounts not paid when due hereunder shall bear interest through the date of payment at a rate equal to one hundred and twenty percent (120%) of the average rate paid (or payable) by the Company for borrowings under its revolving credit facility during the period of the dispute.

5. Protection of Confidential Information;
Non-Competition.

5.1 In view of the fact that the Executive's work for the Company will bring the Executive into close contact with many confidential affairs of the Company not readily available to the public, and plans for future developments, the Executive agrees:

5.1.1 To keep and retain in the strictest confidence all confidential matters of the Company, including, without limitation, "know how", trade secrets, customer lists, pricing policies, operational methods, technical

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processes, formulae, inventions and research projects, and other business affairs of the Company, learned by the Executive heretofore or hereafter, and not to disclose them to anyone outside of the Company, either during or after the Executive's employment with the Company, except in the course of performing the Executive's duties hereunder or with the Company's express written consent (the foregoing prohibition shall not apply, however, to the

extent that any information has become publicly available other than as a result of a disclosure by the Executive in violation of this Agreement or as required by law). The foregoing prohibitions shall include, without limitation, directly or indirectly publishing (or causing, participating in, assisting or providing any statement, opinion or information in connection with the publication of) any diary, memoir, letter, story, photograph, interview, article, essay, account or description (whether fictionalized or not) concerning any of the foregoing, publication being deemed to include any presentation or reproduction of any written, verbal or visual material in any communication medium, including any book, magazine, newspaper, theatrical production or movie, or television or radio programming or commercial; and

5.1.2 To deliver promptly to the Company on termination of the Executive's employment by the Company, or at any time the Company may so request, all memoranda, notes, records, reports, manuals, drawings, blueprints and other documents (and all copies thereof) relating to the Company's business and all property associated therewith, which the Executive may then possess or have under the Executive's control.

5.2 During the Term, the Executive shall not, directly or indirectly, enter the employ of, or render any services to, any person, firm or corporation engaged in any business competitive with the business of the Company or of any of its subsidiaries or affiliates; the Executive shall not engage in such business on the Executive's own account; and the Executive shall not become interested in any such business, directly or indirectly, as an individual, partner, shareholder, director, officer, principal,

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agent, employee, trustee, consultant, or in any other relationship or capacity provided, however, that nothing contained in this Section 5.2 shall be deemed to prohibit the Executive from acquiring, solely as an investment, up to five percent (5%) of the outstanding shares of capital stock of any public corporation.

5.3 If the Executive commits a breach, or threatens to commit a breach, of any of the provisions of Sections 5.1 or 5.2 hereof, the Company shall have the following rights and remedies:

5.3.1 The right and remedy to have the provisions of this Agreement specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to the Company and that money damages will not provide an adequate remedy to the Company; and

5.3.2 The right and remedy to require the Executive to account for and pay over to the Company all compensation, profits, monies, accruals, increments or other benefits (collectively "Benefits") derived or received by the Executive as the result of any transactions constituting a

breach of any of the provisions of the preceding paragraph, and the Executive hereby agrees to account for and pay over such Benefits to the Company.

Each of the rights and remedies enumerated above shall be independent of the other, and shall be severally enforceable, and all of such rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

5.4 If any of the covenants contained in Sections 5.1 or 5.2, or any part thereof, hereafter are construed to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants, which shall be given full effect, without regard to the invalid portions.

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5.5 If any of the covenants contained in Sections 5.1 or 5.2, or any part thereof, are held to be unenforceable because of the duration of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or area of such provision and, in its reduced form, said provision shall then be enforceable.

5.6 The parties hereto intend to and hereby confer jurisdiction to enforce the covenants contained in Sections 5.1 and 5.2 upon the courts of any state within the geographical scope of such covenants. In the event that the courts of any one or more of such states shall hold such covenants wholly unenforceable by reason of the breadth of such covenants or otherwise, it is the intention of the parties hereto that such determination not bar or in any way affect the Company's right to the relief provided above in the courts of any other states within the geographical scope of such covenants as to breaches of such covenants in such other respective jurisdictions, the above covenants as they relate to each state being for this purpose severable into diverse and independent covenants.

5.7 In the event that any action, suit or other proceeding in law or in equity is brought to enforce the covenants contained in Sections 5.1 and 5.2 or to obtain money damages for the breach thereof, and such action results in the award of a judgment for money damages or in the granting of any injunction in favor of the Company, all expenses (including reasonable attorneys' fees) of the Company in such action, suit or other proceeding shall (on demand of the Company) be paid by the Executive. In the event the Company fails to obtain a judgment for money damages or an injunction in favor of the Company, all expenses (including reasonable attorneys' fees) of the Executive in such action, suit or other proceeding shall (on demand of the Executive) be paid by the Company.

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6. Inventions and Patents.

6.1 The Executive agrees that all processes, technologies and inventions (collectively, "Inventions"), including new contributions, improvements, ideas and discoveries, whether patentable or not, conceived, developed, invented or made by him during the Term shall belong to the Company, provided that such Inventions grew out of the Executive's work with the Company or any of its subsidiaries or affiliates, are related in any manner to the business (commercial or experimental) of the Company or any of its subsidiaries or affiliates or are conceived or made on the Company's time or with the use of the Company's facilities or materials. The Executive shall further: (a) promptly disclose such Inventions to the Company; (b) assign to the Company, without additional compensation, all patent and other rights to such Inventions for the United States and foreign countries; (c) sign all papers necessary to carry out the foregoing; and (d) give testimony in support of the Executive's inventorship.

6.2 If any Invention is described in a patent application or is disclosed to third parties, directly or indirectly, by the Executive within one year after the termination of the Executive's employment by the Company, it is to be presumed that the Invention was conceived or made during the Term.

6.3 The Executive agrees that the Executive will not assert any rights to any Invention as having been made or acquired by the Executive prior to the date of this Agreement, except for Inventions, if any, disclosed to the Company in writing prior to the date hereof.

7. Intellectual Property.

The Company shall be the sole owner of all the products and proceeds of the Executive's services hereunder, including, but not limited to, all materials, ideas, concepts, formats, suggestions, developments, arrangements, packages, programs and other intellectual properties that the Executive may acquire, obtain, develop or create in

connection with and during the Term (the "Intellectual Property"), provided that the Intellectual Property grew out of the Executive's work with the Company or any of its subsidiaries or affiliates, are related in any manner to the business (commercial or experimental) of the Company or any of its subsidiaries or affiliates or are conceived or made on the Company's time or with the use of the Company's facilities or materials, free and clear of any claims by the Executive (or anyone claiming under the Executive) of any kind or character whatsoever (other than the Executive's right to receive payments hereunder). The Executive shall, at the request of the Company, execute such assignments, certificates or other instruments as the Company may from time to time deem necessary or desirable to evidence, establish, maintain, perfect,

protect, enforce or defend its right, title or interest in or to any such properties.

8. Indemnification.

The Company will indemnify the Executive, to the maximum extent permitted by applicable law, against all costs, charges and expenses incurred or sustained by the Executive in connection with any action, suit or proceeding to which the Executive may be made a party by reason of the Executive being an officer, director or employee of the Company or of any subsidiary or affiliate of the Company.

9. Notices.

All notices, requests, consents and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, sent by overnight courier or mailed first class, postage prepaid, by registered or certified mail (notices mailed shall be deemed to have been given on the date mailed), as follows (or to such other address as either party shall designate by notice in writing to the other in accordance herewith):

If to the Company, to:

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Marvel Entertainment Group, Inc.
387 Park Avenue South
New York, New York 10016
Attention: Paul Shapiro
Executive Vice President and
General Counsel

If to the Executive, to:

Scott C. Marden
440 West End Avenue
New York, New York 10024

10. General.

10.1 This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely in New York.

10.2 The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

10.3 This Agreement sets forth the entire agreement and understanding of the parties relating to the subject matter hereof, and supersedes all prior agreements, arrangements and understandings, written or oral, relating to the subject matter hereof. No representation, promise or inducement has been made by either party that is not embodied in this Agreement, and neither party shall be bound by or liable for any alleged representation, promise or inducement not so set forth.

10.4 This Agreement, and the Executive's rights and obligations hereunder, may not be assigned by the Executive. The Company may assign its rights, together with its obligations, hereunder (i) to any affiliate or (ii) to third parties in connection with any sale, transfer or other disposition of all or substantially all of its business or assets; in any event the obligations of the

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Company hereunder shall be binding on its successors or assigns, whether by merger, consolidation or acquisition of all or substantially all of its business or assets.

10.5 This Agreement may be amended, modified, superseded, canceled, renewed or extended and the terms or covenants hereof may be waived, only by a written instrument executed by both of the parties hereto, or in the case of a waiver, by the party waiving compliance. The failure of either party at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by either party of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

11. Subsidiaries and Affiliates.

11.1 As used herein, the term "subsidiary" shall mean any corporation or other business entity controlled directly or indirectly by the corporation or other business entity in question, and the term "affiliate" shall mean and include any corporation or other business entity directly or indirectly controlling, controlled by or under common control with the corporation or other business entity in question.

12. Additional Representations.

12.1 The Company represents and warrants that it is duly authorized to enter this Agreement and perform its obligations hereunder.

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12.2 The Executive represents and warrants that the execution, delivery and performance of this Agreement by the Executive will not violate the terms of any other agreement to which the Executive is a party.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

MARVEL ENTERTAINMENT GROUP, INC.

By:/s/ Paul E. Shapiro

/s/ Scott C. Marden

Scott C. Marden

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APPENDIX I

Additional Benefits:

1. Medical Examination. The Executive shall be reimbursed by the Company for the reasonable cost of one annual medical examination upon presentation of an expense statement.

2. Automobile. The Company shall afford the Executive the right to use an automobile on a continuing basis and shall provide garaging near the Executive's residence, all on the following basis. The Company shall pay, upon presentation of an expense statement, all reasonable expenses associated with the operation of such automobile and the rental of such garage space in the same manner as is, from time to time, in effect with respect to executive officers of the Company generally, including, without limitation, all reasonable maintenance and insurance expenses. The automobile furnished by the Company shall be a late model top-of-the-line Range Rover or BMW 7 Series or like vehicle to be reasonably selected by the Executive. Upon the expiration of the Term, the Executive promptly shall return the automobile to the Company.

3. Insurance. The Company agrees to provide the Executive with additional term life insurance coverage with a face amount of twice the then current Base Salary, subject to the insurer's satisfaction with the results of any required medical examination to which the Executive hereby

agrees to submit, on the following basis. The Executive may select a plan of his choice and may designate the beneficiary of such plan. The Company shall pay, upon presentation of an expense statement, the periodic premiums relating to such additional term life insurance payable during the Term. The policy shall be the property of the Executive.

4. Tax Advisor. The Executive shall be reimbursed by the Company, upon presentation of an expense statement, for the reasonable fees and disbursements of a personal tax advisor to be selected by the Executive.

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5. Club Membership. The Company shall reimburse the Executive, upon presentation of an expense statement, for all reasonable initiation fees and periodic dues for membership in a club of the Executive's choice.

6. Estate Planning. The Executive shall be reimbursed by the Company, upon presentation of an expense statement, for the reasonable fees and disbursements of an estate planning advisor to be selected by the Executive.

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STANDSTILL AGREEMENT AND AMENDMENT

STANDSTILL AGREEMENT AND AMENDMENT, dated as of December 20, 1996 (this "Agreement"), among the signatories hereto as parties to any one or more of the Covered Documents (as defined below).

W I T N E S S E T H:

- - - - -

WHEREAS, Marvel Entertainment Group, Inc. ("Marvel") and certain of its Subsidiaries have filed or intend to file voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") commencing a jointly administered case (the "Bankruptcy Case") under the Bankruptcy Code;

WHEREAS, certain Subsidiaries of Marvel have not filed petitions for relief under the Bankruptcy Code;

WHEREAS, the parties hereto wish to enter into a standstill agreement with respect to such non-filing Subsidiaries and to amend certain provisions of the Covered Documents;

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements contained herein, and intending to be legally bound hereby, the parties hereto hereby agree as follows.

1. Definitions. The following terms shall have the following meanings when used herein:

"Agent": The Chase Manhattan Bank (formerly known as Chemical Bank), as agent or administrative agent (as the case may be) under any Covered Document.

"Bank": any bank, fund, other financial institution or other Person (other than Marvel, its subsidiaries and its affiliates) that is a party to, or holds a participating interest in, any Covered Document.

"Covered Documents": the collective reference to (i) the Amended and Restated Credit and Guarantee Agreement, dated as of August 30, 1994 (as heretofore

and hereafter amended, supplemented or otherwise modified, the "Fleer

Agreement"), among Marvel, Fleer Corp., the financial institutions parties thereto, the co-agents parties thereto, and the Agent, (ii) the Credit and Guarantee Agreement, dated as of April 24, 1995 (as heretofore and hereafter amended, supplemented or otherwise modified, the "SkyBox Agreement"), among Marvel, Fleer Corp., the financial institutions parties thereto, the co-agents parties thereto and the Agent, (iii) the Term Loan and Guarantee Agreement, dated as of August 30, 1994 (as heretofore and hereafter amended, supplemented or otherwise modified, the "Local Loan Agreement"), among Panini, S.p.A. (as successor to Marvel Comics Italia, S.r.l.), Marvel and Istituto Bancario San Paolo di Torino, S.p.A., (iv) the Participation Agreement, dated as of August 30, 1994 (as heretofore and hereafter amended, supplemented or otherwise modified, the "Participation Agreement"), among Istituto Bancario San Paolo di Torino, S.p.A., the Agent and the banks and other financial institutions parties thereto, (v) the Line of Credit, dated as of March 27, 1996 (as heretofore and hereafter amended, supplemented or otherwise modified, the "Line of Credit"), among Fleer Corp., the financial institutions parties thereto and the Agent, (vi) each letter of credit issued for the account of Marvel or any of its Subsidiaries by a bank or other financial institution which is a party to the SkyBox Agreement or the Fleer Agreement, (vii) each interest rate agreement between Marvel or any of its Subsidiaries and a bank or other financial institution which is a party to the SkyBox Agreement or the Fleer Agreement, (viii) each other Credit Document (as defined in any of the foregoing) and (ix) each other promissory note, security agreement, pledge agreement, guarantee, mortgage or other document, instrument or agreement delivered in connection with, or otherwise relating to, any of the foregoing.

"Covered Obligations": all obligations and liabilities of Marvel and its Subsidiaries to the Agent or any Bank, whether or not arising under any Covered Document.

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"Final Order Date": the first date upon which (i) an order of the United States Bankruptcy Court for the District of Delaware is entered confirming the Plan of Reorganization of Marvel and certain of its subsidiaries prior to June 30, 1997, (ii) such order shall not have been stayed, reversed, vacated, rescinded, amended or otherwise modified in any respect and (iii) such order shall not be the subject of an appeal, motion for rehearing or reconsideration, petition for certiorari or other like motion and the time for filing any such motion shall have expired.

"Person": an individual, a partnership, a corporation, a business trust, a joint stock company, a trust, an unincorporated association, a joint venture, a governmental authority or any other entity of whatever nature.

"Plan of Reorganization": a plan of reorganization for Marvel and its Subsidiaries that are the subject of the Bankruptcy Case, substantially similar to the form provided to the parties hereto prior to the date hereof in connection with the solicitation of their approval of such plan.

"Specified Parties": the collective reference to the Required Banks under (and as defined in) the Fleer Agreement and the SkyBox Agreement, the Majority Participants under (and as defined in) the Participation Agreement and the Banks holding the majority of the commitments under (and as defined in) the Line of Credit.

"Standstill Period": the period commencing with the filing of the petition for bankruptcy relief of Marvel and ending on the Termination Date.

"Subsidiary": of any Person, a corporation or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the directors of such corporation, or other Persons performing similar

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functions for such entity, are owned, directly or indirectly, by such Person; unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of Marvel.

"Termination Date": the earliest of (a) June 30, 1997, (b) the date upon which Marvel or any of its Subsidiaries shall commence any lawsuit or other legal action (other than any such lawsuit or other action which is reasonably commenced by Marvel or a Subsidiary to enforce its rights hereunder) against the Agent or any of the Banks or with respect to any of the Covered Obligations, (c) the date upon which any payment default occurs under any of the Covered Documents and (d) the Final Order Date.

2. Amendments to Covered Documents. (a) Notwithstanding anything to the contrary contained in any of the Covered Documents, each Bank hereby agrees to permit its loans under the Covered Documents to be outstanding (to the extent applicable) as Eurodollar Loans or Eurocurrency Loans (as each such term is defined in the applicable Covered Documents) during the Standstill Period; provided that, in the event that the Interest Period (as defined in the applicable Covered Document) for any such Eurodollar Loan or Eurocurrency Loan (as the case may be) is longer than one month, such Interest Period shall have a scheduled expiry on or prior to June 30, 1997.

(b) Notwithstanding anything to the contrary contained in any of the Covered Documents, each Bank hereby agrees that during the Standstill Period its lending commitment under any Covered Document shall not automatically terminate or be accelerated upon the commencement of the Bankruptcy Case, but rather shall be suspended and shall be reinstated upon confirmation of, and in accordance with the terms of, the Plan of Reorganization.

3. Standstill. Each of the Banks and the Agent hereby agrees that it shall not take any action, by lawsuit, foreclosure, setoff or otherwise during the Standstill Period to accelerate, terminate or collect any of the Covered Obligations or to realize upon any of the collateral security or guarantee obligations held with respect to any of the Covered Obligations

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against any Subsidiary of Marvel that is not the subject of the Bankruptcy Case.

4. Authorization to Agent. Each of the Banks hereby authorizes and instructs the Agent to execute and deliver the Non-Disturbance Agreement, substantially in the form of Exhibit A hereto, upon the consummation of the Plan of Reorganization.

5. Effective Date; Conditions Precedent. (a) The standstill agreement contained in paragraph 3 shall become effective as of the date upon which the Bankruptcy Case is commenced provided that the Agent shall have received counterparts of this Agreement, duly executed by the requisite Banks under the Covered Documents.

(b) Each of the other provisions of this Agreement shall become effective as of the date first written above upon:

(i) receipt by the Agent of counterparts of this Agreement, duly executed by the requisite Banks under the Covered Documents; and

(ii) to the extent that this Agreement has been executed and delivered by the Specified Parties, receipt by each Bank who executes and delivers this Agreement on or prior to December 20, 1996 of a fee in the amount equal to 25 b.p. on (i) the Revolving Credit Commitment of such Bank under (and as defined in) the Fler Agreement, (ii) the Loans of such Bank under (and as defined in) the SkyBox Agreement, (iii) the participating interests of such Bank in the Term Loans under (and as defined in) the Local Loan Agreement pursuant to the Participation Agreement (including, without limitation, the interest retained by Istituto Bancario San Paolo di Torino, S.p.A. under the Local Loan Agreement) and (iv) the Loans of such Bank under (and as defined in) the Line of Credit.

6. Continued Effectiveness. Except as specifically provided herein, the Covered Documents and the Covered Obligations shall remain in full force and effect and the liens granted to secure the Covered Obligations shall remain

in full force and effect.

7. No Waiver; Cumulative Remedies. No failure to

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exercise and no delay in exercising, on the part of the Agent or any Bank, any right, remedy, power or privilege hereunder or under any Covered Document, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

8. Counterparts; Severability. (a) This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

(b) If any clause or provision of this Agreement shall be held illegal or invalid by any court, the invalidity of such clause or provision shall not affect any of the remaining clauses, provisions or sections hereof, and this Agreement shall be construed and enforced as if such illegal or invalid clause or provision had not been contained herein. In case any agreement or obligation contained in this Agreement shall be held to be in violation of law, then such agreement or obligation shall be deemed to be the agreement or obligation of the parties hereto to the fullest extent permitted by law.

9. Governing Law. This Agreement and the rights and obligations of the parties under this Agreement shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.

10. Amendments and Waivers. No provision of this Agreement may be amended or modified in any way, nor may non-compliance therewith be waived, except pursuant to a written instrument executed by the Agent and the requisite Banks.

11. Transfer Restrictions. Each of the Banks hereby agrees that it will not transfer, sell (by participation or absolute assignment), assign or convey any of the Covered Obligations held by it unless the Person to whom such obligation is transferred agrees in writing to be bound by the provisions of this Agreement and to support the Plan of Reorganization. Any such transfer in violation of this paragraph 11 shall be null and

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void.

12. No Third-Party Beneficiaries. The agreements contained herein shall inure only to the benefit of the parties hereto and of Marvel and its Subsidiaries. There shall be no third-party beneficiaries hereunder, other than Marvel and its Subsidiaries. Marvel and its Subsidiaries shall have the right to enforce the obligations hereunder of the parties hereto as if Marvel and its Subsidiaries were parties hereto.

13. Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing or sent by telegraph or telex and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or when deposited in the mail, or in the case of telegraphic notice, when delivered to the telegraph company, or, in the case of telex notice, when sent, answerback received, addressed as set forth in the Covered Documents or to such address as may be hereafter notified by the respective parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

THE CHASE MANHATTAN BANK (formerly known as Chemical Bank and as successor by merger to The Chase Manhattan Bank, N.A.)

By: /s/ Susan E. Atkins

Name: Susan E. Atkins
Title: Vice President

THE LONG-TERM CREDIT BANK OF JAPAN, LTD., LOS ANGELES AGENCY

By: /s/ Paul B. Clifford

Name: Paul B. Clifford
Title: Deputy General Manager

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THE BANK OF NEW YORK

By: /s/ Catherine G. Goff

Name: Catherine G. Goff
Title: Assistant Vice President

CIBC, INC.

By: /s/ Douglas E. Smith

Name: Douglas E. Smith
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Alan Sidrane

Name: Alan Sidrane
Title: First Vice President

CREDIT LYONNAIS CAYMAN ISLAND
BRANCH

By: /s/ Alan Sidrane

Name: Alan Sidrane
Title: First Vice President

NATIONSBANK, N.A.

By: /s/ Jay T. Wampler

Name: Jay T. Wampler
Title: Vice President

CORESTATES BANK, N.A.

By: /s/ illegible

Name:
Title:

TORONTO-DOMINION (NEW YORK) INC.

By: /s/ Robert G. Harris

Name: Robert G. Harris
Title: Director

THE TORONTO-DOMINION BANK

By: /s/ Robert G. Harris

Name: Robert G. Harris
Title: Director

THE NIPPON CREDIT BANK, LTD.

By: /s/ Yoshihide Watanabe

Name: Yoshihide Watanabe
Title: Vice President

BANK OF AMERICA ILLINOIS

By: /s/ Phillip F. Van Winkle

Name: Phillip F. Van Winkle
Title: Vice President

BANK OF HAWAII

By: /s/ Mark Barra

Name: Mark Barra
Title: Vice President

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Richard D. Hill, Jr.

Name: Richard D. Hill, Jr.
Title: Director

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FLEET BANK

By: /s/ Alex Sade

Name: Alex Sade

Title: Senior Vice President

THE SUMITOMO BANK, LIMITED, NEW YORK
BRANCH

By: /s/ illegible

Name:
Title:

RESTRUCTURED OBLIGATIONS BACKED
BY SENIOR ASSETS B.V.

By: Chancellor Senior Secured
Management, Inc., as
Investment Advisor

By: /s/ Christopher Bondy

Name: Christopher Bondy
Title: Vice President

By:

Name:
Title:

UNION BANK

By: /s/ illegible

Name:
Title:

THE FUJI BANK, LTD. - NEW YORK
BRANCH

By: /s/ Teje Teramoto

Name: Teje Teramoto
Title: Vice President and Manager

VAN KAMPEN AMERICAN CAPITAL PRIME
RATE INCOME TRUST

By: /s/ Jeffrey W. Maillet

Name: Jeffrey W. Maillet
Title: Senior Vice President
and Director

BANKERS TRUST COMPANY

By: /s/ Mary Jo Jolly

Name: Mary Jo Jolly
Title: Assistant Vice President

CHL HIGH YIELD LOAN PORTFOLIO, A
UNIT OF CHASE MANHATTAN BANK

By: /s/ Andrew D. Gordon

Name: Andrew D. Gordon
Title: Managing Director

CREDIT SUISSE

By: /s/ Joel Glodowski

Name: Joel Glodowski
Title: Member of Senior
Management

By: /s/ Chris T. Horgan

Name: Chris T. Horgan
Title: Associate

THE MITSUBISHI TRUST AND BANKING
CORPORATION

By: /s/ Patricia Loret de Mola

Name: Patricia Loret de Mola
Title: Senior Vice President

By: /s/ Louis Ferraira

Name: Louis Ferraira
Title: Vice President

MERRILL LYNCH SENIOR FLOATING RATE
FUND, INC.

By: /s/ R. Douglas Henderson

Name: R. Douglas Henderson
Title: Authorized Signatory

MERRILL LYNCH PRIME RATE PORTFOLIO

By: Merrill Lynch Asset
Management, L.P., as
Investment Advisor

By: /s/ R. Douglas Henderson

Name: R. Douglas Henderson
Title: Authorized Signatory

CERES FINANCE, LTD.

By Chancellor Senior Secured
Management Inc., as
Financial Manager

By: /s/ Christopher A. Bondy

Name: Christopher A. Bondy
Title: Vice President

By:

Name:
Title:

CAPTIVA FINANCE, LTD.

By Chancellor Senior Secured
Management Inc., as
Financial Manager

By: /s/ Christopher A. Bondy

Name: Christopher A. Bondy
Title: Vice President

CITIBANK, N.A.

By:

Name:
Title:

IBJ SCHRODER BANK & TRUST COMPANY

By: /s/ Mary McLaughlin

Name: Mary McLaughlin
Title: Vice President

ISTITUTO BANCARIO SAN PAOLO DI
TORINO, S.P.A., NEW YORK LIMITED
BRANCH

By:

Name:
Title:

FIRST HAWAIIAN BANK

By: /s/ illegible

Name:
Title:

MORGAN GUARANTY TRUST COMPANY OF
NEW YORK

By: /s/ Barbara Sherman

Name: Barbara Sherman
Title: Vice President

CONSENT NUMBER 4 AND SECOND AMENDMENT

CONSENT NUMBER 4 AND SECOND AMENDMENT, dated as of November 25, 1996, to the Credit and Guarantee Agreement, dated as of April 24, 1995 (as amended, supplemented or otherwise modified from time to time, the "SkyBox Credit Agreement"), among the Company, Fler, the banks and other financial institutions from time to time parties thereto (the "SkyBox Banks") and The Chase Manhattan Bank (formerly known as Chemical Bank), as administrative agent (in such capacity, the "Administrative Agent") for the SkyBox Banks.

W I T N E S S E T H :
- - - - -

WHEREAS, the Company, Fler, the SkyBox Banks and the Administrative Agent are parties to the SkyBox Credit Agreement;

WHEREAS, the Company and Fler are parties to the Amended and Restated Credit and Guarantee Agreement, dated as of August 30, 1994 (as amended, supplemented or otherwise modified, the "Fler Credit Agreement"), among the Company, Fler, the financial institutions parties thereto (the "Fler Banks"), the Co-Agents named therein and The Chase Manhattan Bank (formerly known as Chemical Bank), as administrative agent for the Fler Banks;

WHEREAS, the Company and Fler have requested that the SkyBox Credit Agreement be amended as provided herein and the Fler Credit Agreement be amended as provided in Exhibit A hereto; and

WHEREAS, the Administrative Agent and the SkyBox Banks are willing to consent to such amendments to the SkyBox Credit Agreement and the Fler Credit Agreement, but only upon the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Company, Fler, the SkyBox Banks and the Administrative Agent hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the SkyBox Credit Agreement shall have such meanings when used herein.

2. Consent. The Administrative Agent and the SkyBox Banks hereby consent to the amendment of the Fler Credit Agreement substantially in

accordance with the provisions of Waiver Number 1 and Fifth Amendment attached hereto as Exhibit A (the "Fleer Amendment") and acknowledge and agree that provisions of the Fleer Credit Agreement which are expressly stated to be incorporated by reference in the SkyBox Credit Agreement shall be so incorporated in the form which is in effect under the Fleer Credit Agreement after giving effect to the Fleer Amendment.

3. Amendment of Subsection 1.1. Subsection 1.1 of the SkyBox Credit Agreement hereby is amended by:

- (a) deleting in their entirety the definition of the terms "Applicable Margin" and "Local Loan" contained therein;
- (b) inserting therein in proper alphabetical order the following new definitions:

"Applicable Margin" shall mean (a) for each Alternate Base Rate Loan, 2% per annum and (b) for each Eurodollar Loan, 3% per annum;

"Local Loan" shall have the meaning from time to time assigned to such term in the Existing Credit Agreement;

- (c) deleting from the parenthetical contained in clause (c) of the definition of the term "Net Proceeds Event" contained therein the phrase "as in effect on the date the Second Amendment to Existing Credit Agreement becomes effective" and substituting therefor the phrase "as in effect from time to time".

4. Amendment of Subsection 4.10. Subsection 4.10 of the SkyBox Credit Agreement hereby is amended by deleting the date "December 31, 1994" contained therein and by substituting therefor the date "November 25, 1996".

5. Amendment of Subsection 11.12(b). Subsection 11.12

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of the SkyBox Credit Agreement hereby is amended by deleting clause (b) thereof in its entirety and by substituting therefor the following:

(b) any collateral and/or guarantee obligations provided for in any Security Document to the extent necessary to permit the consummation of any transaction permitted by subsection 8.5 or 8.6 of the Existing Credit Agreement; provided that any Net Proceeds resulting from such transaction (other than transactions contemplated by subsection 8.6(i) of the Existing Credit Agreement and any other transactions permitted by subsection 8.5 or 8.6 of the Existing Credit Agreement as in effect as of November 26, 1996) are applied in the manner contemplated by subsection 3.2 of this Agreement.

6. Representations and Warranties. Each of the Company and Fleer

hereby confirms, reaffirms and restates the representations and warranties made by it in Section 4 of the SkyBox Credit Agreement, provided that each reference to the SkyBox Credit Agreement therein shall be deemed to be a reference to the SkyBox Credit Agreement after giving effect to this Amendment and to each other amendment, supplement and other modification executed and delivered by the Company or any of its Subsidiaries on the date hereof. The Company represents and warrants that, after giving effect to this Amendment and to each other amendment, supplement and other modification executed and delivered by the Company or any of its Subsidiaries on the date hereof, no Default or Event of Default has occurred and is continuing.

7. Continuing Effect of SkyBox Credit Agreement. This Consent shall not constitute a waiver, amendment or modification of any other provision of the SkyBox Credit Agreement not expressly referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Company or Fler that would require a waiver or consent of the SkyBox Banks or the Administrative Agent. Except as expressly amended or modified herein, the provisions of the SkyBox Credit Agreement are and shall remain in full force and effect.

8. Counterparts. This Consent may be executed by one or more of the parties hereto on any number of separate

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counterparts and all such counterparts shall be deemed to be one and the same instrument. Each party hereto confirms that any facsimile copy of such party's executed counterpart of this Consent (or its signature page thereof) shall be deemed to be an executed original thereof.

9. Effectiveness. This Consent shall be effective upon receipt by the Administrative Agent of:

- (a) counterparts hereof, duly executed and delivered by the Company, Fler and the Majority Banks; provided that the amendment of the definition of the term "Net Proceeds Event" set forth in Section 3(c) hereof shall become effective only upon receipt by the Administrative Agent of counterparts hereof, duly executed and delivered by the Company, Fler and the Required Banks.
- (b) an amendment fee, for the account of each SkyBox Bank who executes and delivers this Consent prior to November 26, 1996, in the amount equal to 12.5 b.p. on the aggregate outstanding principal amount of the Loans of such SkyBox Bank.

10. GOVERNING LAW. THIS CONSENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Consent to be

duly executed and delivered by their proper and duly authorized officers as of the day and year first above written. MARVEL ENTERTAINMENT GROUP, INC.

By: /s/ Bobby G. Jenkins

Name: Bobby G. Jenkins
Title: Chief Financial Officer

FLEER CORP.

By: /s/ William H. Marks

Name: William H. Marks
Title: Chief Financial Officer

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THE CHASE MANHATTAN BANK (formerly known as Chemical Bank and as successor by merger to The Chase Manhattan Bank, N.A.), as Administrative Agent and as a SkyBox Bank

By: /s/ Susan E. Atkins

Name: Susan E. Atkins
Title: Vice President

THE LONG-TERM CREDIT BANK OF JAPAN, LTD., LOS ANGELES AGENCY

By: /s/ Paul B. Clifford

Name: Paul B. Clifford
Title: Deputy General Manager

THE BANK OF NEW YORK

By: /s/ Catherine G. Goff

Name: Catherine G. Goff
Title: Assistant Vice President

CIBC, INC.

By: /s/ illegible

Name:

Title: Director CIBC Wood Gundy
Securities Corp., as
agent

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Frederick Haddad

Name: Frederick Haddad

Title: Senior Vice President

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CREDIT LYONNAIS CAYMAN ISLAND
BRANCH

By: /s/ Frederick Haddad

Name: Frederick Haddad

Title: Authorized Signatory

NATIONSBANK, N.A.

By: /s/ Margaret Flanagan

Name: Margaret Flanagan

Title: Associate

CORESTATES BANK, N.A.

By: /s/ illegible

Name:

Title:

TORONTO-DOMINION (NEW YORK) INC.

By: /s/ Victor J. Huebner

Name: Victor J. Huebner
Title: Director

THE NIPPON CREDIT BANK, LTD.

By: /s/ Yoshihide Watanabe

Name: Yoshihide Watanabe
Title: Vice President
and Manager

BANK OF AMERICA ILLINOIS

By: /s/ L. Dustin Vincent

Name: L. Dustin Vincent
Title: Managing Director

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BANK OF HAWAII

By: /s/ Mark Bara

Name: Mark Bara
Title: Vice President

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Richard D. Hill, Jr.

Name: Richard D. Hill, Jr.
Title: Director

FLEET BANK

By: /s/ Alex Sade

Name: Alex Sade
Title: Senior Vice President

THE SUMITOMO BANK, LIMITED, NEW
YORK BRANCH

By: /s/ John C. Kissinger

Name: John C. Kissinger
Title: Joint General Manager

RESTRUCTURED OBLIGATIONS BACKED
BY SENIOR ASSETS B.V.

By: Chancellor LGT Senior
Secured Management, Inc.,
as Portfolio Advisor

By: /s/ Christopher A. Bondy

Name: Christopher A. Bondy
Title: Vice President

By:

Name:
Title:

8

UNION BANK

By: /s/ B. Adam Trout

Name: B. Adam Trout
Title: Assistant Vice President

THE FUJI BANK, LTD. - NEW YORK
BRANCH

By: /s/ Teje Teramoto

Name: Teje Teramoto
Title: Vice President
and Manager

VAN KAMPEN AMERICAN CAPITAL PRIME
RATE INCOME TRUST

By: /s/ Brian Good

Name: Brian Good
Title: Vice President

BANKERS TRUST COMPANY

By:

Name:
Title:

CHL HIGH YIELD LOAN PORTFOLIO, A
UNIT OF THE CHASE MANHATTAN BANK

By: /s/ Andrew D. Gordon

Name: Andrew D. Gordon
Title: Managing Director

9

CREDIT SUISSE

By: /s/ Joel Glodowski

Name: Joel Glodowski
Title: Member of Senior
Management

By: /s/ Chris T. Horgan

Name: Chris T. Horgan
Title: Associate

THE MITSUBISHI TRUST AND BANKING
CORPORATION

By: /s/ Patricia Loret de Mola

Name: Patricia Loret de Mola
Title: Senior Vice President

BANCO CENTRAL HISPANOAMERICANO S.A.

By: /s/ Louis Ferraira

Name: Louis Ferraira
Title: Vice President

MERRILL LYNCH SENIOR FLOATING RATE
FUND, INC.

By: /s/ illegible

Name:
Title:

MERRILL LYNCH PRIME RATE PORTFOLIO
By: Merrill Lynch Asset
Management, L.P., as
Investment Advisor

By: /s/ illegible

Name:
Title:

10

CERES FINANCE, LTD.

By: /s/ Darren P. Riley

Name: Darren P. Riley
Title: Director

CAPTIVA FINANCE, LTD.

By: /s/ Darren P. Riley

Name: Darren P. Riley
Title: Director

EXHIBIT A

WAIVER NUMBER 1 AND FIFTH AMENDMENT

WAIVER NUMBER 1 AND FIFTH AMENDMENT, dated as of November 25, 1996 (this "Amendment"), to the Amended and Restated Credit and Guarantee Agreement, dated as of August 30, 1994 (as amended, supplemented or otherwise modified, the "Fleer Credit Agreement"), among Marvel Entertainment Group, Inc. (the "Company"), Fleer Corp. ("Fleer"), the banks and other financial institutions from time to time parties thereto (the "Fleer Banks"), the Co-Agents named therein and The Chase Manhattan Bank (formerly known as Chemical Bank), as administrative agent (in such capacity, the "Administrative Agent") for the Fleer Banks.

W I T N E S S E T H:

WHEREAS, the Company, Fleer, the Fleer Banks and the Administrative Agent are parties to the Fleer Credit Agreement;

WHEREAS, the Company and Fleer have requested that the Administrative Agent and the Fleer Banks consent to certain transactions and amend certain provisions of the Fleer Credit Agreement, as set forth herein; and

WHEREAS, the Administrative Agent and the Fleer Banks are willing to grant such consents and to effect such amendments, but only upon the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Company, Fleer, the Fleer Banks and the Administrative Agent hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the Fleer Credit Agreement shall have such meanings when used herein.

2. Waiver of Subsection 8.1. The Administrative Agent and the Fleer Banks hereby waive compliance with the provisions of subsection 8.1 of the Fleer Credit Agreement for all periods ending during the period from September 30, 1996 through March 30, 1997.

3. Amendment of Subsection 1.1. Subsection 1.1 of the Fleer Credit Agreement hereby is amended by:

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(a) deleting in their entirety the definition of the terms "Applicable Margin", "Exposure" and "Participation Agreement" contained therein;

(b) inserting therein in proper alphabetical order the following definitions:

"Applicable Margin" shall mean (a) for each Alternate Base Rate Loan, 2% per annum and (b) for each Eurodollar Loan, 3% per annum.

"Exposure" shall mean, at any date, the sum of the Aggregate Commitment at such date and the aggregate amount of participating interests in the Italian L/C then held by the Fler Banks parties to the Participation Agreement;

"Italian L/C" shall mean the letter of credit issued by The Chase Manhattan Bank for the account of Panini which secures the obligations owing by Panini to the Local Lender on account of the Local Loan;

"Participation Agreement" shall mean the Participation Agreement, dated as of November 30, 1996, among the Participants named therein and The Chase Manhattan Bank, as the same may be amended, supplemented or otherwise modified from time to time;

- (c) deleting from the parenthetical contained in clause (c) of the definition of the term "Net Proceeds Event" contained therein the phrase "as in effect as of the Second Amendment Effective Date" and substituting therefor the phrase "as in effect from time to time".

4. Amendment of Subsection 5.10. Subsection 5.10 of the Fler Credit Agreement hereby is amended by deleting the date "December 31, 1993" contained therein and by substituting therefor the date "November 25, 1996".

5. Amendment of Subsection 8.2. Subsection 8.2 of the Fler Credit Agreement hereby is amended by:

- (a) deleting clause (j) thereof in its entirety and substituting therefor the following:

(j) Indebtedness in respect of lines of credit for Panini and its Subsidiaries in an aggregate principal amount not to exceed Italian Lira 75,000,000,000 at any one time outstanding; provided that the proceeds of any borrowings under such lines of credit are used for working capital purposes of the Company and its Subsidiaries;

- (b) deleting from clause (n) thereof the word "and" which appears immediately following the semi-colon at the end thereof;

- (c) deleting from clause (o) thereof (i) the date "December 31, 1996" and substituting therefor the date "March 30, 1997" and (ii) the period which appears at the end thereof and substituting therefor a semi-colon followed by the word "and"; and

- (d) inserting therein as new clause (p) thereof the following:

(p) Indebtedness of Panini in respect of the Italian L/C.

6. Amendment of Subsection 8.6. Subsection 8.6 of the Fleer Credit Agreement hereby is amended by:

- (a) deleting from clause (g) thereof the word "and" which appears immediately following the semi-colon at the end thereof;
- (b) deleting from clause (h) thereof the period which appears at the end thereof by substituting therefor a semi-colon followed by the word "and"; and
- (c) inserting therein as a new clause (i) thereof the following:

(i) the sale to Affiliates of the Company or other third parties of accounts receivable and other assets of the Company and its Subsidiaries upon terms approved by the Majority Banks; provided that (1) the sum of (A) the aggregate fair market value of assets (other than accounts receivable) sold and (B) the amount equal to (i) the aggregate purchase price paid for all accounts receivable sold minus (ii) payments received from account debtors in respect of accounts receivable previously sold, does not exceed \$50,000,000

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in the aggregate and (2) the proceeds thereof shall be used by the Company and its Subsidiaries for working capital purposes in the ordinary course of business.

7. Amendment of Subsection 8.10. Subsection 8.10 of the Fleer Credit Agreement hereby is amended by (a) deleting the word "and" which appears at the end of clause (iii) of the proviso thereto and substituting a comma therefor and (b) inserting immediately before the period at the end thereof the following:

and (v) sales, transfers and other dispositions permitted by subsection 8.6(i)

8. Amendment of Subsection 12.12(b). Subsection 12.12 of the Fleer Credit Agreement hereby is amended by deleting clause (b) thereof in its entirety and by substituting therefor the following:

(b) any collateral and/or guarantee obligations provided for in any Security Document to the extent necessary to permit the consummation of any transaction permitted by subsection 8.5 or 8.6 of this Agreement; provided that any Net Proceeds resulting from such transaction (other than transactions contemplated by subsection 8.6(i) and any other transactions permitted by subsection 8.5 or 8.6 as in effect as of November 26, 1996) are applied in the manner contemplated by subsection 4.3 of this Agreement.

9. Consent. The Administrative Agent and the Banks hereby consent that either:

(a) the Term Loan and Guarantee Agreement, dated as of August 30, 1994 (as amended, supplemented or otherwise modified from time to time, the "Existing Italian Agreement"), among the Company, Panini S.p.A. (formerly known as Marvel Comics Italia S.r.l.) and Istituto Bancario San Paolo di Torino, S.p.A., may be amended in order to (i) decrease the "Applicable Margin" set forth therein, (ii) loosen or eliminate certain covenants and defaults contained therein and/or (iii) permit the Lender thereunder (and as defined therein) to assign its rights and obligations thereunder to another lender reasonably acceptable to the Administrative Agent; provided that the terms of such amendment are approved by the Majority Banks; or

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(b) Panini S.p.A. may enter into a term loan agreement (the "Substitute Italian Agreement") with a lender approved by the Majority Banks in an aggregate principal amount not to exceed the amount presently outstanding under the Existing Italian Agreement, bearing interest at a rate not in excess of that applicable to amounts under the Existing Italian Agreement, having a final maturity and amortization which is identical to that contained in the Existing Italian Agreement and otherwise having terms which are approved by the Majority Banks; provided that the proceeds of the Substitute Italian Agreement are applied to pay all amounts outstanding under the Existing Italian Agreement.

In the event that Panini S.p.A. does enter into the Substitute Italian Agreement, all references to the term (i) "Local Lender" contained in the Fleeer Credit Agreement shall be deemed to be references to the lender party to the Local Loan Agreement, (ii) "Local Loan Agreement" contained in the Fleeer Credit Agreement shall be deemed to be references to such amended and restated agreement and (iii) "Local Loan" contained in the Fleeer Credit Agreement shall be deemed to be references to the loan under the Local Loan Agreement.

10. Representations and Warranties. Each of the Company and Fleeer hereby confirms, reaffirms and restates the representations and warranties made by it in Section 5 of the Fleeer Credit Agreement, provided that each reference to the Fleeer Credit Agreement therein shall be deemed to be a reference to the Fleeer Credit Agreement after giving effect to this Amendment and to each other amendment, supplement and other modification executed and delivered by the Company or any of its Subsidiaries on the date hereof. The Company represents and warrants that, after giving effect to this Amendment and to each other amendment, supplement and other modification executed and delivered by the Company or any of its Subsidiaries on the date hereof, no Default or Event of Default has occurred and is continuing.

11. Continuing Effect of Fleeer Credit Agreement. This Amendment shall not constitute a waiver, amendment or modification of any other provision of

the Fleer Credit Agreement not expressly referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Company or Fleer that would require a waiver or consent of the Fleer Banks or the Administrative Agent. Except as expressly

amended or modified herein, the provisions of the Fleer Credit Agreement are and shall remain in full force and effect.

12. Counterparts. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts and all such counterparts shall be deemed to be one and the same instrument. Each party hereto confirms that any facsimile copy of such party's executed counterpart of this Amendment (or its signature page thereof) shall be deemed to be an executed original thereof.

13. Effectiveness. This Amendment shall be effective upon receipt by the Administrative Agent of:

- (a) counterparts hereof, duly executed and delivered by the Company, Fleer and the Majority Banks; provided that (i) the amendment of the definition of the term "Net Proceeds Event" contained in Section 3(c) hereof shall be effective only upon receipt of counterparts hereof, duly executed and delivered by the Company, Fleer and the Required Banks and (ii) the amendment of the terms "Exposure", "Italian L/C" and "Participation Agreement" shall become effective only upon the issuance of the Italian L/C; and
- (b) an amendment fee, for the account of each Fleer Bank who executes and delivers the Amendment prior to November 26, 1996, in the amount equal to 12.5 b.p. on the Revolving Credit Commitment of such Fleer Bank.

14. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

MARVEL ENTERTAINMENT GROUP, INC.

By:

Name:

Title:

FLEER CORP.

By:

Name:
Title:

THE CHASE MANHATTAN BANK (formerly known as Chemical Bank and as successor by merger to The Chase Manhattan Bank, N.A.), as Administrative Agent and as a Bank

By:

Name:
Title:

THE LONG-TERM CREDIT BANK OF JAPAN, LTD., LOS ANGELES AGENCY

By:

Name:
Title:

THE BANK OF NEW YORK

By:

Name:
Title:

CIBC, INC.

By:

Name:
Title:

CREDIT LYONNAIS NEW YORK BRANCH

By:

Name:

Title:

CREDIT LYONNAIS CAYMAN ISLAND
BRANCH

By:

Name:

Title:

NATIONSBANK, N.A.

By:

Name:

Title:

CORESTATES BANK, N.A.

By:

Name:

Title:

THE TORONTO-DOMINION BANK

By:

Name:

Title:

THE NIPPON CREDIT BANK, LTD.

By:

Name:

Title:

BANK OF AMERICA ILLINOIS

By:

Name:

Title:

BANK OF HAWAII

By:

Name:

Title:

THE FIRST NATIONAL BANK OF BOSTON

By:

Name:

Title:

FLEET BANK

By:

Name:

Title:

THE SUMITOMO BANK, LIMITED, NEW YORK BRANCH

By:

Name:

Title:

UNION BANK

By:

Name:

Title:

THE FUJI BANK, LTD. - NEW YORK
BRANCH

By:

Name:

Title:

CITIBANK, N.A.

By:

Name:

Title:

IBJ SCHRODER BANK & TRUST COMPANY

By:

Name:

Title:

ISTITUTO BANCARIO SAN PAOLO DI
TORINO, S.P.A., NEW YORK LIMITED
BRANCH

By:

Name:

Title:

FIRST HAWAIIAN BANK

By:

Name:

Title:

WAIVER NUMBER 1 AND FIFTH AMENDMENT

WAIVER NUMBER 1 AND FIFTH AMENDMENT, dated as of November 25, 1996 (this "Amendment"), to the Amended and Restated Credit and Guarantee Agreement, dated as of August 30, 1994 (as amended, supplemented or otherwise modified, the "Fleer Credit Agreement"), among Marvel Entertainment Group, Inc. (the "Company"), Fleer Corp. ("Fleer"), the banks and other financial institutions from time to time parties thereto (the "Fleer Banks"), the Co-Agents named therein and The Chase Manhattan Bank (formerly known as Chemical Bank), as administrative agent (in such capacity, the "Administrative Agent") for the Fleer Banks.

W I T N E S S E T H :
- - - - -

WHEREAS, the Company, Fleer, the Fleer Banks and the Administrative Agent are parties to the Fleer Credit Agreement;

WHEREAS, the Company and Fleer have requested that the Administrative Agent and the Fleer Banks consent to certain transactions and amend certain provisions of the Fleer Credit Agreement, as set forth herein; and

WHEREAS, the Administrative Agent and the Fleer Banks are willing to grant such consents and to effect such amendments, but only upon the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Company, Fleer, the Fleer Banks and the Administrative Agent hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the Fleer Credit Agreement shall have such meanings when used herein.
2. Waiver of Subsection 8.1. The Administrative Agent and the Fleer Banks hereby waive compliance with the provisions of subsection 8.1 of the Fleer Credit Agreement for all periods ending during the period from September 30, 1996 through March 30, 1997.

3. Amendment of Subsection 1.1. Subsection 1.1 of the Fleer Credit Agreement hereby is amended by:

(a) deleting in their entirety the definition of the terms "Applicable Margin", "Exposure" and "Participation Agreement" contained therein;

(b) inserting therein in proper alphabetical order the following definitions:

"Applicable Margin" shall mean (a) for each Alternate Base Rate Loan, 2% per annum and (b) for each Eurodollar Loan, 3% per annum.

"Exposure" shall mean, at any date, the sum of the Aggregate Commitment at such date and the aggregate amount of participating interests in the Italian L/C then held by the Fler Banks parties to the Participation Agreement;

"Italian L/C" shall mean the letter of credit issued by The Chase Manhattan Bank for the account of Panini which secures the obligations owing by Panini to the Local Lender on account of the Local Loan;

"Participation Agreement" shall mean the Participation Agreement, dated as of November 30, 1996, among the Participants named therein and The Chase Manhattan Bank, as the same may be amended, supplemented or otherwise modified from time to time;

(c) deleting from the parenthetical contained in clause (c) of the definition of the term "Net Proceeds Event" contained therein the phrase "as in effect as of the Second Amendment Effective Date" and substituting therefor the phrase "as in effect from time to time".

4. Amendment of Subsection 5.10. Subsection 5.10 of the Fler Credit Agreement hereby is amended by deleting the date "December 31, 1993" contained therein and by substituting therefor the date "November 25, 1996".

5. Amendment of Subsection 8.2. Subsection 8.2 of the Fler Credit Agreement hereby is amended by:

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(a) deleting clause (j) thereof in its entirety and substituting therefor the following:

(j) Indebtedness in respect of lines of credit for Panini and its Subsidiaries in an aggregate principal amount not to exceed Italian Lira 75,000,000,000 at any one time outstanding; provided that the proceeds of any borrowings under such lines of credit are used for working capital purposes of the Company and its Subsidiaries;

(b) deleting from clause (n) thereof the word "and" which appears immediately following the semi-colon at the end thereof;

(c) deleting from clause (o) thereof (i) the date "December 31, 1996" and

substituting therefor the date "March 30, 1997" and (ii) the period which appears at the end thereof and substituting therefor a semi-colon followed by the word "and"; and

(d) inserting therein as new clause (p) thereof the following:

(p) Indebtedness of Panini in respect of the Italian L/C.

6. Amendment of Subsection 8.6. Subsection 8.6 of the Fler Credit Agreement hereby is amended by:

(a) deleting from clause (g) thereof the word "and" which appears immediately following the semi-colon at the end thereof;

(b) deleting from clause (h) thereof the period which appears at the end thereof by substituting therefor a semi-colon followed by the word "and"; and

(c) inserting therein as a new clause (i) thereof the following:

(i) the sale to Affiliates of the Company or other third parties of accounts receivable and other assets of the Company and its Subsidiaries upon terms approved by the Majority Banks; provided that (1) the sum of (A) the aggregate fair market value of assets (other than accounts receivable) sold and (B) the

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amount equal to (i) the aggregate purchase price paid for all accounts receivable sold minus (ii) payments received from account debtors in respect of accounts receivable previously sold, does not exceed \$50,000,000 in the aggregate and (2) the proceeds thereof shall be used by the Company and its Subsidiaries for working capital purposes in the ordinary course of business.

7. Amendment of Subsection 8.10. Subsection 8.10 of the Fler Credit Agreement hereby is amended by (a) deleting the word "and" which appears at the end of clause (iii) of the proviso thereto and substituting a comma therefor and (b) inserting immediately before the period at the end thereof the following:

and (v) sales, transfers and other dispositions permitted by subsection 8.6(i)

8. Amendment of Subsection 12.12(b). Subsection 12.12 of the Fler Credit Agreement hereby is amended by deleting clause (b) thereof in its entirety and by substituting therefor the following:

(b) any collateral and/or guarantee obligations provided for in any

Security Document to the extent necessary to permit the consummation of any transaction permitted by subsection 8.5 or 8.6 of this Agreement; provided that any Net Proceeds resulting from such transaction (other than transactions contemplated by subsection 8.6(i) and any other transactions permitted by subsection 8.5 or 8.6 as in effect as of November 26, 1996) are applied in the manner contemplated by subsection 4.3 of this Agreement.

9. Consent. The Administrative Agent and the Banks hereby consent that either:

(a) the Term Loan and Guarantee Agreement, dated as of August 30, 1994 (as amended, supplemented or otherwise modified from time to time, the "Existing Italian Agreement"), among the Company, Panini S.p.A. (formerly known as Marvel Comics Italia S.r.l.) and Istituto Bancario San Paolo di Torino, S.p.A., may be amended in order to (i) decrease the "Applicable Margin" set forth therein, (ii) loosen or eliminate certain covenants and defaults contained

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therein and/or (iii) permit the Lender thereunder (and as defined therein) to assign its rights and obligations thereunder to another lender reasonably acceptable to the Administrative Agent; provided that the terms of such amendment are approved by the Majority Banks; or

(b) Panini S.p.A. may enter into a term loan agreement (the "Substitute Italian Agreement") with a lender approved by the Majority Banks in an aggregate principal amount not to exceed the amount presently outstanding under the Existing Italian Agreement, bearing interest at a rate not in excess of that applicable to amounts under the Existing Italian Agreement, having a final maturity and amortization which is identical to that contained in the Existing Italian Agreement and otherwise having terms which are approved by the Majority Banks; provided that the proceeds of the Substitute Italian Agreement are applied to pay all amounts outstanding under the Existing Italian Agreement.

In the event that Panini S.p.A. does enter into the Substitute Italian Agreement, all references to the term (i) "Local Lender" contained in the Fleer Credit Agreement shall be deemed to be references to the lender party to the Local Loan Agreement, (ii) "Local Loan Agreement" contained in the Fleer Credit Agreement shall be deemed to be references to such amended and restated agreement and (iii) "Local Loan" contained in the Fleer Credit Agreement shall be deemed to be references to the loan under the Local Loan Agreement.

10. Representations and Warranties. Each of the Company and Fleer hereby confirms, reaffirms and restates the representations and warranties made by it in Section 5 of the Fleer Credit Agreement, provided that each reference to the Fleer Credit Agreement therein shall be deemed to be a reference to the Fleer Credit Agreement after giving effect to this Amendment and to each other

amendment, supplement and other modification executed and delivered by the Company or any of its Subsidiaries on the date hereof. The Company represents and warrants that, after giving effect to this Amendment and to each other amendment, supplement and other modification executed and delivered by the Company or any of its Subsidiaries on the date hereof, no Default or Event of Default has occurred and is continuing.

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11. Continuing Effect of Fleer Credit Agreement. This Amendment shall not constitute a waiver, amendment or modification of any other provision of the Fleer Credit Agreement not expressly referred to herein and shall not be construed as a waiver or consent to any further or future action on the part of the Company or Fleer that would require a waiver or consent of the Fleer Banks or the Administrative Agent. Except as expressly amended or modified herein, the provisions of the Fleer Credit Agreement are and shall remain in full force and effect.

12. Counterparts. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts and all such counterparts shall be deemed to be one and the same instrument. Each party hereto confirms that any facsimile copy of such party's executed counterpart of this Amendment (or its signature page thereof) shall be deemed to be an executed original thereof.

13. Effectiveness. This Amendment shall be effective upon receipt by the Administrative Agent of:

- (a) counterparts hereof, duly executed and delivered by the Company, Fleer and the Majority Banks; provided that (i) the amendment of the definition of the term "Net Proceeds Event" contained in Section 3(c) hereof shall be effective only upon receipt of counterparts hereof, duly executed and delivered by the Company, Fleer and the Required Banks and (ii) the amendment of the terms "Exposure", "Italian L/C" and "Participation Agreement" shall become effective only upon the issuance of the Italian L/C; and
- (b) an amendment fee, for the account of each Fleer Bank who executes and delivers the Amendment prior to November 26, 1996, in the amount equal to 12.5 b.p. on the Revolving Credit Commitment of such Fleer Bank.

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14. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their proper and duly authorized officers as

of the day and year first above written.

MARVEL ENTERTAINEMENT GROUP, INC.

By: /s/ Bobby G. Jenkins

Name: Bobby G. Jenkins
Title: Chief Financial Officer

FLEER CORP.

By: /s/ William H. Marks

Name: William H. Marks
Title: Chief Financial Officer

THE CHASE MANHATTAN BANK (formerly known as Chemical Bank and as successor by merger to The Chase Manhattan Bank, N.A.), as Administrative Agent and as a Bank

By: /s/ Susan E. Atkins

Name: Susan E. Atkins
Title: Vice President

THE LONG-TERM CREDIT BANK OF JAPAN, LTD., LOS ANGELES AGENCY

By: /s/ Paul B. Clifford

Name: Paul B. Clifford
Title: Deputy General Manager

8

THE BANK OF NEW YORK

By: /s/ Catherine G. Goff

Name: Catherine G. Goff

Title: Assistant Vice President

CIBC, INC.

By: /s/ illegible

Name:

Title: Director CIBC Wood
Gendy Securities Corp.,
as agent

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ Frederick Haddad

Name: Frederick Haddad

Title: Senior Vice President

CREDIT LYONNAIS CAYMAN ISLAND
BRANCH

By: /s/ Frederick Haddad

Name: Frederick Haddad

Title: Authorized Signature

NATIONSBANK, N.A.

By: /s/ Margaret Flanagan

Name: Margaret Flanagan

Title: Associate

CORESTATES BANK, N.A.

By: /s/ illegible

Name:

Title:

THE TORONTO-DOMINION BANK

By: /s/ illegible

Name:
Title:

THE NIPPON CREDIT BANK, LTD.

By: /s/ Yoshihide Watanabe

Name: Yoshihide Watanabe
Title: Vice President
and Manager

BANK OF AMERICA ILLINOIS

By: /s/ L. Dustin Vincent

Name: L. Dustin Vincent
Title: Managing Director

BANK OF HAWAII

By: /s/ Mark Barra

Name: Mark Barra
Title: Vice President

THE FIRST NATIONAL BANK OF BOSTON

By: /s/ Richard D. Hill, Jr.

Name: Richard D. Hill, Jr.
Title: Director

FLEET BANK

By: /s/ Alex Sade

Name: Alex Sade
Title: Senior Vice President

BRANCH

By: /s/ John C. Kissinger

Name: John C. Kissinger
Title: Joint General Manager

UNION BANK

By: /s/ B. Adam Trout

Name: B. Adam Trout
Title: Assistant Vice President

THE FUJI BANK, LTD. - NEW YORK
BRANCH

By: /s/ Teje Teramoto

Name: Teje Teramoto
Title: Vice President
and Manager

CITIBANK, N.A.

By: /s/ James Buchanan

Name: James Buchanan
Title: Attorney-in-Fact

IBJ SCHRODER BANK & TRUST COMPANY

By: /s/ Mary McLaughlin

Name: Mary McLaughlin
Title: Vice President

ISTITUTO BANCARIO SAN PAOLO DI
TORINO, S.P.A., NEW YORK LIMITED
BRANCH

By:

Name:

Title:

FIRST HAWAIIAN BANK

By: /s/ Kathryn A. Plumb

Name: Kathryn A. Plumb

Title: Vice President

=====
REVOLVING CREDIT AND GUARANTY AGREEMENT
=====

AMONG

MARVEL ENTERTAINMENT GROUP, INC., A DEBTOR-IN-POSSESSION,

AS BORROWER

THE SUBSIDIARIES OF THE BORROWER NAMED HEREIN,

AS GUARANTORS

AND

THE BANKS PARTY HERETO,

AND

THE CHASE MANHATTAN BANK,

AS AGENT

=====
DATED AS OF DECEMBER 27, 1996
=====

REVOLVING CREDIT AND GUARANTY AGREEMENT
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REVOLVING CREDIT AND GUARANTY AGREEMENT
Dated as of December 27, 1996

REVOLVING CREDIT AND GUARANTY AGREEMENT, dated as of December 27, 1996 among MARVEL ENTERTAINMENT GROUP, INC., a Delaware corporation (the "Borrower"), a debtor and debtor-in-possession in a case pending under Chapter 11 of the Bankruptcy Code, each of the direct or indirect Subsidiaries of the Borrower signatory hereto (each a "Guarantor" and collectively, the "Guarantors"), each of which Guarantors referred to in this paragraph is a debtor and a debtor-in-possession in a case pending under Chapter 11 of the Bankruptcy Code (the cases of the Borrower and the Guarantors, each a "Case" and collectively, the "Cases"), THE CHASE MANHATTAN BANK, a New York banking corporation ("Chase"), each of the other financial institutions from time to time party hereto (together with Chase, the "Banks") and THE CHASE MANHATTAN BANK, as agent (in such capacity, the "Agent") for the Banks.

INTRODUCTORY STATEMENT

On December 27, 1996, the Borrower and the Guarantors filed voluntary petitions with the Bankruptcy Court initiating the Cases and have continued in the possession of their assets and in the management of their businesses pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

The Borrower has applied to the Banks for a revolving credit and letter of credit facility in an aggregate principal amount not to exceed \$100,000,000 (subject to mandatory and optional reductions in accordance with Sections 2.9 and 2.12), all of the Borrower's obligations under which are to be guaranteed by the Guarantors.

The proceeds of the Loans will be used to provide working capital for

the Borrower and the Guarantors, and for other general corporate purposes of the Borrower and the Guarantors including for the making of permitted intercompany loans and advances and for Capital Expenditures.

To provide guarantees and security for the repayment of the Loans, the reimbursement of any draft drawn under a Letter of Credit and the payment of the other obligations of the Borrower and the Guarantors hereunder and under the other Loan Documents, the Borrower and the Guarantors will provide to the Agent and the Banks the following (each as more fully described herein):

(a) a guaranty from each of the Guarantors of the due and punctual payment and performance of the obligations of the Borrower hereunder and under the Notes;

(b) with respect to the obligations of the Borrower and the Guarantors hereunder, an allowed administrative expense claim in each of the Cases pursuant to Section 364(c) (1) of the Bankruptcy Code having priority over all administrative expenses of the kind specified in Sections 503(b) and 507(b) of the Bankruptcy Code;

(c) with respect to the obligations of the Borrower and the Guarantors hereunder, a perfected first priority Lien, pursuant to Section 364(c) (2) of the Bankruptcy Code, upon all unencumbered property of the Borrower and the Guarantors (including, but not limited to, all of the capital stock of Toy Biz that is held, beneficially or of record, by the Borrower or any of the Guarantors) and all cash and cash equivalents in the Letter of Credit Account;

(d) with respect to the obligations of the Borrower and the Guarantors hereunder, a perfected Lien, pursuant to Section 364(c) (3) of the Bankruptcy Code, upon all property of the Borrower and the Guarantors (other than the property referred to in paragraph (e) below that is subject to the valid and perfected Liens that presently secure the Borrower's and Guarantors' pre-petition Indebtedness under the Existing Agreements) that is subject to valid and perfected Liens in existence on the Filing Date, junior to such valid and perfected Liens; and

(e) with respect to the obligations of the Borrower and the Guarantors hereunder, a perfected first priority priming Lien, pursuant to Section 364(d) (1) of the Bankruptcy Code, upon all property of the Borrower and the Guarantors (including, without limitation, accounts receivable, inventory, equipment, intellectual property and the capital stock of certain

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direct or indirect Subsidiaries of the Borrower other than Toy Biz) that is subject to the existing Liens that presently secure the Borrower's and Guarantors' pre-petition Indebtedness under the Existing Agreements and any Liens granted after the Filing Date to provide adequate protection in respect of the Existing Agreements, which Lien in favor of the Agent and the Banks shall be senior in all respects to all of such existing Liens and to any Liens granted after the Filing Date to provide adequate protection in respect thereof.

All of the claims and the Liens granted hereunder in the Cases to the Agent and the Banks shall be subject to the Carve-Out to the extent provided in

Accordingly, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS.

SECTION 1.1 DEFINED TERMS.

As used in this Agreement, the following terms shall have the meanings specified below:

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any Loan bearing interest at a rate determined by reference to the Alternate Base Rate in accordance with the provisions of Section 2.

"Additional Credit" shall have the meaning given such term in Section 4.2(d) hereof.

"Adjusted LIBOR Rate" shall mean, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the quotient of (a) the LIBOR Rate in effect for such Interest Period divided by (b) a percentage (expressed as a decimal) equal to 100% minus Statutory Reserves. For purposes hereof, the term "LIBOR Rate" shall mean the rate (rounded upwards, if necessary, to the next 1/16 of 1%) at which dollar

deposits approximately equal in principal amount to such Eurodollar Borrowing and for a maturity comparable to such Interest Period are offered to the principal London office of the Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Affiliate" shall mean, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with such Person. For purposes of this definition, a Person (a "Controlled Person") shall be deemed to be "controlled by" another Person (a "Controlling Person") if the Controlling Person possesses, directly or indirectly, power to direct or cause the direction of the management and policies of the Controlled Person whether by contract or otherwise.

"Agent" shall have the meaning set forth in the Introduction.

"Agreement" shall mean this Revolving Credit and Guaranty Agreement, as the same may from time to time be further amended, modified or supplemented.

"Alternate Base Rate" shall mean, for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof, "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by the Agent as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective on the date such change is publicly announced. "Base CD Rate" shall mean the sum of (a) the quotient of (i) the Three-Month Secondary CD Rate divided by (ii) a percentage expressed as a decimal equal to 100% minus Statutory Reserves and (b) the Assessment Rate.

"Three-Month Secondary CD Rate" shall mean, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day shall not be a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day), or, if

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such rate shall not be so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day shall not be a Business Day, on the next preceding Business Day) by the Agent from three New York City negotiable certificate of deposit dealers of recognized standing selected by it. "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it. If for any reason the Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Base CD Rate or the Federal Funds Effective Rate or both for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the terms hereof, the Alternate Base Rate shall be determined without regard to clause (b) or (c), or both, of the first sentence of this definition, as appropriate, until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate, respectively.

"Assessment Rate" shall mean for any date the annual rate (rounded upwards, if necessary, to the next 1/100 of 1%) most recently estimated by the Agent as the then current net annual assessment rate that will be employed in determining amounts payable by the Agent to the Federal Deposit Insurance Corporation (or any successor) for insurance by such Corporation (or any successor) of time deposits made in dollars at the Agent's domestic offices.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Bank and an Eligible Assignee, and accepted by the Agent, substantially in the form of Exhibit E.

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"Bankruptcy Code" shall mean The Bankruptcy Reform Act of 1978, as heretofore and hereafter amended, and codified as 11 U.S.C. Section 101 et seq.

"Bankruptcy Court" shall mean the United States Bankruptcy Court for the District of Delaware or any other court having jurisdiction over the Cases from time to time.

"Banks" shall have the meaning set forth in the Introduction.

"Board" shall mean the Board of Governors of the Federal Reserve

"Borrower" shall have the meaning set forth in the Introduction.

"Borrowing" shall mean the incurrence of Loans of a single Type made from all the Banks on a single date and having, in the case of Eurodollar Loans, a single Interest Period (with any ABR Loan made pursuant to Section 2.15 being considered a part of the related Borrowing of Eurodollar Loans).

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which banks in the State of New York are required or permitted to close (and, for a Letter of Credit, other than a day on which the Fronting Bank issuing such Letter of Credit is closed); provided, however, that when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits on the London interbank market.

"Capital Expenditures" shall mean, for any period, the aggregate of all expenditures (whether paid in cash and not theretofore accrued subsequent to the date of this Agreement or accrued as liabilities during such period and including that portion of Capitalized Leases which is capitalized on the consolidated balance sheet of the Borrower and the Guarantors) net of cash amounts received by the Borrower and the Guarantors from other Persons during such period in reimbursement of Capital Expenditures made by the Borrower and the Guarantors, excluding interest capitalized during construction, by the Borrower and the Guarantors during such period that, in conformity with GAAP, are

required to be included in or reflected by the property, plant, equipment or intangibles or similar fixed asset accounts reflected in the consolidated balance sheet of the Borrower and the Guarantors (including equipment which is purchased simultaneously with the trade-in of existing equipment owned by the Borrower or any of the Guarantors to the extent of the gross amount of such purchase price less the book value of the equipment being traded in at such time), but excluding expenditures made in connection with the replacement or restoration of assets, to the extent reimbursed or financed from insurance proceeds paid on account of the loss of or the damage to the assets being replaced or restored, or from awards of compensation arising from the taking by condemnation or eminent domain of such assets being replaced. For the purposes of this Agreement, the term "Capital Expenditures" shall also include Investments incurred or made by the Borrower in connection with (i) the development of software products by the division of the Borrower known as Marvel Interactive, (ii) the development of a number of restaurants by Marvel Mania, a joint venture in which Marvel Restaurant Venture Corp. is a general partner, (iii) certain projects of the business segment of the Borrower and the Guarantors known as Marvel Studios (including a non-Guarantor Subsidiary to be formed to carry on a portion of the activities of such business segment) and (iv) the purchase by the Borrower and certain of the Guarantors of displays and other related expenditures in connection with the expansion of mass market distribution channels for the comic book, trading card and sticker businesses of the Borrower and the Guarantors.

"Capitalized Lease" shall mean, as applied to any Person, any lease of property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with GAAP.

"Carve-Out" shall have the meaning set forth in Section 2.22.

"Cases" shall mean the Chapter 11 Cases of the Borrower and each of the Debtor Guarantors pending in the Bankruptcy Court.

"Cash Collateral Order" shall have the meaning set forth in Section 4.1(d).

"Chase" shall have the meaning set forth in the Introduction.

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"Closing Date" shall mean the date on which this Agreement has been executed and the conditions precedent to the making of the initial Loans set forth in Section 4.1 have been satisfied or waived, which date shall occur promptly, but no later than 10 days, after the entry of the Interim Order.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Collateral" shall mean the Collateral under the Security and Pledge Agreement.

"Commitment" shall mean, with respect to each Bank, the commitment of each Bank hereunder in the amount set forth opposite its name on Annex A hereto or as may subsequently be set forth in the Register from time to time, as the same may be reduced from time to time pursuant to Sections 2.9 and 2.12.

"Commitment Fee" shall have the meaning set forth in Section 2.19.

"Commitment Letter" shall mean that certain Commitment Letter dated December 23, 1996 among the Agent, Chase Securities Inc. and the Borrower.

"Commitment Percentage" shall mean at any time, with respect to each Bank, the percentage obtained by dividing its Commitment at such time by the Total Commitment at such time.

"Consummation Date" shall mean the date of the substantial consummation (as defined in Section 1101 of the Bankruptcy Code and including the effective date of a Reorganization Plan) of a Reorganization Plan of the Borrower or any of the Guarantors which is confirmed pursuant to an order of the Bankruptcy Court.

"Disclosure Statement" shall have the meaning given such term in Section 3.4.

"Dollars" and "\$" shall mean lawful money of the United States of America.

"EBITDA" shall mean, for any period, all as determined in accordance with GAAP, the consolidated net income (or net loss) of

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the Borrower and the Guarantors for such period, plus (a) the sum of (i) depreciation expense, (ii) amortization expense, (iii) other non-cash charges, (iv) provision for LIFO adjustment for inventory valuation, (v) net total Federal, state and local income tax expense, (vi) gross interest expense for such period less gross interest income for such period, (vii) extraordinary losses, (viii) any non-recurring charge or restructuring charge which in accordance with GAAP is excluded from operating income, (ix) the cumulative effect of any change in accounting principles and (x) "Chapter 11 expenses" (or

"administrative costs reflecting Chapter 11 expenses") as shown on the Borrower's consolidated statement of income for such period less (b) extraordinary gains plus or minus (c) the amount of cash received or expended (excluding up to \$1,500,000 expended in connection with the disposition or closure of The Asher Candy Company and up to \$1,500,000 expended in connection with the disposition or closure of Heroes World Distribution, Inc.) in such period in respect of any amount which, under clause (viii) above, was taken into account in determining EBITDA for such or any prior period.

"Eligible Assignee" shall mean (i) a commercial bank having total assets in excess of \$1,000,000,000; (ii) a finance company, insurance company or other financial institution or fund acceptable to the Agent which in the ordinary course of business extends credit of the type evidenced by the Notes and has total assets in excess of \$200,000,000 and whose becoming an assignee would not constitute a prohibited transaction under Section 4975 of ERISA; and (iii) any other financial institution satisfactory to the Borrower and the Agent.

"Environmental Lien" shall mean a Lien in favor of any Governmental Authority for (i) any liability under federal or state environmental laws or regulations, or (ii) damages arising from or costs incurred by such Governmental Authority in response to a release or threatened release of a hazardous or toxic waste, substance or constituent, or other substance into the environment.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) which is a member of a group of which the

Borrower is a member and which is under common control within the meaning of Section 414(b) or (c) of the Code and the regulations promulgated and rulings issued thereunder.

"Eurocurrency Liabilities" shall have the meaning assigned thereto in Regulation D issued by the Board, as in effect from time to time.

"Eurodollar Borrowing" shall mean a Borrowing comprised of Eurodollar Loans.

"Eurodollar Loan" shall mean any Loan bearing interest at a rate determined by reference to the Adjusted LIBOR Rate in accordance with the provisions of Section 2.

"Event of Default" shall have the meaning given such term in Section 7.

"Existing Agreements" shall mean the agreements listed on Schedule 1.1 hereto, the notes delivered pursuant thereto, and all of the agreements granting security interests and liens in property and assets of the Borrower and the Guarantors to the Existing Lenders, including without limitation, the security agreements, mortgages and leasehold mortgages listed on Schedule 1.1 hereto, each of which documents was executed and delivered (to the extent party thereto) by the Borrower and the Guarantors prior to the Filing Date, as each may have been amended or modified from time to time.

"Existing Lenders" shall mean, collectively, those certain lenders to the Borrower and the Guarantors (to the extent party thereto) under the Existing Agreements, together with any successors or assigns thereof.

"Fees" shall collectively mean the Commitment Fees, Letter of Credit Fees and other fees referred to in Section 2.18.

"Filing Date" shall mean December 27, 1996.

"Final Order" shall have the meaning given such term in Section 4.2(d).

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"Financial Officer" shall mean the Chief Financial Officer, Vice President Finance or the Treasurer of the Borrower.

"Fronting Bank" shall mean Chase or such other Bank (which other Bank shall be reasonably satisfactory to the Borrower) as may agree with Chase to act in such capacity.

"GAAP" shall mean generally accepted accounting principles applied on a basis consistent with those used in preparing the financial statements referred to in Section 3.4.

"Governmental Authority" shall mean any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality or any court, in each case whether of the United States or foreign.

"Guarantor" shall have the meaning set forth in the Introduction.

"Indebtedness" shall mean, at any time and with respect to any Person, (i) all indebtedness of such Person for borrowed money, (ii) all indebtedness of such Person for the deferred purchase price of property or services (other than property, including inventory, and services purchased, and expense accruals and deferred compensation items arising, in the ordinary course of business), (iii) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments (other than performance, surety and appeal bonds arising in the ordinary course of business), (iv) all indebtedness of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (v) all obligations of such Person under leases which have been or should be, in accordance with GAAP, recorded as capital leases, to the extent required to be so recorded, (vi) all reimbursement, payment or similar obligations of such Person, contingent or otherwise, under acceptance, letter of credit or similar facilities, (vii) all Indebtedness referred to in clauses (i) through (vi) above guaranteed directly or indirectly by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (A) to pay or purchase such Indebtedness or to advance or supply funds for the

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payment or purchase of such Indebtedness, (B) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to

assure the holder of such Indebtedness against loss in respect of such Indebtedness, (C) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (D) otherwise to assure a creditor against loss in respect of such Indebtedness, and (viii) all Indebtedness referred to in clauses (i) through (vii) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness.

"Insufficiency" shall mean, with respect to any Plan, the amount, if any, of its unfunded benefit liabilities within the meaning of Section 4001(a)(18) of ERISA.

"Interim Order" shall have the meaning given such term in Section 4.1(c).

"Interest Expense" shall mean interest expense as determined in accordance with GAAP.

"Interest Payment Date" shall mean (i) as to any Eurodollar Loan, the last day of such Interest Period, and (ii) as to all ABR Loans, the last calendar day of each month and the date on which any ABR Loans are refinanced with Eurodollar Loans pursuant to Section 2.11.

"Interest Period" shall mean, as to any Borrowing of Eurodollar Loans, the period commencing on the date of such Borrowing (including as a result of a refinancing of ABR Loans) or on the last day of the preceding Interest Period applicable to such Borrowing and ending on the numerically corresponding day (or if there is no corresponding day, the last day) in the calendar month that is 1 month thereafter, as the Borrower may elect in the related notice delivered pursuant to Sections 2.5(b) or 2.11; provided, however, that (i) if any Interest Period would end on a day which shall not be a Business Day, such Interest Period shall

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be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day, and (ii) no Interest Period shall end later than the Termination Date.

"Investments" shall have the meaning given such term in Section 6.10.

"Letter of Credit" shall mean any irrevocable letter of credit issued pursuant to Section 2.2, which letter of credit shall be (i) a standby or documentary letter of credit, (ii) issued for such purposes for which the Borrower or any Guarantor has historically obtained letters of credit, or for such other purposes as are reasonably acceptable to the Agent, (iii) denominated in Dollars and (iv) otherwise in such form as may be reasonably approved from time to time by the Agent and the applicable Fronting Bank.

"Letter of Credit Account" shall mean the account established by the Borrower under the sole and exclusive control of the Agent maintained at the office of the Agent at 270 Park Avenue, New York, New York 10017 designated as the "Marvel Entertainment Group, Inc. Letter of Credit Account" that shall be used solely for the purposes set forth in Sections 2.2(b) and 2.12.

"Letter of Credit Fees" shall mean the fees payable in respect of Letters of Credit pursuant to Section 2.20.

"Letter of Credit Outstandings" shall mean, at any time, the sum of (i) the aggregate undrawn stated amount of all Letters of Credit then outstanding plus (ii) all amounts theretofore drawn under Letters of Credit and not then reimbursed.

"Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind whatsoever (including any conditional sale or other title retention agreement or any lease in the nature thereof).

"Loan" shall have the meaning given such term in Section 2.1.

"Loan Documents" shall mean this Agreement, the Notes, the Letters of Credit, the Security and Pledge Agreement, and any

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other instrument or agreement executed and delivered in connection herewith.

"Maturity Date" shall mean April 30, 1997 provided, that if on April 30, 1996 there shall not have occurred and be continuing an Event of Default or an event which upon notice or lapse of time or both would constitute an Event of Default, such Maturity Date may be extended, at the Borrower's sole option by written notice to the Agent delivered no later than April 25, 1997, to June 30, 1997.

"Multiemployer Plan" shall mean a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which the Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" shall mean a Single Employer Plan, which (i) is maintained for employees of the Borrower or an ERISA Affiliate and at least one Person other than the Borrower and its ERISA Affiliates or (ii) was so maintained and in respect of which the Borrower or an ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such Plan has been or were to be terminated.

"Notes" shall mean the promissory notes of the Borrower, substantially in the form of Exhibit A hereto, each payable to the order of a Bank, evidencing Loans.

"Obligations" shall mean (a) the due and punctual payment of principal of and interest on the Loans and the Notes and the reimbursement of all amounts drawn under Letters of Credit, and (b) the due and punctual payment of the Fees and all other present and future, fixed or contingent, monetary obligations of the Borrower and the Guarantors to the Banks and the Agent under the Loan Documents.

"Orders" shall mean the Interim Order and the Final Order of the Bankruptcy Court referred to in Sections 4.1(c) and 4.2(d).

"Other Taxes" shall have the meaning given such term in Section 2.17.

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"PBGC" shall mean the Pension Benefit Guaranty Corporation, or any successor agency or entity performing substantially the same functions.

"Pension Plan" shall mean a defined benefit pension or retirement plan which meets and is subject to the requirements of Section 401(a) of the Code.

"Permitted Investments" shall mean:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within twelve months from the date of acquisition thereof;

(b) without limiting the provisions of paragraph (d) below, investments in commercial paper maturing within six months from the date of acquisition thereof and having, at such date of acquisition, a rating of at least "A" or the equivalent thereof from Standard & Poor's Corporation or of at least "A2" or the equivalent thereof from Moody's Investors Service, Inc.;

(c) investments in certificates of deposit, banker's acceptances and time deposits (including Eurodollar time deposits) maturing within six months from the date of acquisition thereof issued or guaranteed by or placed with (i) any domestic office of the Agent or the bank with whom the Borrower and the Guarantors maintain their cash management system, provided, that if such bank is not a Bank hereunder, such bank shall have entered into an agreement with the Agent pursuant to which such bank shall have waived all rights of setoff and confirmed that such bank does not have, nor shall it claim, a security interest therein or (ii) any domestic office of any other commercial bank of recognized standing organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than \$250,000,000 and is the principal banking Subsidiary of a bank holding company having a long-term unsecured debt rating of at least "A" or the equivalent thereof from Standard & Poor's Corporation or at least "A2" or the equivalent thereof from Moody's Investors Service, Inc.;

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(d) investments in commercial paper maturing within six months from the date of acquisition thereof and issued by (i) the holding company of the Agent or (ii) the holding company of any other commercial bank of recognized standing organized under the laws of the United States of America or any State thereof that has (A) a combined capital and surplus in excess of \$250,000,000 and (B) commercial paper rated at least "A" or the equivalent thereof from Standard & Poor's Corporation or of at least "A2" or the equivalent thereof from Moody's Investors Service, Inc.;

(e) investments in repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (a) above entered into with any office of a bank or trust company meeting the qualifications specified in clause (c) above;

(f) investments in money market funds substantially all the assets of which are comprised of securities of the types described in clauses (a) through (e) above;

(g) to the extent owned on the Filing Date, investments in the capital stock of any direct or indirect Subsidiary of the Borrower, investments

in the capital stock of Dr. Torrents, S.A., Fleer Limited and Fleer Espanol and investments in the capital stock of Toy Biz; and

(h) an investment in the capital stock of the Subsidiary, if any, to be formed after the Filing Date to carry on a portion of the activities of the business segment of the Borrower and the Guarantors known as Marvel Studios, which Subsidiary shall not be a Guarantor, provided that the amount of such investment shall be limited to \$1,000,000.

"Permitted Liens" shall mean (i) Liens imposed by law (other than Environmental Liens and any Lien imposed under ERISA) for taxes, assessments or charges of any Governmental Authority for claims not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with GAAP; (ii) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens (other than Environmental Liens and any Lien imposed under ERISA) imposed by law created in the ordinary course of business for

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amounts not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with GAAP; (iii) Liens (other than any Lien imposed under ERISA) incurred or deposits made in the ordinary course of business (including, without limitation, surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, leases, contracts (other than for the repayment of Indebtedness), statutory obligations and other similar obligations or arising as a result of progress payments under government contracts; (iv) easements (including, without limitation, reciprocal easement agreements and utility agreements), rights-of-way, covenants, consents, reservations, encroachments, variations and zoning and other restrictions, charges or encumbrances (whether or not recorded), which do not interfere materially with the ordinary conduct of the business of the Borrower or any Guarantor, as the case may be, and which do not materially detract from the value of the property to which they attach or materially impair the use thereof to the Borrower or any Guarantor, as the case may be; (v) purchase money Liens upon or in any property acquired or held in the ordinary course of business to secure the purchase price of such property or to secure Indebtedness permitted by Section 6.3(iii) solely for the purpose of financing the acquisition of such property and Capitalized Leases permitted by Section 6.3(iv) and true leases on account of which financing statements have been filed; and (vi) extensions, renewals or replacements of any Lien referred to in paragraphs (i) through (v) above, provided that the principal amount of the obligation secured thereby is not increased and that any such extension, renewal or replacement is limited to the property originally encumbered thereby.

"Person" shall mean any natural person, corporation, division of a corporation, partnership, trust, joint venture, association, company, estate, unincorporated organization or government or any agency or political subdivision thereof.

"Plan" shall mean a Single Employer Plan or a Multiemployer Plan.

"Prepayment Date" shall mean thirty (30) days after the entry of the Interim Order by the Bankruptcy Court if the Final Order

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has not been entered by the Bankruptcy Court prior to the expiration of such thirty (30) day period.

"Pre-Petition Payment" shall mean a payment (by way of adequate protection or otherwise) of principal or interest or otherwise on account of any pre-petition Indebtedness or payables, other than in respect of trade payables arising prior to the Petition Date to the extent permitted by the Bankruptcy Court.

"Proposed Plan" shall have the meaning set forth in Section 4.1(f).

"Register" shall have the meaning set forth in Section 10.3(d).

"Reorganization Plan" shall mean a plan of reorganization in any of the Cases.

"Required Banks" shall mean, at any time, Banks holding Loans representing in excess of 50% of the aggregate principal amount of such Loans outstanding or, if no such Loans are outstanding, Banks having Commitments representing in excess of 50% of the Total Commitment.

"Security and Pledge Agreement" shall have the meaning set forth in Section 4.1(e).

"Single Employer Plan" shall mean a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (i) is maintained for employees of the Borrower or an ERISA Affiliate or (ii) was so maintained and in respect of which the Borrower could have liability under Section 4069 of ERISA in the event such Plan has been or were to be terminated.

"Statutory Reserves" shall mean on any date the percentage (expressed as a decimal) established by the Board and any other banking authority which is (i) for purposes of the definition of Base CD Rate, the then stated maximum rate of all reserves (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City, for new three month negotiable nonpersonal time deposits in dollars of \$100,000 or more or (ii) for purposes of the definition of Adjusted LIBOR

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Rate, the then stated maximum rate for all reserves (including but not limited to any emergency, supplemental or other marginal reserve requirements) applicable to any member bank of the Federal Reserve System in respect of Eurocurrency Liabilities (or any successor category of liabilities under Regulation D issued by the Board, as in effect from time to time). Such reserve percentages shall include, without limitation, those imposed pursuant to said Regulation. The Statutory Reserves shall be adjusted automatically on and as of the effective date of any change in such percentage.

"Subsidiary" shall mean, with respect to any Person (herein referred to as the "parent"), any corporation, association or other business entity (whether now existing or hereafter organized) of which at least a majority of the securities or other ownership interests having ordinary voting power for the election of directors is, at the time as of which any determination is being made, owned or controlled by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Super-majority Banks" shall have the meaning given such term in

"Superpriority Claim" shall mean a claim against the Borrower and any Guarantor in any of the Cases which is an administrative expense claim having priority over any or all administrative expenses of the kind specified in Sections 503(b) or 507(b) of the Bankruptcy Code.

"Taxes" shall have the meaning given such term in Section 2.17.

"Termination Date" shall mean the earliest to occur of (i) the Prepayment Date, (ii) the Maturity Date, (iii) the Consummation Date and (iv) the acceleration of the Loans and the termination of the Total Commitment in accordance with the terms hereof.

"Termination Event" shall mean (i) a "reportable event", as such term is described in Section 4043 of ERISA and the regulations issued thereunder (other than a "reportable event" not subject to the provision for 30-day notice to the PBGC under

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Section 4043 of ERISA or such regulations) or an event described in Section 4068 of ERISA excluding events described in Section 4043(c)(9) of ERISA or 29 CFR ss.2615.21 or 2615.23 and excluding events which would not be reasonably likely (as reasonably determined by the Agent) to have a material adverse effect on the financial condition, operations, business, properties or assets of the Borrower and the Guarantors taken as a whole, or (ii) the withdrawal of the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year in which it was a "substantial employer", as such term is defined in Section 4001(c) of ERISA, or the incurrence of liability by the Borrower or any ERISA Affiliate under Section 4064 of ERISA upon the termination of a Multiple Employer Plan, or (iii) providing notice of intent to terminate a Plan pursuant to Section 4041(c) of ERISA or the treatment of a Plan amendment as a termination under Section 4041 of ERISA, or (iv) the institution of proceedings to terminate a Plan by the PBGC under Section 4042 of ERISA, or (v) any other event or condition (other than the commencement of the Cases and the failure to have made any contribution accrued as of the Filing Date but not paid) which would reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the imposition of any liability under Title IV of ERISA (other than for the payment of premiums to the PBGC).

"Total Commitment" shall mean, at any time, the sum of the Commitments at such time.

"Toy Biz" shall mean Toy Biz, Inc., a Delaware corporation.

"Transferee" shall have the meaning given such term in Section 2.17.

"Type" when used in respect of any Loan or Borrowing shall refer to the rate of interest by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, "Rate" shall mean the Adjusted LIBOR Rate and the Alternate Base Rate.

"Unused Total Commitment" shall mean, at any time, (i) the Total Commitment less (ii) the sum of (x) the aggregate outstanding principal amount of all Loans and (y) the aggregate Letter of Credit Outstandings.

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"Withdrawal Liability" shall have the meaning given such term under Part I of Subtitle E of Title IV of ERISA.

SECTION 1.2. TERMS GENERALLY. The definitions in Section 1.1 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. All references herein to Sections, Exhibits and Schedules shall be deemed references to Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, however, that for purposes of determining compliance with any covenant set forth in Section 6, such terms shall be construed in accordance with GAAP as in effect on the date of this Agreement applied on a basis consistent with the application used in the Borrower's audited financial statements referred to in Section 3.4.

SECTION 2. AMOUNT AND TERMS OF CREDIT.

SECTION 2.1. COMMITMENT OF THE BANKS.

(a) Each Bank severally and not jointly with the other Banks agrees, upon the terms and subject to the conditions herein set forth (including, without limitation, the provisions of Section 2.27), to make revolving credit loans (each a "Loan" and collectively, the "Loans") to the Borrower at any time and from time to time during the period commencing on the date hereof and ending on the Termination Date (or the earlier date of termination of the Total Commitment) in an aggregate principal amount not to exceed, when added to such Bank's Commitment Percentage of the then aggregate Letter of Credit Outstandings (in excess of the amount of cash then held in the Letter of Credit Account pursuant to Section 2.2(b)), the Commitment of such Bank, which Loans may be repaid and reborrowed in accordance with the provisions of this Agreement. At no time shall the sum of the then outstanding aggregate principal amount of the Loans plus the then aggregate Letter of Credit Outstandings exceed the Total Commitment of

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\$100,000,000, as the same may be reduced from time to time pursuant to Sections 2.9 or 2.12, as the case may be.

(b) Each Borrowing shall be made by the Banks pro rata in accordance with their respective Commitments; provided, however, that the failure of any Bank to make any Loan shall not in itself relieve the other Banks of their obligations to lend.

SECTION 2.2. LETTERS OF CREDIT

(a) Upon the terms and subject to the conditions herein set forth, the Borrower may request a Fronting Bank, at any time and from time to time after the date hereof and prior to the Termination Date, to issue, and subject to the terms and conditions contained herein, such Fronting Bank shall issue, for the account of the Borrower or a Guarantor one or more Letters of Credit, provided that no Letter of Credit shall be issued if after giving effect to such issuance (i) the aggregate Letter of Credit Outstandings shall exceed \$25,000,000 or (ii) the aggregate Letter of Credit Outstandings, when added to the aggregate outstanding principal amount of the Loans, would exceed the Total Commitment and, provided further that no Letter of Credit shall be issued if

the Fronting Bank shall have received notice from the Agent or the Required Banks that the conditions to such issuance have not been met.

(b) No Letter of Credit shall expire later than 60 days after the Maturity Date, provided that if any Letter of Credit shall be outstanding on the Termination Date, the Borrower shall, at or prior to the Termination Date, except as the Agent may otherwise agree in writing, (i) cause all Letters of Credit which expire after the Termination Date to be returned to the Fronting Bank undrawn and marked "cancelled" or (ii) if the Borrower is unable to do so in whole or in part, either (x) provide a "back-to-back" letter of credit to one or more Fronting Banks in a form satisfactory to such Fronting Bank and the Agent (in their sole discretion), issued by a bank satisfactory to such Fronting Bank and the Agent (in their sole discretion), in an amount equal to 105% of the then undrawn stated amount of all outstanding Letters of Credit issued by such Fronting Banks and/or (y) deposit cash in the Letter of Credit Account in an amount equal to 105% of the then undrawn stated amount of all outstanding Letters of Credit as

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collateral security for the Borrower's reimbursement obligations in connection therewith, such cash to be remitted to the Borrower upon the expiration, cancellation or other termination or satisfaction of such reimbursement obligations.

(c) The Borrower shall pay to each Fronting Bank, in addition to such other fees and charges as are specifically provided for in Section 2.20 hereof, such fees and charges in connection with the issuance and processing of the Letters of Credit issued by such Fronting Bank as are customarily imposed by such Fronting Bank from time to time in connection with letter of credit transactions.

(d) Drafts drawn under each Letter of Credit shall be reimbursed by the Borrower in Dollars not later than the first Business Day following the date of draw and shall bear interest from the date of draw until the first Business Day following the date of draw at a rate per annum equal to the Alternate Base Rate plus 1-1/2% and thereafter until reimbursed in full at a rate per annum equal to the Alternate Base Rate plus 3-1/2% (computed on the basis of the actual number of days elapsed over any year of 360 days). The Borrower shall effect such reimbursement (x) if such draw occurs prior to the Termination Date (or the earlier date of termination of the Total Commitment), in cash or through a Borrowing without the satisfaction of the conditions precedent set forth in Section 4.2 or (y) if such draw occurs on or after the Termination Date (or the earlier date of termination of the Total Commitment), in cash. Each Bank agrees to make the Loans described in clause (x) of the preceding sentence notwithstanding a failure to satisfy the applicable lending conditions thereto or the provisions of Sections 2.1 or 2.27 or the occurrence of the Termination Date.

(e) Immediately upon the issuance of any Letter of Credit by any

Fronting Bank, such Fronting Bank shall be deemed to have sold to each Bank other than such Fronting Bank and each such other Bank shall be deemed unconditionally and irrevocably to have purchased from such Fronting Bank, without recourse or warranty, an undivided interest and participation, to the extent of such Bank's Commitment Percentage, in such Letter of Credit, each drawing thereunder and the obligations of the Borrower and the Guarantors under this Agreement with respect thereto. Upon any change in the Commitments pursuant to Section 10.3, it is hereby

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agreed that with respect to all Letter of Credit Outstandings, there shall be an automatic adjustment to the participations hereby created to reflect the new Commitment Percentages of the assigning and assignee Banks. Any action taken or omitted by a Fronting Bank under or in connection with a Letter of Credit, if taken or omitted in the absence of gross negligence or willful misconduct, shall not create for such Fronting Bank any resulting liability to any other Bank.

(f) In the event that a Fronting Bank makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to such Fronting Bank pursuant to this Section, the Fronting Bank shall promptly notify the Agent, which shall promptly notify each Bank of such failure, and each Bank shall promptly and unconditionally pay to the Agent for the account of the Fronting Bank the amount of such Bank's Commitment Percentage of such unreimbursed payment in Dollars and in same day funds. If the Fronting Bank so notifies the Agent, and the Agent so notifies the Banks prior to 11:00 a.m. (New York City time) on any Business Day, such Banks shall make available to the Fronting Bank such Bank's Commitment Percentage of the amount of such payment on such Business Day in same day funds. If and to the extent such Bank shall not have so made its Commitment Percentage of the amount of such payment available to the Fronting Bank, such Bank agrees to pay to such Fronting Bank, forthwith on demand such amount, together with interest thereon, for each day from such date until the date such amount is paid to the Agent for the account of such Fronting Bank at the Federal Funds Effective Rate. The failure of any Bank to make available to the Fronting Bank its Commitment Percentage of any payment under any Letter of Credit shall not relieve any other Bank of its obligation hereunder to make available to the Fronting Bank its Commitment Percentage of any payment under any Letter of Credit on the date required, as specified above, but no Bank shall be responsible for the failure of any other Bank to make available to such Fronting Bank such other Bank's Commitment Percentage of any such payment. Whenever a Fronting Bank receives a payment of a reimbursement obligation as to which it has received any payments from the Banks pursuant to this paragraph, such Fronting Bank shall pay to each Bank which has paid its Commitment Percentage thereof, in Dollars and in same day funds, an amount equal to such Bank's Commitment Percentage thereof.

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SECTION 2.3. ISSUANCE. Whenever the Borrower desires a Fronting Bank to issue a Letter of Credit, it shall give to such Fronting Bank and the Agent at least two Business Days' prior written (including telegraphic, telex, facsimile or cable communication) notice (or such shorter period as may be agreed upon by the Agent, the Borrower and the Fronting Bank) specifying the date on which the proposed Letter of Credit is to be issued (which shall be a Business Day), the stated amount of the Letter of Credit so requested, the expiration date of such Letter of Credit and the name and address of the beneficiary thereof.

SECTION 2.4. NATURE OF LETTER OF CREDIT OBLIGATIONS ABSOLUTE.

The obligations of the Borrower to reimburse the Banks for drawings made under any Letter of Credit shall be unconditional and irrevocable and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including, without limitation (it being understood that any such payment by the Borrower shall be without prejudice to, and shall not constitute a waiver of, any rights the Borrower might have or might acquire as a result of the payment by the Fronting Bank of any draft or the reimbursement by the Borrower thereof): (i) any lack of validity or enforceability of any Letter of Credit; (ii) the existence of any claim, setoff, defense or other right which the Borrower or any Guarantor may have at any time against a beneficiary of any Letter of Credit or against any of the Banks, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction; (iii) any draft, demand, certificate or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; (iv) payment by a Fronting Bank of any Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit; (v) any other circumstance or happening whatsoever, which is similar to any of the foregoing; or (vi) the fact that any Event of Default shall have occurred and be continuing.

SECTION 2.5. MAKING OF LOANS.

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(a) Except as contemplated by Section 2.8, Loans shall be either ABR Loans or Eurodollar Loans as the Borrower may request subject to and in accordance with this Section, provided that all loans made pursuant to the same Borrowing shall, unless otherwise specifically provided herein, be Loans of the same Type. Each Bank may fulfill its Commitment with respect to any Eurodollar Loan or ABR Loan by causing any lending office of such Bank to make such Loan; provided that any such use of a lending office shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of the applicable Note. Each Bank shall, subject to its overall policy considerations, use reasonable efforts (but shall not be obligated) to select a lending office which will not result in the payment of increased costs by the Borrower pursuant to Section 2.14. Subject to the other provisions

of this Section and the provisions of Section 2.11, Borrowings of Loans of more than one Type may be incurred at the same time, provided that no more than five (5) Borrowings of Eurodollar Loans may be outstanding at any time.

(b) The Borrower shall give the Agent prior notice of each Borrowing hereunder of at least three Business Days for Eurodollar Loans and one Business Day for ABR Loans; such notice shall be irrevocable and shall specify the amount of the proposed Borrowing (which shall not be less than \$5,000,000 in the case of Eurodollar Loans and \$1,000,000 in the case of ABR Loans) and the date thereof (which shall be a Business Day) and shall contain disbursement instructions. Such notice, to be effective, must be received by the Agent not later than 12:00 noon, New York City time, on the third Business Day in the case of Eurodollar Loans and the first Business Day in the case of ABR Loans, preceding the date on which such Borrowing is to be made except as provided in the last sentence of this Section 2.5(b). Such notice shall specify whether the Borrowing then being requested is to be a Borrowing of ABR Loans or Eurodollar Loans. If no election is made as to the Type of Loan, such notice shall be deemed a request for Borrowing of ABR Loans. The Agent shall promptly notify each Bank of its proportionate share of such Borrowing, the date of such Borrowing, the Type of Borrowing or Loans being requested and the Interest Period or Interest Periods applicable thereto, as appropriate. On the borrowing date specified in such notice, each Bank shall make its share of the Borrowing available at the office of the Agent at 270 Park Avenue, New York, New York 10017, no later than 12:00 noon, New York City time, in immediately

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available funds. Upon receipt of the funds made available by the Banks to fund any borrowing hereunder, the Agent shall disburse such funds in the manner specified in the notice of borrowing delivered by the Borrower and shall use reasonable efforts to make the funds so received from the Banks available to the Borrower no later than 2:00 p.m. New York City time (other than as provided in the following sentence). With respect to ABR Loans of \$10,000,000 or less, the Banks shall make such Borrowings available to the Borrower by 4:00 p.m., New York City time, on the same Business Day that the Borrower gives notice to the Agent of such Borrowing by 12:00 noon, New York City time.

SECTION 2.6. NOTES; REPAYMENT OF LOANS. The Loans made by each Bank shall be evidenced by a Note, duly executed on behalf of the Borrower, dated the Closing Date or the date of the effectiveness of the applicable Assignment and Acceptance, as the case may be, in substantially the form attached hereto as Exhibit A, payable to the order of such Bank in an aggregate principal amount equal to such Bank's Commitment. The outstanding principal balance of all of the Loans, as evidenced by such Notes, shall be payable on the Termination Date. Each Note shall bear interest from the date thereof on the outstanding principal balance thereof as set forth in Section 2.7. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to each Note delivered to such Bank (or on a continuation of such schedule attached to such Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of each Loan from such Bank, each payment and prepayment of principal of any such Loan, each payment of interest on any such Loan and the other information provided for on such schedule; provided, however, that the failure of any Bank to make such a notation or any error therein shall not affect the obligation of the Borrower to repay the Loans made by such Bank in accordance with the terms of this Agreement and the applicable Notes.

SECTION 2.7. INTEREST ON LOANS.

(a) Subject to the provisions of Section 2.8, each ABR Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Alternate Base Rate plus 1-1/2%.

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(b) Subject to the provisions of Section 2.8, each Eurodollar Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal, during each Interest Period applicable thereto, to the Adjusted LIBOR Rate for such Interest Period in effect for such Borrowing plus 2-1/2%.

(c) Accrued interest on all Loans shall be payable in arrears on each Interest Payment Date applicable thereto, at maturity (whether by acceleration or otherwise), after such maturity on demand and (with respect to Eurodollar Loans) upon any repayment or prepayment thereof (on the amount prepaid).

SECTION 2.8. DEFAULT INTEREST. If the Borrower or any Guarantor, as the case may be, shall default in the payment of the principal of or interest on any Loan or in the payment of any other amount becoming due hereunder (including, without limitation, the reimbursement pursuant to Section 2.2(d) of any draft drawn under a Letter of Credit), whether at stated maturity, by acceleration or otherwise, the Borrower or such Guarantor, as the case may be, shall on demand from time to time pay interest, to the extent permitted by law, on such defaulted amount up to (but not including) the date of actual payment (after as well as before judgment) at a rate per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) equal to (x) in the case of Borrowings consisting of Eurodollar Loans, the Adjusted LIBOR Rate in effect for such Borrowing plus 4-1/2% and (y) in the case of all other amounts, the Alternate Base Rate plus 3-1/2%.

SECTION 2.9. OPTIONAL TERMINATION OR REDUCTION OF COMMITMENT. Upon at least two Business Days' prior written notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time in part permanently reduce, the Unused Total Commitment. Each such reduction of the Commitments shall be in the principal amount of \$5,000,000 or any integral multiple thereof. Simultaneously with each reduction or termination of the Commitment, the Borrower shall pay to the Agent for the account of each Bank the Commitment Fee accrued on the amount of the Commitment of such Bank so terminated or reduced through the date thereof. Any reduction of the Total Commitment pursuant

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to this Section shall be applied pro rata to reduce the Commitment of each Bank.

SECTION 2.10. ALTERNATE RATE OF INTEREST. In the event, and on each

occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan, the Agent shall have determined (which determination shall be conclusive and binding upon the Borrower absent manifest error) that reasonable means do not exist for ascertaining the applicable Adjusted LIBOR Rate, the Agent shall, as soon as practicable thereafter, give written or telegraphic notice of such determination to the Borrower and the Banks, and any request by the Borrower for a Borrowing of Eurodollar Loans (including pursuant to a refinancing with Eurodollar Loans) pursuant to Section 2.5 or 2.11 shall be deemed a request for a Borrowing of ABR Loans. After such notice shall have been given and until the circumstances giving rise to such notice no longer exist, each request for a Borrowing of Eurodollar Loans shall be deemed to be a request for a Borrowing of ABR Loans.

SECTION 2.11. REFINANCING OF LOANS. The Borrower shall have the right, at any time, on three Business Days' prior irrevocable notice to the Agent (which notice, to be effective, must be received by the Agent not later than 12:00 noon, New York City time, on the third Business Day preceding the date of any refinancing), (x) to refinance (without the satisfaction of the conditions set forth in Section 4 as a condition to such refinancing) any outstanding Borrowing or Borrowings of Loans of one Type (or a portion thereof) with a Borrowing of Loans of the other Type or (y) to continue an outstanding Borrowing of Eurodollar Loans for an additional Interest Period, subject to the following:

(a) as a condition to the refinancing of ABR Loans with Eurodollar Loans and to the continuation of Eurodollar Loans for an additional Interest Period, no Event of Default shall have occurred and be continuing at the time of such refinancing;

(b) if less than a full Borrowing of Loans shall be refinanced, such refinancing shall be made pro rata among the Banks in accordance with the respective principal amounts of

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the Loans comprising such Borrowing held by the Banks immediately prior to such refinancing;

(c) the aggregate principal amount of Loans being refinanced shall be at least \$1,000,000, provided that no partial refinancing of a Borrowing of Eurodollar Loans shall result in the Eurodollar Loans remaining outstanding pursuant to such Borrowing being less than \$5,000,000 in aggregate principal amount;

(d) each Bank shall effect each refinancing by applying the proceeds of its new Eurodollar Loan or ABR Loan, as the case may be, to its Loan being refinanced;

(e) the Interest Period with respect to a Borrowing of Eurodollar Loans effected by a refinancing or in respect to the Borrowing of Eurodollar Loans being continued as Eurodollar Loans

shall commence on the date of refinancing or the expiration of the current Interest Period applicable to such continuing Borrowing, as the case may be; and

(f) a Borrowing of Eurodollar Loans may be refinanced only on the last day of an Interest Period applicable thereto.

In the event that the Borrower shall not give notice to refinance any Borrowing of Eurodollar Loans, or to continue such Borrowing as Eurodollar Loans, or shall not be entitled to refinance or continue such Borrowing as Eurodollar Loans, in each case as provided above, such Borrowing shall automatically be refinanced with a Borrowing of ABR Loans at the expiration of the then-current Interest Period. The Agent shall, after it receives notice from the Borrower, promptly give each Bank notice of any refinancing, in whole or part, of any Loan made by such Bank.

SECTION 2.12. COMMITMENT TERMINATION; CASH COLLATERAL. Upon the Termination Date, the Total Commitment shall be terminated in full and the Borrower shall pay the Loans in full and, except as the Agent may otherwise agree in writing, if any Letter of Credit remains outstanding, deposit into the Letter of Credit Account an amount equal to 105% of the amount by which the sum of the aggregate Letter of Credit Outstandings exceeds the amount of cash held in the Letter of Credit Account, such cash to be remitted to

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the Borrower upon the expiration, cancellation, satisfaction or other termination of such reimbursement obligations, or otherwise comply with Section 2.2(b).

SECTION 2.13. OPTIONAL PREPAYMENT OF LOANS; REIMBURSEMENT OF BANKS.

(a) The Borrower shall have the right at any time and from time to time to prepay any Loans, in whole or in part, (x) with respect to Eurodollar Loans, upon at least three Business Days' prior written, telex or facsimile notice to the Agent and (y) with respect to ABR Loans on the same Business Day if written, telex or facsimile notice is received by the Agent prior to 12:00 noon, New York City time, and thereafter upon at least one Business Day's prior written, telex or facsimile notice to the Agent; provided, however, that (i) with respect to Eurodollar Loans, each such partial prepayment shall be in multiples of \$1,000,000, (ii) with respect to ABR Loans, each such partial prepayment shall be in integral multiples of \$1,000,000, (iii) no prepayment of Eurodollar Loans shall be permitted pursuant to this Section 2.13(a) other than on the last day of an Interest Period applicable thereto (and other than in connection with the syndication of the credit facility evidenced by this Agreement), and (iv) no partial prepayment of a Borrowing of Eurodollar Loans shall result in the aggregate principal amount of the Eurodollar Loans remaining outstanding pursuant to such Borrowing being less than \$5,000,000. Each notice of prepayment shall specify the prepayment date, the principal amount of the Loans to be prepaid and in the case of

Eurodollar Loans, the Borrowing or Borrowings pursuant to which made, shall be irrevocable and shall commit the Borrower to prepay such Loan by the amount and on the date stated therein. The Agent shall, promptly after receiving notice from the Borrower hereunder, notify each Bank of the principal amount of the Loans held by such Bank which are to be prepaid, the prepayment date and the manner of application of the prepayment.

(b) The Borrower shall reimburse each Bank on demand for any loss incurred or to be incurred by it in the reemployment of the funds released (i) resulting from any prepayment (for any reason whatsoever, including, without limitation, refinancing with ABR Loans) of any Eurodollar Loan required or permitted under this Agreement, if such Loan is prepaid other than on the last day of the Interest Period for such Loan (including, without limitation,

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any such prepayment in connection with the syndication of the credit facility evidenced by this Agreement) or (ii) in the event that after the Borrower delivers a notice of borrowing under Section 2.5 in respect of Eurodollar Loans, such Loans are not made on the first day of the Interest Period specified in such notice of borrowing for any reason other than a breach by such Bank of its obligations hereunder. Such loss shall be the amount as reasonably determined by such Bank as the excess, if any, of (A) the amount of interest which would have accrued to such Bank on the amount so paid or not borrowed at a rate of interest equal to the Adjusted LIBOR Rate for such Loan, for the period from the date of such payment or failure to borrow to the last day (x) in the case of a payment or refinancing with ABR Loans other than on the last day of the Interest Period for such Loan, of the then current Interest Period for such Loan, or (y) in the case of such failure to borrow, of the Interest Period for such Loan which would have commenced on the date of such failure to borrow, over (B) the amount of interest which would have accrued to such Bank on such amount by placing such amount on deposit for a comparable period with leading banks in the London interbank market. Each Bank shall deliver to the Borrower from time to time one or more certificates setting forth the amount of such loss as determined by such Bank.

(c) In the event the Borrower fails to prepay any Loan on the date specified in any prepayment notice delivered pursuant to Section 2.13(a), the Borrower on demand by any Bank shall pay to the Agent for the account of such Bank any amounts required to compensate such Bank for any loss incurred by such Bank as a result of such failure to prepay, including, without limitation, any loss, cost or expenses incurred by reason of the acquisition of deposits or other funds by such Bank to fulfill deposit obligations incurred in anticipation of such prepayment, but without duplication of any amounts paid under Section 2.13(b). Each Bank shall deliver to the Borrower from time to time one or more certificates setting forth the amount of such loss as determined by such Bank.

(d) Any partial prepayment of the Loans by the Borrower pursuant to Sections 2.12 or 2.13 shall be applied as specified by the Borrower

or, in the absence of such specification, as determined by the Agent, provided that in each case no Eurodollar Loans shall be prepaid pursuant to Section 2.12

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to the extent that such Loan has an Interest Period ending after the required date of prepayment unless and until all outstanding ABR Loans and Euro dollar Loans with Interest Periods ending on such date have been repaid in full.

SECTION 2.14. RESERVE REQUIREMENTS; CHANGE IN CIRCUMSTANCES.

(a) Notwithstanding any other provision herein, if after the date of this Agreement any change in applicable law or regulation or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) shall change the basis of taxation of payments to any Bank of the principal of or interest on any Eurodollar Loan made by such Bank or any fees or other amounts payable hereunder (other than changes in respect of Taxes, Other Taxes and taxes imposed on, or measured by, the net income or overall gross receipts or franchise taxes of such Bank by the jurisdiction in which such Bank has its principal office or in which the applicable lending office for such Eurodollar Loan is located or by any political subdivision or taxing authority therein, or by any other jurisdiction or by any political subdivision or taxing authority therein other than a jurisdiction in which such Bank would not be subject to tax but for the execution and performance of this Agreement), or shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of or credit extended by such Bank (except any such reserve requirement which is reflected in the Adjusted LIBOR Rate) or shall impose on such Bank or the London interbank market any other condition affecting this Agreement or the Eurodollar Loans made by such Bank, and the result of any of the foregoing shall be to increase the cost to such Bank of making or maintaining any Eurodollar Loan or to reduce the amount of any sum received or receivable by such Bank hereunder or under the Notes (whether of principal, interest or otherwise) by an amount deemed by such Bank to be material, then the Borrower will pay to such Bank in accordance with paragraph (c) below such additional amount or amounts as will compensate such Bank for such additional costs incurred or reduction suffered.

(b) If any Bank shall have determined that the applicability of any change in any law, rule, regulation or

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guideline adopted pursuant to or arising out of the July 1988 report of the Basel Committee on Banking Regulations and Supervisory Practices entitled "International Convergence of Capital Measurement and Capital Standards", or the adoption or effectiveness after the date hereof of any law, rule, regulation or guideline regarding capital adequacy, or any change in any of the foregoing or in the interpretation or administration of any of the foregoing by

any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or any Lending Office of such Bank) or any Bank's holding company with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Bank's capital or on the capital of such Bank's holding company, if any, as a consequence of this Agreement, the Loans made by such Bank pursuant hereto, such Bank's Commitment hereunder or the issuance of, or participation in, any Letter of Credit by such Bank to a level below that which such Bank or such Bank's holding company could have achieved but for such adoption, change or compliance (taking into account Bank's policies and the policies of such Bank's holding company with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank or such Bank's holding company for any such reduction suffered.

(c) A certificate of each Bank setting forth such amount or amounts as shall be necessary to compensate such Bank or its holding company as specified in paragraph (a) or (b) above, as the case may be, shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay each Bank the amount shown as due on any such certificate delivered to it within 10 days after its receipt of the same. Any Bank receiving any such payment shall promptly make a refund thereof to the Borrower if the law, regulation, guideline or change in circumstances giving rise to such payment is subsequently deemed or held to be invalid or inapplicable.

(d) Failure on the part of any Bank to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in return on capital with respect to any

period shall not constitute a waiver of such Bank's right to demand compensation with respect to such period or any other period. The protection of this Section shall be available to each Bank regardless of any possible contention of the invalidity or inapplicability of the law, rule, regulation, guideline or other change or condition which shall have occurred or been imposed.

SECTION 2.15. CHANGE IN LEGALITY.

(a) Notwithstanding anything to the contrary contained elsewhere in this Agreement, if (x) any change in any law or regulation or in the interpretation thereof by any governmental authority charged with the administration thereof shall make it unlawful for a Bank to make or maintain a Eurodollar Loan or to give effect to its obligations as contemplated hereby with respect to a Eurodollar Loan or (y) at any time any Bank determines that the making or continuance of any of its Eurodollar Loans has become impracticable as a result of a contingency occurring after the date hereof which adversely affects the London interbank market or the position of such

Bank in such market, then, by written notice to the Borrower, such Bank may (i) declare that Eurodollar Loans will not thereafter be made by such Bank hereunder, whereupon any request by the Borrower for a Eurodollar Borrowing shall, as to such Bank only, be deemed a request for an ABR Loan unless such declaration shall be subsequently withdrawn; and (ii) require that all outstanding Eurodollar Loans made by it be converted to ABR Loans, in which event all such Eurodollar Loans shall be automatically converted to ABR Loans as of the effective date of such notice as provided in paragraph (b) below. In the event any Bank shall exercise its rights under clause (i) or (ii) of this paragraph (a), all payments and prepayments of principal which would otherwise have been applied to repay the Eurodollar Loans that would have been made by such Bank or the converted Eurodollar Loans of such Bank shall instead be applied to repay the ABR Loans made by such Bank in lieu of, or resulting from the conversion of, such Eurodollar Loans.

(b) For purposes of this Section 2.15, a notice to the Borrower by any Bank pursuant to paragraph (a) above shall be effective, if lawful, and if any Eurodollar Loans shall then be outstanding, on the last day of the then-current Interest Period,

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otherwise, such notice shall be effective on the date of receipt by the Borrower.

SECTION 2.16. PRO RATA TREATMENT, ETC. All payments and repayments of principal and interest in respect of the Loans (except as provided in Sections 2.14 and 2.15) shall be made pro rata among the Banks in accordance with the then outstanding principal amount of the Loans and/or participations in Letter of Credit Outstandings and all outstanding undrawn Letters of Credit (and the unreimbursed amount of drawn Letters of Credit) hereunder and all payments of Commitment Fees and Letter of Credit Fees (other than those payable to a Fronting Bank) shall be made pro rata among the Banks in accordance with their Commitments. All payments by the Borrower hereunder and under the Notes shall be (i) net of any tax applicable to the Borrower or Guarantor and (ii) made in Dollars in immediately available funds at the office of the Agent by 12:00 noon, New York City time, on the date on which such payment shall be due. Interest in respect of any Loan hereunder shall accrue from and including the date of such Loan to but excluding the date on which such Loan is paid in full or converted to a Loan of a different Type.

SECTION 2.17. TAXES.

(a) Any and all payments by the Borrower or any Guarantor hereunder and under the Notes shall be made free and clear of and without deduction for any and all current or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding (i) taxes imposed on or measured by the net income or overall gross receipts of the Agent or any Bank (or any transferee or assignee thereof, including a participation holder (any such entity being called a "Transferee")) and franchise taxes imposed on the Agent or any Bank (or Transferee) by the

United States or any jurisdiction under the laws of which the Agent or any such Bank (or Transferee) is organized or in which the applicable lending office of any such Bank (or Transferee) is located or any political subdivision thereof or by any other jurisdiction or by any political subdivision or taxing authority therein other than a jurisdiction in which the Agent or such Bank would not be subject to tax but for the execution and performance of this Agreement and (ii) taxes, levies, imposts, deductions, charges or withholdings

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("Amounts") with respect to payments hereunder or under the Notes to a Bank (or Transferee) in accordance with laws in effect on the later of the date of this Agreement and the date such Bank (or Transferee) becomes a Bank (or Transferee, as the case may be), but not excluding, with respect to such Bank (or Transferee), any increase in such Amounts solely as a result of any change in such laws occurring after such later date or any Amounts that would not have been imposed but for actions (other than actions contemplated by this Agreement or the Notes) taken by the Borrower after such later date (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower or any Guarantor shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Banks (or any Transferee) or the Agent, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) such Bank (or Transferee) or the Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower agrees to pay any current or future stamp or documentary taxes or any other excise or property taxes, charges, assessments or similar levies that arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify each Bank (or Transferee) and the Agent for the full amount of Taxes and Other Taxes paid by such Bank (or Transferee) or the Agent, as the case may be, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Bank (or Transferee) or the Agent, as the case may be, makes written demand therefor. If a Bank (or Transferee) or the Agent shall become aware that it is entitled to receive a refund in

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respect of Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If any Bank (or Transferee) or the Agent receives a refund in respect of any Taxes or Other Taxes as to which it has been indemnified by the Borrower pursuant to this Section, it shall promptly notify the Borrower of such refund and shall, within 30 days after receipt of a request by the Borrower (or promptly upon receipt, if the Borrower has requested application for such refund pursuant hereto), repay such refund to the Borrower (to the extent of amounts that have been paid by the Borrower under this Section with respect to such refund plus interest that is received by the Bank (or Transferee) or the Agent as part of the refund), net of all out-of-pocket expenses of such Bank (or Transferee) or the Agent and without additional interest thereon; provided that the Borrower, upon the request of such Bank (or Transferee) or the Agent, agrees to return such refund (plus penalties, interest or other charges) to such Bank (or Transferee) or the Agent in the event such Bank (or Transferee) or the Agent is required to repay such refund. Nothing contained in this subsection (c) shall require any Bank (or Transferee) or the Agent to make available any of its tax returns (or any other information relating to its taxes that it deems to be confidential).

(d) Within 30 days after the date of any payment of Taxes or Other Taxes withheld by the Borrower in respect of any payment to any Bank (or Transferee) or the Agent, the Borrower will furnish to the Agent, at its address referred to on the signature pages hereof, the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(f) Each Bank (or Transferee) that is organized under the laws of a jurisdiction outside the United States shall, if legally able to do so, prior to the immediately following due date of any payment by the Borrower hereunder, deliver to the Borrower such certificates, documents or other evidence, as required by the

Code or Treasury Regulations issued pursuant thereto, including (A) Internal Revenue Service Form W-8 or W-9 and (B) Internal Revenue Service Form 1001 or Form 4224 and any other certificate or statement of exemption required by Treasury Regulation Section 1.1441-1, 1.1441-4 or 1.1441-6(c) or any subsequent version thereof or successors thereto, properly completed and duly executed by such Bank (or Transferee) establishing that such payment is (i) not subject to United States Federal withholding tax under the Code because such payment is effectively connected with the conduct by such Bank (or Transferee) of a trade or business in the United States or (ii) totally exempt from United States Federal withholding tax or subject to a reduced rate of such tax under a

provision of an applicable tax treaty. Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that such payments hereunder or under the Notes are not subject to United States Federal withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower or the Agent shall withhold taxes from such payments at the applicable statutory rate.

(g) The Borrower shall not be required to pay any additional amounts to any Bank (or Transferee) in respect of United States Federal withholding tax pursuant to subsection (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Bank (or Transferee) to comply with the provisions of subsection (f) above.

(h) Any Bank (or Transferee) claiming any additional amounts payable pursuant to this Section 2.17 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its applicable lending office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts that may thereafter accrue and would not, in the sole reasonable determination of such Bank, be otherwise materially disadvantageous to such Bank (or Transferee).

SECTION 2.18. CERTAIN FEES. The Borrower shall pay to the Agent, for the respective accounts of the Agent and the Banks, the fees set forth in that certain letter dated December 23, 1996 among the Agent, Chase Securities Inc. and the Borrower.

SECTION 2.19. COMMITMENT FEE. The Borrower shall pay to the Banks a commitment fee (the "Commitment Fee") for the period commencing on the date the Commitment Letter is executed to the Termination Date or the earlier date of termination of the Commitment, computed (on the basis of the actual number of days elapsed over a year of 360 days) at the rate of one-half of one percent (1/2%) per annum on the average daily Unused Total Commitment. Such Commitment Fee, to the extent then accrued, shall be payable (x) monthly, in arrears, on the last calendar day of each month, (y) on the Termination Date and (z) as provided in Section 2.9 hereof, upon any reduction or termination in whole or in part of the Total Commitment.

SECTION 2.20. LETTER OF CREDIT FEES. The Borrower shall pay with respect to each Letter of Credit (i) to the Agent on behalf of the Banks a fee calculated (on the basis of the actual number of days elapsed over a year of 360 days) at the rate of (x) two and one-half (2-1/2%) per annum on the daily average Letter of Credit Outstandings and (ii) to the Fronting Bank such Fronting Bank's customary fees for issuance, amendments and processing referred to in Section 2.2. In addition, the Borrower agrees to pay each Fronting Bank for its account a fronting fee in respect of each Letter of Credit issued by such Fronting Bank, for the period from and including the date of issuance of

such Letter of Credit to and including the date of termination of such Letter of Credit, computed at a rate, and payable at times, to be determined by such Fronting Bank, the Borrower and the Agent. Accrued fees described in clause (i) of the first sentence of this paragraph in respect of each Letter of Credit shall be due and payable monthly in arrears on the last calendar day of each month and on the Termination Date, or such earlier date as the Total Commitment is terminated. Accrued fees described in clause (ii) of the first sentence of this paragraph in respect of each Letter of Credit shall be payable at times to be determined by the Fronting Bank, the Borrower and the Agent.

SECTION 2.21. NATURE OF FEES. All Fees shall be paid on the dates due, in immediately available funds, to the Agent for the respective accounts of the Agent and the Banks, as provided herein

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and in the letter described in Section 2.18. Once paid, none of the Fees shall be refundable under any circumstances.

SECTION 2.22. PRIORITY AND LIENS. The Borrower and each of the Guarantors hereby covenants, represents and warrants that, upon entry of the Interim Order (i) pursuant to Section 364(c)(1) of the Bankruptcy Code, the Obligations of the Borrower and the Guarantors hereunder and under the Loan Documents shall at all times constitute allowed administrative expense claims in the Cases having priority over all administrative expenses of the kind specified in Sections 503(b) or 507(b) of the Bankruptcy Code, (ii) pursuant to Section 364(c)(2) of the Bankruptcy Code, the Obligations of the Borrower and the Guarantors hereunder and under the Loan Documents shall at all times be secured by a perfected first priority Lien on all unencumbered property of the Borrower and the Guarantors (including, but not limited to, all of the capital stock of Toy Biz that is held beneficially or of record, by the Borrower or any of the Guarantors but limited, in the case of Subsidiaries that are incorporated in jurisdictions other than within the United States, to 65% of the issued and outstanding capital stock thereof) and all cash maintained in the Letter of Credit Account and any direct investments of the funds contained therein, (iii) pursuant to Section 364(c)(3) of the Bankruptcy Code, the Obligations of the Borrower and the Guarantors hereunder and under the Loan Documents shall be secured by a perfected Lien upon all property of the Borrower and the Guarantors (other than the property that is subject to existing Liens that presently secure the obligations of the Borrower and the Guarantors under the Existing Agreements, as to which the Lien in favor of the Agent and the Banks will be as described in clause (iv) of this sentence) that is subject to valid and perfected Liens in existence on the Filing Date and to other Permitted Liens described in clause (v) of the definition of such term herein (and extensions, renewals and replacements thereof described in clause (vi) of such definition), junior to such valid and perfected Liens, and (iv) pursuant to Section 364(d)(1) of the Bankruptcy Code, the Obligations of the Borrower and the Guarantors hereunder and under the Loan Documents shall be secured by a perfected first priority, senior priming Lien on all property of the Borrower and the Guarantors (including without limitation, accounts receivable, inventory, equipment, intellectual property and the capital stock

than Toy Biz) and the proceeds thereof) that is subject to existing Liens that presently secure the Borrower's and the Guarantors' pre-petition Indebtedness under the Existing Agreements and any Liens granted after the Filing Date to provide adequate protection in respect of the Existing Agreements, subject in each case only to (x) in the event of the occurrence and during the continuance of an Event of Default or an event that would constitute an Event of Default with the giving of notice or lapse of time or both, the payment of allowed and unpaid professional fees and disbursements incurred by the Borrower, the Guarantors, and any statutory committees appointed in the Cases in an aggregate amount not in excess of \$2,500,000 and (y) the payment of unpaid fees pursuant to 28 U.S.C. ss.1930 (collectively, the "Carve-Out"), provided that following the Termination Date amounts in the Letter of Credit Account shall not be subject to the Carve-Out. The Banks agree that so long as no Event of Default or event which with the giving of notice or lapse of time or both would constitute an Event of Default shall have occurred, the Borrower and the Guarantors shall be permitted to pay compensation and reimbursement of expenses allowed and payable under 11 U.S.C. ss. 330 and 11 U.S.C. ss. 331, as the same may be due and payable, and the same shall not reduce the Carve-Out.

SECTION 2.23. RIGHT OF SET-OFF. Subject to the provisions of Section 7.1, upon the occurrence and during the continuance of any Event of Default, the Agent and each Bank is hereby authorized at any time and from time to time, to the fullest extent permitted by law and without further order of or application to the Bankruptcy Court, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Agent and each such Bank to or for the credit or the account of the Borrower or any Guarantor against any and all of the obligations of such Borrower or Guarantor now or hereafter existing under the Loan Documents, irrespective of whether or not such Bank shall have made any demand under any Loan Document and although such obligations may be unmatured. Each Bank and the Agent agrees promptly to notify the Borrower and Guarantors after any such set-off and application made by such Bank or by the Agent, as the case may be, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Bank and the Agent under this Section are in addition to

other rights and remedies which such Bank and the Agent may have upon the occurrence and during the continuance of any Event of Default.

SECTION 2.24. SECURITY INTEREST IN LETTER OF CREDIT ACCOUNT. Pursuant to Section 364(c)(2) of the Bankruptcy Code, the Borrower and the Guarantors hereby assign and pledge to the Agent, for its benefit and for the ratable benefit of the Banks, and hereby grant to the Agent, for its benefit and for the ratable benefit of the Banks, a first priority security interest, senior to all other Liens, if any, in all of the Borrower's and the Guarantors' right, title and interest in and to the Letter of Credit Account and any direct investment of the funds contained therein.

SECTION 2.25. PAYMENT OF OBLIGATIONS. Upon the maturity (whether by acceleration or otherwise) of any of the obligations under this Agreement or any of the other Loan Documents of the Borrower and the Guarantors, the Banks

shall be entitled to immediate payment of such obligations without further application to or order of the Bankruptcy Court.

SECTION 2.26. NO DISCHARGE; SURVIVAL OF CLAIMS. Each of the Borrower and the Guarantors agrees that (i) its obligations hereunder shall not be discharged by the entry of an order confirming a Plan of Reorganization (and each of the Borrower and the Guarantors, pursuant to Section 1141(d)(4) of the Bankruptcy Code, hereby waives any such discharge) and (ii) the Superpriority Claim granted to the Agent and the Banks pursuant to the Order and described in Section 2.22 and the Liens granted to the Agent pursuant to the Order and described in Sections 2.22 and 2.24 shall not be affected in any manner by the entry of an order confirming a Plan of Reorganization.

SECTION 2.27. USE OF CASH COLLATERAL. Notwithstanding anything to the contrary contained herein, the Borrower shall not be permitted (i) to request a Borrowing under Section 2.5 or request the issuance of a Letter of Credit under Section 2.3 unless the Bankruptcy Court shall have entered the Cash Collateral Order or (ii) to request a Borrowing under Section 2.5 unless the Borrower and the Guarantors shall at that time have used all cash

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collateral subject to the Cash Collateral Order for the purposes described in Section 3.10.

SECTION 3. REPRESENTATIONS AND WARRANTIES

In order to induce the Banks to make Loans and issue and/or participate in Letters of Credit hereunder, the Borrower and each of the Guarantors jointly and severally represent and warrant as follows:

SECTION 3.1. ORGANIZATION AND AUTHORITY. Each of the Borrower and the Guarantors (i) is a corporation duly organized and validly existing under the laws of the State of its incorporation and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on the financial condition, operations, business, properties or assets of the Borrower and the Guarantors taken as a whole; (ii) has the requisite corporate power and authority to effect the transactions contemplated hereby, and by the other Loan Documents to which it is a party, and (iii) has all requisite corporate power and authority and the legal right to own, pledge, mortgage and operate its properties, and to conduct its business as now or currently proposed to be conducted.

SECTION 3.2. DUE EXECUTION. The execution, delivery and performance by each of the Borrower and the Guarantors of each of the Loan Documents to which it is a party (i) are within the respective corporate powers of each of the Borrower and the Guarantors, have been duly authorized by all necessary corporate action, including the consent of shareholders where required, and do not (A) contravene the charter or by-laws of any of the Borrower or the Guarantors, (B) violate any law (including, without limitation, the Securities Exchange Act of 1934) or regulation (including, without limitation, Regulations G, T, U or X of the Board of Governors of the Federal Reserve System), or any order or decree of any court or governmental instrumentality, (C) conflict with or result in a breach of, or constitute a default under, any material indenture, mortgage or deed of trust entered into after the Filing Date or any material lease, agreement or other instrument entered into after the Filing Date binding on the Borrower or the Guarantors or any of their properties, or (D)

result in or require the creation or imposition of any Lien upon any of the property of any of the Borrower or the Guarantors other than the Liens granted pursuant to this Agreement; and do not require the consent, authorization by or approval of or notice to or filing or registration with any Governmental Authority other than the entry of the Orders. This Agreement has been duly executed and delivered by each of the Borrower and the Guarantors.

This Agreement is, and each of the other Loan Documents to which the Borrower and each of the Guarantors is or will be a party, when delivered hereunder or thereunder, will be, a legal, valid and binding obligation of the Borrower and each Guarantor, as the case may be, enforceable against the Borrower and the Guarantors, as the case may be, in accordance with its terms.

SECTION 3.3 STATEMENTS MADE. The information that has been delivered in writing by the Borrower or any of the Guarantors to the Agent or to the Bankruptcy Court in connection with any Loan Document, and any financial statement delivered pursuant hereto or thereto (other than to the extent that any such statements constitute projections), taken as a whole and in light of the circumstances in which made, contains no untrue statement of a material fact and does not omit to state a material fact necessary to make such statements not misleading; and, to the extent that any such information constitutes projections, such projections were prepared in good faith on the basis of assumptions, methods, data, tests and information believed by the Borrower or such Guarantor to be reasonable at the time such projections were furnished.

SECTION 3.4. FINANCIAL STATEMENTS. The Borrower has furnished the Banks with copies of (i) the audited consolidated financial statement and schedules of the Borrower for the fiscal year ended December 31, 1995 and (ii) the unaudited consolidated financial statement and schedules of the Borrower for the fiscal quarter ended September 30, 1996. Such financial statements present fairly the financial condition and results of operations of the Borrower and the Guarantors on a consolidated basis as of such dates and for such periods; such balance sheets and the notes thereto disclose all liabilities, direct or contingent, of the Borrower and the Guarantors as of the dates thereof required to be disclosed by GAAP and such financial statements were prepared in a manner consistent with GAAP, subject (in the case of such fiscal

quarter statement) to normal year end adjustments. No material adverse change in the, operations, business, properties, assets, prospects or condition (financial or otherwise) of the Borrower and the Guarantors, taken as a whole, has occurred from that set forth in the Borrower's disclosure statement prepared in connection with the Proposed Plan heretofore furnished to the Agent (the "Disclosure Statement") other than (x) those which customarily occur and as a result of events leading up to and following the commencement of a

proceeding under Chapter 11 of the Bankruptcy Code and (y) the commencement of the Cases (it being understood that any non-cash restructuring and other non-cash charges to be reflected on the Borrower's 1996 consolidated financial statements will not in themselves be deemed to constitute such a material adverse change).

SECTION 3.5. OWNERSHIP. Each of the Persons listed on Schedule 3.5 is a wholly-owned, direct or indirect Subsidiary of the Borrower, and the Borrower owns no other Subsidiaries, whether directly or indirectly, other than as set forth on Schedule 3.5 (other than a Subsidiary formed to carry on a portion of the activities of the business segment of the Borrower and the Guarantors known as Marvel Studios, which Subsidiary shall not be a Guarantor).

SECTION 3.6. LIENS. Except for Liens existing on the Filing Date as reflected on Schedule 3.6, there are no Liens of any nature whatsoever on any assets of the Borrower or any of the Guarantors other than: (i) Liens granted pursuant to the Existing Agreements; (ii) Permitted Liens; (iii) Liens permitted pursuant to Section 6.1(ii); and (iv) Liens in favor of the Agent and the Banks. Neither the Borrower nor the Guarantors are parties to any contract, agreement, lease or instrument the performance of which, either unconditionally or upon the happening of an event, will result in or require the creation of a Lien on any assets of the Borrower or any Guarantor or otherwise result in a violation of this Agreement other than the Liens granted to the Agent and the Banks as provided for in this Agreement.

SECTION 3.7. COMPLIANCE WITH LAW.

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(a) (i) The operations of the Borrower and the Guarantors comply in all material respects with all applicable environmental, health and safety statutes and regulations, including, without limitation, regulations promulgated under the Resource Conservation and Recovery Act (42 U.S.C. ss.ss.6901 et seq.); (ii) to the Borrower's and each of the Guarantor's knowledge, none of the operations of the Borrower or the Guarantors is the subject of any Federal or state investigation evaluating whether any remedial action involving a material expenditure by the Borrower or any Guarantor is needed to respond to a release of any Hazardous Waste or Hazardous Substance (as such terms are defined in any applicable state or Federal environmental law or regulations) into the environment; and (iii) to the Borrower's and each of the Guarantor's knowledge, the Borrower and the Guarantors do not have any material contingent liability in connection with any release of any Hazardous Waste or Hazardous Substance into the environment.

(b) Neither the Borrower nor any Guarantor is, to the best of its knowledge, in violation of any law, rule or regulation, or in default with respect to any judgment, writ, injunction or decree of any Governmental Authority the violation of which, or a default with respect to which, would have a material adverse effect on the financial condition, operations, business, properties or assets of the Borrower and the

Guarantors taken as a whole.

SECTION 3.8. INSURANCE. All policies of insurance of any kind or nature owned by or issued to the Borrower and the Guarantors, including, without limitation, policies of life, fire, theft, product liability, public liability, property damage, other casualty, employee fidelity, workers' compensation, employee health and welfare, title, property and liability insurance, are in full force and effect and are of a nature and provide such coverage as is sufficient and as is customarily carried by companies of the size and character of the Borrower and the Guarantors.

SECTION 3.9. THE ORDERS. On the date of the making of the initial Loans or the issuance of the initial Letters of Credit hereunder, whichever first occurs, the Interim Order will have been entered and will not have been stayed, amended, vacated,

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reversed or rescinded. On the date of the making of any Loan or the issuance of any Letter of Credit, the Interim Order or the Final Order, as the case may be, shall have been entered and shall not have been amended, stayed, vacated or rescinded. Upon the maturity (whether by the acceleration or otherwise) of any of the obligations of the Borrower and the Guarantors hereunder and under the other Loan Documents, the Banks shall, subject to the provisions of Section 7.1, be entitled to immediate payment of such obligations, and to enforce the remedies provided for hereunder, without further application to or order by the Bankruptcy Court.

SECTION 3.10. USE OF PROCEEDS. The proceeds of the Loans shall be used (i) for general working capital of the Borrower and the Guarantors, and (ii) for other general corporate purposes of the Borrower and the Guarantors (including among such general corporate purposes, the making of Investments, subject to the limitations provided for in Section 6.10, and the making of Capital Expenditures, subject to the limitations provided for in Section 6.4).

SECTION 3.11. LITIGATION. Except as set forth on Schedule 3.11, there are no unstayed actions, suits or proceedings pending or, to the knowledge of the Borrower or the Guarantors, threatened against or affecting the Borrower or the Guarantors or any of its properties, before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which is reasonably likely to be determined adversely to the Borrower or the Guarantors and, if so determined adversely to the Borrower or the Guarantors would have a material adverse effect on the financial condition, business, properties, prospects, operations or assets of the Borrower and the Guarantors, taken as a whole.

SECTION 4. CONDITIONS OF LENDING

SECTION 4.1. CONDITIONS PRECEDENT TO INITIAL LOANS AND INITIAL LETTERS OF CREDIT. The obligation of the Banks to make the initial Loans or the Fronting Bank to issue the initial Letter of Credit, whichever may occur first, is subject to the following conditions precedent:

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(a) Supporting Documents. The Agent shall have received for each of the Borrower and the Guarantors:

(i) a copy of such entity's certificate of incorporation, as amended, certified as of a recent date by the Secretary of State of the state of its incorporation;

(ii) a certificate of such Secretary of State, dated as of a recent date, as to the good standing of and payment of taxes by, that entity and as to the charter documents on file in the office of such Secretary of State; and

(iii) a certificate of the Secretary or an Assistant Secretary of that entity dated the date of the initial Loans or the initial Letter of Credit hereunder, whichever first occurs, and certifying (A) that attached thereto is a true and complete copy of the by-laws of that entity as in effect on the date of such certification, (B) that attached thereto is a true and complete copy of resolutions adopted by the Board of Directors of that entity authorizing the Borrowings and Letter of Credit extensions hereunder, the execution, delivery and performance in accordance with their respective terms of this Agreement, the Notes to be executed by it, the Loan Documents and any other documents required or contemplated hereunder or thereunder and the granting of the security interest in the Letter of Credit Account contemplated hereby, (C) that the certificate of incorporation of that entity has not been amended since the date of the last amendment thereto indicated on the certificate of the Secretary of State furnished pursuant to clause (i) above and (D) as to the incumbency and specimen signature of each officer of that entity executing this Agreement, the Notes to be executed by it and the Loan Documents or any other document delivered by it in connection herewith or therewith (such certificate to contain a certification by another officer of that entity as to the incumbency and signature of the

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officer signing the certificate referred to in this clause (iii)).

(b) Notes. On or before the date of the initial Loans or the issuance of the initial Letter of Credit hereunder, whichever first occurs, the Agent shall have received Notes executed on behalf of the Borrower, dated the Closing Date, payable to the order of each of the Banks, in an amount equal to such Bank's Commitment.

(c) Interim Order. At the time of the making of the

initial Loans or at the time of the issuance of the initial Letter of Credit, whichever first occurs, the Agent and the Banks shall have received a certified copy of an order of the Bankruptcy Court in substantially the form of Exhibit B-1 (the "Interim Order") approving the Loan Documents and granting the Superpriority Claim status and priming and other Liens described in Section 2.22 which (i) shall have been entered upon an application or motion of the Borrower reasonably satisfactory in form and substance to the Agent, on such prior notice to such parties (including the Existing Lenders) as may in each case be reasonably satisfactory to the Agent, (ii) shall be in full force and effect, and (iii) shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Agent and the Required Banks and, if the Interim Order is the subject of a pending appeal in any respect, neither the making of such Loans nor the issuance of such Letter of Credit nor the performance by the Borrower or any of the Guarantors of any of their respective obligations hereunder or under the Loan Documents or under any other instrument or agreement referred to herein shall be the subject of a presently effective stay pending appeal.

(d) Cash Collateral Order. At the time of the making of the initial Loans or at the time of the issuance of the initial Letter of Credit, whichever first occurs, the Agent and the Banks shall have received a certified copy of an order or orders of the Bankruptcy Court in form and substance reasonably satisfactory to the Agent (the "Cash Collateral Order") pursuant to Section 363(c) (2) (B) of the Bankruptcy Code (which Cash Collateral Order may be embodied in the

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Interim Order and the Final Order) authorizing the use by the Borrower and the Guarantors of any cash collateral in which any Existing Lender under any Existing Agreement may have an interest and providing for (x) the making of current interest payments and letter of credit fees at the applicable non-default rate or rates provided for pursuant to the Existing Agreements, (y) a priority claim as contemplated by Section 507(b) of the Bankruptcy Code, and (z) a Lien on substantially all of the assets of the Borrower and the Guarantors having a priority junior to the priming and other Liens granted in favor of the Agent and the Banks hereunder and under the other Loan Documents which Cash Collateral Order shall be in full force and effect and shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Agent and the Required Banks.

(e) Security and Pledge Agreement. The Borrower and each of the Guarantors shall have duly executed and delivered to the Agent a Security and Pledge Agreement in substantially the form of Exhibit C (the "Security and Pledge Agreement").

(f) Plan of Reorganization. The Agent shall have received evidence satisfactory to it that the Borrower has filed with the Bankruptcy Court (i) a plan of reorganization for itself and the Guarantors satisfactory in form and substance to the Agent (the "Proposed Plan") providing for, among other things, (x) the investment by Andrews Group Incorporated or an affiliate thereof ("Andrews Group") in the Borrower of \$365,000,000 in cash or, at the option of Andrews Group, an equal value of the shares of class A common stock of Toy Biz or a combination of the foregoing, (y) the acquisition by the Borrower or one or more subsidiaries of the Borrower of 100% of the outstanding capital stock of Toy Biz and (z) only such impairment of the rights of and claims held by the Existing Lenders as may be satisfactory to the Agent, and (ii) a disclosure statement with respect to the Proposed Plan pursuant to the provisions of the Bankruptcy Code satisfactory in form and substance to the Agent and the Bankruptcy Court shall have scheduled a hearing on the approval of such disclosure statement.

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(g) Financing Commitment. The Agent shall have received evidence satisfactory to it that certain financial institutions have executed and delivered to the Borrower commitments to provide, at the time of the consummation of the Proposed Plan and such acquisition of the outstanding capital stock of Toy Biz, the aggregate principal amount of no less than \$160,000,000 as a credit facility for Toy Biz, such commitments to reflect such terms and conditions (and be only subject to such qualifications) as may be satisfactory to the Agent.

(h) First Day Orders. All of the "first day orders" entered by the Bankruptcy Court at the time of the commencement of the Cases shall be reasonably satisfactory in form and substance to the Agent.

(i) Opinion of Counsel to the Borrower. The Agent and the Banks shall have received the favorable written opinion of counsel to the Borrower and the Guarantors reasonably acceptable to the Agent, dated the date of the initial Loans or the issuance of the initial Letter of Credit, whichever first occurs, substantially in the form of Exhibit D.

(j) Payment of Fees. The Borrower shall have paid to the Agent the then unpaid balance of all accrued and unpaid Fees owed under and pursuant to this Agreement and the letter referred to in Section 2.18.

(k) Corporate and Judicial Proceedings. All corporate and judicial proceedings and all instruments and agreements in

connection with the transactions among the Borrower, the Guarantors, the Agent and the Banks contemplated by this Agreement shall be reasonably satisfactory in form and substance to the Agent, and the Agent shall have received all information and copies of all documents and papers, including records of corporate and judicial proceedings, which the Agent may have reasonably requested in connection therewith, such documents and papers where appropriate to be certified by proper corporate, governmental or judicial authorities.

(l) Information. The Agent shall have received such information (financial or otherwise) as may be reasonably requested by the Agent.

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(m) Compliance with Laws. The Borrower and the Guarantors shall have granted the Agent access to and the right to inspect all reports, audits and other internal information of the Borrower and the Guarantors relating to environmental matters, and any third party verification of certain matters relating to compliance with environmental laws and regulations requested by the Agent, and the Agent shall be reasonably satisfied that the Borrower and the Guarantors are in compliance in all material respects with all applicable environmental laws and regulations and be satisfied with the costs of maintaining such compliance.

(n) Closing Documents. The Agent shall have received all documents required by this Agreement reasonably satisfactory in form and substance to the Agent.

SECTION 4.2. CONDITIONS PRECEDENT TO EACH LOAN AND EACH LETTER OF CREDIT. The obligation of the Banks to make each Loan and of the Fronting Bank to issue each Letter of Credit, including the initial Loan and the initial Letter of Credit, is subject to the following conditions precedent:

(a) Notice. The Agent shall have received a notice with respect to such borrowing or issuance, as the case may be, as required by Section 2.

(b) Representations and Warranties. All representations and warranties contained in this Agreement and the other Loan Documents or otherwise made in writing in connection herewith or therewith shall be true and correct in all material respects on and as of the date of each Borrowing or the issuance of each Letter of Credit hereunder with the same effect as if made on and as of such date except to the extent such representations and warranties expressly relate to an earlier date.

(c) No Default. On the date of each Borrowing hereunder

or the issuance of each Letter of Credit, the Borrower and Guarantors shall be in compliance with all of the terms and provisions set forth herein to be observed or performed and no Event of Default or event which upon notice

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or lapse of time or both would constitute an Event of Default shall have occurred and be continuing.

(d) Orders. The Interim Order shall be in full force and effect and shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Agent and the Required Banks, provided, that at the time of the making of any Loan or the issuance of any Letter of Credit the aggregate amount of either of which, when added to the sum of the principal amount of all Loans then outstanding and the Letter of Credit Outstandings, would exceed the amount thereof which was authorized by the Bankruptcy Court in the Interim Order (collectively, the "Additional Credit"), the Agent and each of the Banks shall have received a certified copy of an order of the Bankruptcy Court in substantially the form of Exhibit B-2 (the "Final Order"), which, in any event, shall have been entered by the Bankruptcy Court no later than 30 days after the entry of the Interim Order, and at the time of the extension of any Additional Credit the Final Order shall be in full force and effect, and shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Agent and the Required Banks; and if either the Interim Order or the Final Order is the subject of a pending appeal in any respect, neither the making of the Loans nor the issuance of any Letter of Credit nor the performance by the Borrower or any Guarantor of any of their respective obligations under any of the Loan Documents shall be the subject of a presently effective stay pending appeal.

(e) Cash Collateral Order. The Cash Collateral Order shall be in full force and effect and shall not have been stayed, reversed, modified or amended in any respect without the prior written consent of the Agent and the Required Banks.

(f) Payment of Fees. The Borrower shall have paid to the Agent the then unpaid balance of all accrued and unpaid Fees then payable under and pursuant to this Agreement and the letter referred to in Section 2.18.

The request by the Borrower for, and the acceptance by the Borrower of, each extension of credit hereunder shall be deemed to

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be a representation and warranty by the Borrower that the conditions specified in this Section have been satisfied or waived at that time.

SECTION 5. AFFIRMATIVE COVENANTS

From the date hereof and for so long as any Commitment shall be in effect or any Letter of Credit shall remain outstanding (in a face amount in excess of the amount of cash then held in the Letter of Credit Account, or the face amount of back-to-back letters of credit delivered, in each case pursuant

to Section 2.2(b)), or any amount shall remain outstanding under any Note or unpaid under this Agreement, the Borrower and each of the Guarantors agree that, unless the Required Banks shall otherwise consent in writing, it will:

SECTION 5.1. FINANCIAL STATEMENTS, REPORTS, ETC. In the case of the Borrower and the Guarantors, deliver to the Agent and each of the Banks:

(a) within 90 days after the end of each fiscal year, the Borrower's consolidated and consolidating balance sheet and related statement of income and cash flows, showing the financial condition of the Borrower and the Guarantors on a consolidated and consolidating basis as of the close of such fiscal year and the results of their respective operations during such year, the consolidated statement of the Borrower to be audited for the Borrower and its consolidated Subsidiaries by independent public accountants of recognized national standing acceptable to the Required Banks and accompanied by an opinion of such accountants (which shall not be qualified in any material respect other than with respect to the Cases), and the consolidating statement to be subjected to the auditing procedures applied to such audit of the consolidated statement, and to be certified by a Financial Officer of the Borrower to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Borrower and the Guarantors on a consolidated basis in accordance with GAAP consistently applied;

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(b) within 45 days after the end of each of the first three fiscal quarters and within 90 days after the end of the fourth fiscal quarter of each fiscal year, the Borrower's consolidated and consolidating balance sheets and related statements of income and cash flows, showing the financial condition of the Borrower and the Guarantors on a consolidated and consolidating basis as of the close of such fiscal quarter and the results of their operations during such fiscal quarter and the then elapsed portion of the fiscal year, each certified by a Financial Officer as fairly presenting the financial condition and results of operations of the Borrower and the Guarantors on a consolidated and consolidating basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments;

(c) concurrently with any delivery of financial statements under (a) or (b) above, (i) a certificate of a Financial Officer, certifying such statements (A) certifying that no Event of Default or event which upon notice or lapse of time or both would constitute an Event of Default has occurred, or, if such an Event of Default or event has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken

with respect thereto and (B) setting forth computations in reasonable detail satisfactory to the Agent demonstrating compliance with the provisions of Sections 6.4, 6.5 and 6.10 and (ii) a certificate (which certificate may be limited to accounting matters and disclaim responsibility for legal interpretations) of such accountants accompanying the audited consolidated financial statements delivered under (a) above certifying that, in the course of the regular audit of the business of the Borrower and its consolidated Subsidiaries, such accountants have obtained no knowledge that an Event of Default has occurred and is continuing, or if, in the opinion of such accountants, an Event of Default has occurred and is continuing, specifying the nature thereof and all relevant facts with respect thereto;

(d) within thirty days of the end of each fiscal month (commencing with the fiscal month ending on or about December 31, 1996), the unaudited monthly cash flow reports of the Borrower and the Guarantors on a consolidated basis and as of the close of such fiscal month and the results of their

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operations during such fiscal period and the then elapsed portion of the fiscal year, all certified by a Financial Officer as fairly presenting the results of operations of the Borrower and the Guarantors on a consolidated basis, subject to normal year-end audit adjustments;

(e) as soon as possible, and in any event within 45 days of the Closing Date, a pro forma statement of the Borrower's and Guarantors' financial condition as of the Filing Date in detail reasonably satisfactory to the Agent;

(f) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by it with the Securities and Exchange Commission, or any governmental authority succeeding to any of or all the functions of said commission, or with any national securities exchange, as the case may be;

(g) as soon as available and in any event (A) within 30 days after the Borrower or any of its ERISA Affiliates knows or has reason to know that any Termination Event described in clause (i) of the definition of Termination Event with respect to any Single Employer Plan of the Borrower or such ERISA Affiliate has occurred and (B) within 10 days after the Borrower or any of its ERISA Affiliates knows or has reason to know that any other Termination Event with respect to any such Plan has occurred, a statement of a Financial Officer of the Borrower describing such Termination Event and the action, if any, which the Borrower or such ERISA Affiliate proposes to take with respect thereto;

(h) promptly and in any event within 10 days after receipt thereof by the Borrower or any of its ERISA Affiliates from the PBGC copies of each notice received by the Borrower or any such ERISA Affiliate of the PBGC's intention to terminate any Single Employer Plan of the Borrower or such ERISA Affiliate or to have a trustee appointed to administer any such Plan;

(i) promptly and in any event within 30 days after the filing thereof with the Internal Revenue Service, copies of each Schedule B (Actuarial Information) to the annual report

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(Form 5500 Series) with respect to each Single Employer Plan of the Borrower or any of its ERISA Affiliates;

(j) within 10 days after notice is given or required to be given to the PBGC under Section 302(f)(4)(A) of ERISA of the failure of the Borrower or any of its ERISA Affiliates to make timely payments to a Plan, a copy of any such notice filed and a statement of a Financial Officer of the Borrower setting forth (A) sufficient information necessary to determine the amount of the lien under Section 302(f)(3), (B) the reason for the failure to make the required payments and (C) the action, if any, which the Borrower or any of its ERISA Affiliates proposed to take with respect thereto;

(k) promptly and in any event within 10 days after receipt thereof by the Borrower or any ERISA Affiliate from a Multiemployer Plan sponsor, a copy of each notice received by the Borrower or any ERISA Affiliate concerning (A) the imposition of Withdrawal Liability by a Multiemployer Plan, (B) the determination that a Multiemployer Plan is, or is expected to be, in reorganization within the meaning of Title IV of ERISA, (C) the termination of a Multiemployer Plan within the meaning of Title IV of ERISA, or (D) the amount of liability incurred, or which may be incurred, by the Borrower or any ERISA Affiliate in connection with any event described in clause (A), (B) or (C) above;

(l) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower or any Guarantor, or compliance with the terms of any material loan or financing agreements as the Agent or any Bank may reasonably request; and

(m) furnish to the Agent and its counsel promptly after the same is available, copies of all pleadings, motions, applications, judicial information, financial information and other documents filed by or on behalf of the Borrower or any of the Guarantors with the Bankruptcy Court in the Cases, or distributed

by or on behalf of the Borrower or any of the Guarantors to any official committee appointed in the Cases.

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SECTION 5.2. CORPORATE EXISTENCE. Do or cause to be done and cause each of the Guarantors to do or cause to be done all things necessary to preserve, renew and keep in full force and effect its corporate existence, material rights, licenses, permits and franchises and comply in all material respects with all laws and regulations applicable to it.

SECTION 5.3. INSURANCE. (a) Keep its insurable properties insured at all times, against such risks, including fire and other risks insured against by extended coverage, as is customary with companies of the same or similar size in the same or similar businesses; and maintain in full force and effect public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by the Borrower or any Guarantor, as the case may be, in such amounts and with such deductibles as are customary with companies of the same or similar size in the same or similar businesses and in the same geographic area; and (b) maintain such other insurance or self insurance as may be required by law.

SECTION 5.4. OBLIGATIONS AND TAXES. With respect to the Borrower and each Guarantor, pay all its material obligations arising after the Filing Date promptly and in accordance with their terms and pay and discharge promptly all material taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property arising after the Filing Date, before the same shall become in default, as well as all material lawful claims for labor, materials and supplies or otherwise arising after the Filing Date which, if unpaid, might become a Lien or charge upon such properties or any part thereof; provided, however, that the Borrower and each Guarantor shall not be required to pay and discharge or to cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings (if the Borrower and the Guarantors shall have set aside on their books adequate reserves therefor).

SECTION 5.5. NOTICE OF EVENT OF DEFAULT, ETC. Promptly give to the Agent notice in writing of any Event of Default or the

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occurrence of any event or circumstance which with the passage of time or giving of notice or both would constitute an Event of Default.

SECTION 5.6. ACCESS TO BOOKS AND RECORDS. Maintain or cause to be maintained at all times true and complete books and records of the financial operations of the Borrower and the Guarantors; and provide the Agent and its representatives access to all such books and records during regular business hours, in order that the Agent may examine and make abstracts from such books, accounts, records and other papers for the purpose of verifying the accuracy of the various reports delivered by the Borrower or the Guarantors to the Agent or the Banks pursuant to this Agreement or for otherwise ascertaining compliance with this Agreement; and at any reasonable time and from time to time during regular business hours, upon reasonable notice, permit the Agent and any agents or representatives (including, without limitation, appraisers) thereof to visit the properties of the Borrower and the Guarantors and to conduct examinations of and to monitor the Collateral held by the Agent.

SECTION 5.7. BUSINESS PLAN. As soon as practicable, furnish to the Agent all material modifications to the Borrower's business plan heretofore furnished to the Agent, and make its senior officers available to discuss the same with the Agent upon the Agent's reasonable request.

SECTION 5.8. MAINTENANCE OF CONCENTRATION ACCOUNT. The Borrower and the Guarantors shall continue to maintain with the Agent the account or accounts currently used by the Borrower and the Guarantors as their principal concentration and disbursement account for day-to-day operations conducted by the Borrower and the Guarantors.

SECTION 6. NEGATIVE COVENANTS

From the date hereof and for so long as any Commitment shall be in effect or any Letter of Credit shall remain outstanding (in a face amount in excess of the amount of cash then held in the Letter of Credit Account, or the face amount of back-to-back letters of credit delivered, in each case pursuant to Section

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2.2(b)) or any amount shall remain outstanding under any Note or unpaid under this Agreement, unless the Required Banks shall otherwise consent in writing, the Borrower and each of the Guarantors will not (and will not, subject to the last paragraph of this Section 6, apply to the Bankruptcy Court for authority to):

SECTION 6.1. LIENS. Incur, create, assume or suffer to exist any Lien on any asset of the Borrower or the Guarantors, now owned or hereafter acquired by the Borrower or any of such Guarantors, other than (i) Liens which were existing on the Filing Date as reflected on Schedule 3.6 hereto and Liens granted pursuant to the Existing Agreements; (ii) Liens in favor of the Existing Lenders as adequate protection granted pursuant to the Orders or the Cash Collateral Order, which Liens are junior to the Liens contemplated hereby in favor of the Agent and the Banks, provided that the Interim Order and the Final Order provide that the holder of such junior Liens shall not be permitted to take any action to foreclose with respect to, or otherwise realize upon, such junior Liens so long as any amounts shall remain outstanding hereunder or under the Notes or any Commitment shall be in effect; (iii) Permitted Liens;

and (iv) Liens in favor of the Agent and the Banks.

SECTION 6.2. MERGER, ETC. Consolidate or merge with or into another Person.

SECTION 6.3. INDEBTEDNESS. Contract, create, incur, assume or suffer to exist any Indebtedness, except for (i) Indebtedness under this Agreement, (ii) Indebtedness incurred prior to the Filing Date (including existing Capitalized Leases), (iii) Indebtedness incurred subsequent to the Filing Date secured by purchase money Liens (exclusive of Capitalized Leases) in an aggregate amount not to exceed \$5,000,000, (iv) Capitalized Leases to the extent permitted by Section 6.4 and (v) Indebtedness arising from Investments among the Borrower and the Guarantors that are permitted hereunder.

SECTION 6.4. CAPITAL EXPENDITURES. Make Capital Expenditures (x) for purposes other than for restaurant development by Marvel Mania, a joint venture in which Marvel

Restaurant Venture Corp. is a general partner, in an aggregate amount in excess (when added to loans or investments for such purposes permitted by Section 6.10(iv)) of (i) \$8,135,000 during the quarter ending on March 31, 1997 or (ii) \$13,279,000 on a cumulative basis during the two quarters ending June 30, 1997 or (y) for purposes that are in connection with such restaurant development, in an aggregate amount in excess (when added to loans or investments for such purpose permitted by Section 6.10(iv)) of (i) \$4,765,000 during the quarter ending on March 31, 1997 or (ii) \$8,721,000 on a cumulative basis during the two quarters ending June 30, 1997, provided that if the Borrower shall have formed a Subsidiary to carry on a portion of the activities of the Marvel Studios business segment (which Subsidiary shall not be a Guarantor), not more than \$1,000,000 of the amount provided for in clause (x) above may be expended for such Subsidiary.

SECTION 6.5. EBITDA. Permit cumulative EBITDA for each period beginning on February 1, 1997 and ending on the dates listed below to be less than the amount specified opposite such period:

<TABLE>

<CAPTION>

Period Ending -----	EBITDA -----
<S>	<C>
February 28, 1997	(\$ 8,500,000)
March 31, 1997	(\$12,000,000)
April 30, 1997	(\$15,500,000)
May 31, 1997	(\$19,000,000)

</TABLE>

SECTION 6.6. GUARANTEES AND OTHER LIABILITIES. Purchase or repurchase (or agree, contingently or otherwise, so to do) the Indebtedness of, or assume, guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance of any obligation or capability of so doing, or otherwise), endorse or otherwise become liable, directly or indirectly, in connection with the obligations, stock or dividends of any Person, except (i) for any guaranty of Indebtedness or other obligations of any Borrower or Guarantor if the guarantor could have incurred such Indebtedness or obligations under this Agreement, (ii) by endorsement of

negotiable instruments for deposit or collection in the ordinary course of business, (iii) guarantees by the Borrower of leases of restaurant premises entered into by Marvel Mania in an aggregate amount not in excess of \$5,000,000 and (iv) as otherwise permitted under this Agreement.

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SECTION 6.7. CHAPTER 11 CLAIMS. Incur, create, assume, suffer to exist or permit any other Super-Priority Claim which is pari passu with or senior to the claims of the Agent and the Banks against the Borrower and the Guarantors hereunder, except for the Carve-Out.

SECTION 6.8. DIVIDENDS; CAPITAL STOCK. Declare or pay, directly or indirectly, any dividends or make any other distribution or payment, whether in cash, property, securities or a combination thereof, with respect to (whether by reduction of capital or otherwise) any shares of capital stock (or any options, warrants, rights or other equity securities or agreements relating to any capital stock), or set apart any sum for the aforesaid purposes, provided that any Guarantor may pay dividends to the Borrower or to any other Guarantor.

SECTION 6.9. TRANSACTIONS WITH AFFILIATES. Sell or transfer any property or assets to, or otherwise engage in any other transactions with, any of its Affiliates (other than the Borrower and the Guarantors), other than in the ordinary course of business at prices and on terms and conditions not less favorable to the Borrower or such Guarantor than could be obtained on an arm's-length basis from unrelated third parties or except as disclosed in the Disclosure Statement.

SECTION 6.10. INVESTMENTS, LOANS AND ADVANCES. Purchase, hold or acquire any capital stock, evidences of indebtedness or other securities of, make or permit to exist any loans or advances to, or make or permit to exist any investment in, any other Person (all of the foregoing, "Investments"), except for (i) ownership by the Borrower or the Guarantors of the capital stock of each of the Subsidiaries listed on Schedule 3.5, (ii) Permitted Investments, (iii) advances and loans among the Borrower and the Guarantors in the ordinary course, (iv) Investments by the Borrower or any Guarantor for the purposes described in the last sentence of the definition of the term "Capital Expenditures" in an aggregate amount not to exceed, when added to amounts expended for such purposes as permitted therein, the maximum amounts permitted pursuant to Section 6.4 and (v) loans to Panini S.p.A. in an

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aggregate amount not to exceed U.S. \$10,000,000 at any one time outstanding.

SECTION 6.11. DISPOSITION OF ASSETS. Sell or otherwise dispose of any assets (including, without limitation, the capital stock of any Subsidiary) except for (i) sales of inventory, fixtures and equipment in the ordinary course of business, (ii) sales or other dispositions of assets having a fair market value not exceeding \$7,500,000 in the aggregate and (iii) sales or other dispositions of assets among the Borrower and the Guarantors.

SECTION 6.12. NATURE OF BUSINESS. Modify or alter in any material manner the nature and type of its business as conducted at or prior to the Filing Date or the manner in which such business is conducted (except as required by the Bankruptcy Code). Notwithstanding anything to the contrary contained in this Section 6, the Borrower and the Guarantors may apply to the Bankruptcy Court for authority to enter into transactions in connection with the consummation of the Proposed Plan described in Section 4.1(f) and, upon entry of an order authorizing such transactions, execute and deliver agreements evidencing (or other instruments in connection with) such transactions, provided that such transactions are not consummated prior to the Consummation Date.

SECTION 7. EVENTS OF DEFAULT

SECTION 7.1. EVENTS OF DEFAULT. In the case of the happening of any of the following events and the continuance thereof beyond the applicable period of grace if any (each, an "Event of Default"):

(a) any material representation or warranty made by the Borrower or any Guarantor in this Agreement or in any Loan Document or in connection with this Agreement or with the execution and delivery of the Notes or the credit extensions hereunder or any material statement or representation made in any report, financial statement, certificate or other document furnished by the Borrower or any Guarantors to the Banks under or in connection with this Agreement, shall prove to have been false or misleading in any material respect when made or delivered; or

(b) default shall be made in the payment of any (i) Fees or interest on the Loans when due, and such default shall continue unremedied for more than two (2) Business Days or (ii) principal of the Loans or other amounts payable by the Borrower hereunder (including, without limitation, reimbursement obligations or cash collateralization in respect of Letters of Credit), when and as the same shall become due and payable, whether

at the due date thereof (including the Prepayment Date) or at a date fixed for prepayment thereof or by acceleration thereof or otherwise; or

(c) default shall be made by the Borrower or any Guarantor in the due observance or performance of any covenant, condition or agreement contained in Section 6 hereof; or

(d) default shall be made by the Borrower or any Guarantor in the due observance or performance of any other covenant, condition or agreement to be observed or performed pursuant to the terms of this Agreement or any of the other Loan Documents and such default shall continue unremedied for more than ten (10) days; or

(e) any of the Cases shall be dismissed or converted to a case under Chapter 7 of the Bankruptcy Code; a trustee under Chapter 7 or Chapter 11 of the Bankruptcy Code shall be appointed in any of the Cases and the order appointing such trustee shall not be reversed or vacated within 30 days after the entry thereof; or an application shall be filed by the Borrower or any Guarantor for the approval of any other Super-Priority Claim (other than the Carve-Out) in the Cases which is pari passu with or senior to the claims of the Agent and the Banks against the Borrower or any Guarantor hereunder, or there shall arise or be granted any such pari passu or senior Super-Priority Claim; or

(f) the Bankruptcy Court shall enter an order or orders granting relief from the automatic stay applicable under Section 362 of the Bankruptcy Code to the holder or holders of any security interest to permit foreclosure (or the granting of a deed in lieu of foreclosure or the like) on any assets of the Borrower or any of the Guarantors which have a value in excess of \$500,000 in the aggregate; or

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(g) the Borrower or any of the Guarantors shall file a motion or application with the Bankruptcy Court seeking to reject, pursuant to Section 365 of the Bankruptcy Code, the exclusive license for the use of Marvel characters heretofore granted to Toy Biz;

(h) Ronald O. Perelman or, in the event of his incompetence or death, his estate, heirs, executor, administrator, committee or other personal representative and his (or any of their) Affiliates shall cease to own, directly or indirectly, or shall no longer have the power to vote, directly or indirectly, at least 51% of the outstanding voting stock of the Borrower; or

(i) the Borrower or any of the Guarantors shall file a motion or application with the Bankruptcy Court seeking to reject, pursuant to Section 365 of the Bankruptcy Code, the exclusive license for the use of Marvel characters heretofore granted to Toy Biz; or

(j) any material provision of any Loan Document shall, for any reason, cease to be valid and binding on the Borrower or any of the Guarantors, or the Borrower or any of the Guarantors shall so assert in any pleading filed in any court; or

(k) an order of the Bankruptcy Court shall be entered in any of the Cases of the Borrower or any of the Guarantors appointing an examiner with enlarged powers relating to the operation of the business (powers beyond those set forth in Section 1106(a)(3) and (4) of the Bankruptcy Code) under Section 1106(b) of the Bankruptcy Code and such order shall not be reversed or vacated within 30 days after the entry thereof; or

(l) an order of the Bankruptcy Court shall be entered (i) reversing, amending, supplementing, staying for a period in excess of 10 days, vacating or otherwise modifying either of the Orders (without the prior written consent of the Agent and the Required Banks) or (ii) terminating the use of cash collateral by the Borrower or the Guarantors pursuant to the Cash Collateral Order; or

(m) any judgment or order as to a post-petition liability or debt for the payment of money in excess of \$1,000,000

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shall be rendered against the Borrower or any of the Guarantors and the enforcement thereof shall not have been stayed; or

(n) any non-monetary judgment or order with respect to a post-petition event shall be rendered against the Borrower or any of the Guarantors which does or would reasonably be expected to (i) cause a material adverse change in the financial condition, business, prospects, operations or assets of the Borrower and the Guarantors taken as a whole on a consolidated basis, (ii) have a material adverse effect on the ability of the Borrower or any of the Guarantors to perform their respective obligations under any Loan Document, or (iii) have a material adverse effect on the rights and remedies of the Agent or any Bank under any Loan Document, and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(o) the Borrower or the Guarantors shall make any Pre-Petition Payments other than as permitted under the Orders or the Cash Collateral Order and other than in respect of pre-petition trade payables to the extent permitted by the Bankruptcy Court; or

(p) any Termination Event described in clauses (iii) or (iv) of the definition of such term shall have occurred and shall continue unremedied for more than 10 days and the sum (determined as of the date of occurrence of such Termination Event) of the Insufficiency of the Plan in respect of which such Termination Event shall have occurred and be continuing and the Insufficiency of any and all other Plans with respect to which such a Termination Event (described in such clauses (iii) or (iv)) shall have occurred

and then exist is equal to or greater than \$5,000,000; or

(q) (i) the Borrower or any ERISA Affiliate thereof shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan, (ii) the Borrower or such ERISA Affiliate does not have reasonable grounds to contest such Withdrawal Liability and is not in fact contesting such Withdrawal Liability in a timely and appropriate manner, and (iii) the amount of such Withdrawal Liability specified in such notice, when aggregated with all other amounts required to be paid to Multiemployer Plans in connection

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with Withdrawal Liabilities (determined as of the date of such notification), exceeds \$5,000,000 allocable to post-petition obligations or requires payments exceeding \$500,000 per annum in excess of the annual payments made with respect to such MultiEmployer Plans by the Borrower or such ERISA Affiliate for the plan year immediately preceding the plan year in which such notification is received; or

(r) the Borrower or any ERISA Affiliate thereof shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, if as a result of such reorganization or termination the aggregate annual contributions of the Borrower and its ERISA Affiliates to all Multiemployer Plans that are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the plan years that include the date hereof by an amount exceeding \$5,000,000; or

(s) the Borrower or any ERISA Affiliate shall have committed a failure described in Section 302(f)(1) of ERISA (other than the failure to make any contribution accrued and unpaid as of the Filing Date) and the amount determined under Section 302(f)(3) of ERISA is equal to or greater than \$5,000,000; or

(t) it shall be determined (whether by the Bankruptcy Court or by any other judicial or administrative forum) that the Borrower or any Guarantor is liable for the payment of claims arising out of any failure to comply (or to have complied) with applicable environmental laws or regulations the payment of which will have a material adverse effect on the financial condition, business, properties, operations or assets of the Borrower or the Guarantors, taken as a whole;

then, and in every such event and at any time thereafter during the continuance of such event, and without further order of or application to the Bankruptcy Court, the Agent may, and at the request of the Required Banks, shall, by notice to the Borrower (with a copy to counsel for the Official Creditors' Committee appointed in the Cases and to the United States Trustee for the District of Delaware), take one or more of the following actions, at the same or different times (provided, that with respect to clause (iv) below and the

with respect to the Collateral under clause (v) below, the Agent shall provide the Borrower (with a copy to counsel for the Official Creditors' Committee appointed in the Cases and to the United States Trustee for the District of Delaware) with five (5) Business Days' written notice prior to taking the action contemplated thereby and provided, further, that upon receipt of notice referred to in the immediately preceding clause with respect to the accounts referred to in clause (iv) below, the Borrower may continue to make ordinary course disbursements from such accounts (other than the Letter of Credit Account) but may not withdraw or disburse any other amounts from such accounts): (i) terminate forthwith the Total Commitment; (ii) declare the Loans then outstanding to be forthwith due and payable, whereupon the principal of the Loans together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower and the Guarantors, anything contained herein or in any other Loan Document to the contrary notwithstanding; (iii) require the Borrower and the Guarantors upon demand to forthwith deposit in the Letter of Credit Account cash in an amount equal to the sum of 105% of the then outstanding Letters of Credit and to the extent the Borrower and the Guarantors shall fail to furnish such funds as demanded by the Agent, the Agent shall be authorized to debit the accounts of the Borrower and the Guarantors maintained with the Agent in such amount; (iv) set-off amounts in the Letter of Credit Account or any other accounts maintained with the Agent and apply such amounts to the obligations of the Borrower and the Guarantors hereunder and in the other Loan Documents; and (v) exercise any and all remedies under the Loan Documents and under applicable law available to the Agent and the Banks.

SECTION 8. THE AGENT

SECTION 8.1. ADMINISTRATION BY AGENT. The general administration of the Loan Documents shall be by the Agent. Each Bank hereby irrevocably authorizes the Agent, at its discretion, to take or refrain from taking such actions as agent on its behalf and to exercise or refrain from exercising such powers under the Loan Documents and the Notes as are delegated by the terms hereof

or thereof, as appropriate, together with all powers reasonably incidental thereto (including the release of Collateral in connection with any transaction that is expressly permitted by the Loan Documents). The Agent shall have no duties or responsibilities except as set forth in this Agreement and the remaining Loan Documents.

SECTION 8.2. ADVANCES AND PAYMENTS

(a) On the date of each Loan, the Agent shall be authorized (but not obligated) to advance, for the account of each of the Banks, the amount of the Loan to be made by it in accordance with its Commitment hereunder. Should the Agent do so, each of the Banks agrees forthwith to reimburse the Agent in immediately available funds for the amount so advanced on its behalf by the Agent, together with interest at the Federal Funds Effective Rate if not so reimbursed on the date due from and including such date but not including the date of reimbursement.

(b) Any amounts received by the Agent in connection with this Agreement or the Notes (other than amounts to which the Agent is entitled pursuant to Sections 2.18, 8.6, 10.5 and 10.6), the application of which is not otherwise provided for in this Agreement shall be applied, first, in accordance with each Bank's Commitment Percentage to pay accrued but unpaid Commitment Fees or Letter of Credit Fees, and second, in accordance with each Bank's Commitment Percentage to pay accrued but unpaid interest and the principal balance outstanding on each Note and all unreimbursed Letter of Credit drawings. All amounts to be paid to a Bank by the Agent shall be credited to that Bank, after collection by the Agent, in immediately available funds either by wire transfer or deposit in that Bank's correspondent account with the Agent, as such Bank and the Agent shall from time to time agree.

SECTION 8.3. SHARING OF SETOFFS. Each Bank agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against the Borrower, including, but not limited to, a secured claim under Section 506 of the Bankruptcy Code or other security or interest arising from, or in lieu of, such secured claim and received by such Bank under any applicable bankruptcy, insolvency or other similar law, or otherwise, obtain payment in respect of its Loans as a result of which the unpaid

portion of its Loans is proportionately less than the unpaid portion of the Loans of any other Bank (a) it shall promptly purchase at par (and shall be deemed to have thereupon purchased) from such other Bank a participation in the Loans of such other Bank, so that the aggregate unpaid principal amount of each Bank's Loans and its participation in Loans of the other Banks shall be in the same proportion to the aggregate unpaid principal amount of all Loans then outstanding as the principal amount of its Loans prior to the obtaining of such payment was to the principal amount of all Loans outstanding prior to the obtaining of such payment and (b) such other adjustments shall be made from time to time as shall be equitable to ensure that the Banks share such payment pro-rata, provided that if any such non-pro-rata payment is thereafter recovered or otherwise set aside such purchase of participations shall be rescinded (without interest). The Borrower expressly consents to the foregoing arrangements and agrees that any Bank holding (or deemed to be holding) a participation in a Loan may exercise any and all rights of banker's lien, setoff (in each case, subject to the same notice requirements as pertain to clause (iv) of the remedial provisions of Section 7.1) or counterclaim with respect to any and all moneys owing by the Borrower to such Bank as fully as if such Bank held a Note and was the original obligee thereon, in the amount of such participation.

SECTION 8.4. AGREEMENT OF REQUIRED BANKS. Upon any occasion requiring or permitting an approval, consent, waiver, election or other action

on the part of the Required Banks, action shall be taken by the Agent for and on behalf or for the benefit of all Banks upon the direction of the Required Banks, and any such action shall be binding on all Banks. No amendment, modification, consent, or waiver shall be effective except in accordance with the provisions of Section 10.10.

SECTION 8.5. LIABILITY OF AGENT.

(a) The Agent when acting on behalf of the Banks, may execute any of its respective duties under this Agreement by or through any of its respective officers, agents, and employees, and neither the Agent nor its directors, officers, agents, employees or Affiliates shall be liable to the Banks or any of them for any action taken or omitted to be taken in good faith, or be respon-

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sible to the Banks or to any of them for the consequences of any oversight or error of judgment, or for any loss, unless the same shall happen through its gross negligence or willful misconduct. The Agent and its respective directors, officers, agents, employees and Affiliates shall in no event be liable to the Banks or to any of them for any action taken or omitted to be taken by them pursuant to instructions received by them from the Required Banks or in reliance upon the advice of counsel selected by it. Without limiting the foregoing, neither the Agent, nor any of its respective directors, officers, employees, agents or Affiliates shall be responsible to any Bank for the due execution, validity, genuineness, effectiveness, sufficiency, or enforceability of, or for any statement, warranty, or representation in, this Agreement, any Loan Document or any related agreement, document or order, or shall be required to ascertain or to make any inquiry concerning the performance or observance by the Borrower of any of the terms, conditions, covenants, or agreements of this Agreement or any of the Loan Documents.

(b) Neither the Agent nor any of its respective directors, officers, employees, agents or Affiliates shall have any responsibility to the Borrower or the Guarantors on account of the failure or delay in performance or breach by any Bank or by the Borrower or the Guarantors of any of their respective obligations under this Agreement or the Notes or any of the Loan Documents or in connection herewith or therewith.

(c) The Agent, in its capacity as Agent hereunder, shall be entitled to rely on any communication, instrument, or document reasonably believed by such person to be genuine or correct and to have been signed or sent by a person or persons believed by such person to be the proper person or persons, and such person shall be entitled to rely on advice of legal counsel, independent public accountants, and other professional advisers and experts selected by such person.

SECTION 8.6. REIMBURSEMENT AND INDEMNIFICATION. Each Bank agrees (i) to reimburse (x) the Agent for such Bank's Commitment Percentage of any expenses and fees incurred for the benefit of the Banks under this Agreement,

the Notes and any of the Loan Documents, including, without limitation, counsel fees and compensation of agents and employees paid for services rendered on behalf of the Banks, and any other expense incurred in connection

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with the operations or enforcement thereof not reimbursed by the Borrower or the Guarantors and (y) the Agent for such Bank's Commitment Percentage of any expenses of the Agent incurred for the benefit of the Banks that the Borrower has agreed to reimburse pursuant to Section 10.5 and has failed to so reimburse and (ii) to indemnify and hold harmless the Agent and any of its directors, officers, employees, agents or Affiliates, on demand, in the amount of its proportionate share, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against it or any of them in any way relating to or arising out of this Agreement, the Notes or any of the Loan Documents or any action taken or omitted by it or any of them under this Agreement, the Notes or any of the Loan Documents to the extent not reimbursed by the Borrower or the Guarantors (except such as shall result from their respective gross negligence or willful misconduct).

SECTION 8.7. RIGHTS OF AGENT. It is understood and agreed that Chase shall have the same rights and powers hereunder (including the right to give such instructions) as the other Banks and may exercise such rights and powers, as well as its rights and powers under other agreements and instruments to which it is or may be party, and engage in other transactions with the Borrower or any Guarantor, as though it were not the Agent of the Banks under this Agreement.

SECTION 8.8. INDEPENDENT BANKS. Each Bank acknowledges that it has decided to enter into this Agreement and to make the Loans hereunder based on its own analysis of the transactions contemplated hereby and of the creditworthiness of the Borrower and the Guarantors and agrees that the Agent shall bear no responsibility therefor.

SECTION 8.9. NOTICE OF TRANSFER. The Agent may deem and treat a Bank party to this Agreement as the owner of such Bank's portion of the Loans for all purposes, unless and until a written notice of the assignment or transfer thereof executed by such Bank shall have been received by the Agent.

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SECTION 8.10. SUCCESSOR AGENT. The Agent may resign at any time by giving written notice thereof to the Banks and the Borrower. Upon any such resignation, the Required Banks shall have the right to appoint a successor Agent, which shall be reasonably satisfactory to the Borrower. If no successor

Agent shall have been so appointed by the Required Banks and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation, the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of a least \$100,000,000, which shall be reasonably satisfactory to the Borrower. Upon the acceptance of any appointment as Agent here under by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation hereunder as Agent, the provisions of this Section 8 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

SECTION 9. GUARANTY

SECTION 9.1. GUARANTY

(a) Each of the Guarantors unconditionally and irrevocably guarantees the due and punctual payment and performance by the Borrower of the Obligations. Each of the Guarantors further agrees that the Obligations may be extended or renewed, in whole or in part, without notice to or further assent from it, and it will remain bound upon this guaranty notwithstanding any extension or renewal of any of the Obligations. The Obligations of the Guarantors shall be joint and several.

(b) Each of the Guarantors waives presentation to, demand for payment from and protest to the Borrower or any other Guarantor, and also waives notice of protest for nonpayment. The Obligations of the Guarantors hereunder shall not be affected by (i) the failure of the Agent or a Bank to assert any claim or demand or to enforce any right or remedy against the Borrower or

any other Guarantor under the provisions of this Agreement or any other Loan Document or otherwise; (ii) any extension or renewal of any provision hereof or thereof; (iii) any rescission, waiver, compromise, acceleration, amendment or modification of any of the terms or provisions of any of the Loan Documents; (iv) the release, exchange, waiver or foreclosure of any security held by the Agent for the Obligations or any of them; (v) the failure of the Agent or a Bank to exercise any right or remedy against any other Guarantor; or (vi) the release or substitution of any Guarantor or any other Guarantor.

(c) Each of the Guarantors further agrees that this guaranty constitutes a guaranty of performance and of payment when due and not just of collection, and waives any right to require that any resort be had by the Agent or a Bank to any security held for payment of the Obligations or to any balance of any deposit, account or credit on the books of the Agent or a Bank in favor of the Borrower or any other Guarantor, or to any other Person.

(d) Each of the Guarantors hereby waives any defense that it might have based on a failure to remain informed of the financial condition of the Borrower and of any other Guarantor and any circumstances affecting the ability of the Borrower to perform under this Agreement.

(e) Each Guarantor's guaranty shall not be affected by the genuineness, validity, regularity or enforceability of the Obligations, the Notes or any other instrument evidencing any Obligations, or by the existence, validity, enforceability, perfection, or extent of any collateral therefor or by any other circumstance relating to the Obligations which might otherwise constitute a defense to this Guaranty. Neither of the Agent, nor any of the Banks makes any representation or warranty in respect to any such circumstances or shall have any duty or responsibility whatsoever to any Guarantor in respect of the management and maintenance of the Obligations.

(f) Subject to the provisions of Section 7.1, upon the Obligations becoming due and payable (by acceleration or otherwise), the Banks shall be entitled to immediate payment of such Obligations by the Guarantors upon written demand by the Agent, without further application to or order of the Bankruptcy Court.

SECTION 9.2. NO IMPAIRMENT OF GUARANTY. The obligations of the Guarantors hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason, including, without limitation, any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense or set-off, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of the Obligations. Without limiting the generality of the foregoing, the obligations of the Guarantors hereunder shall not be discharged or impaired or otherwise affected by the failure of the Agent or a Bank to assert any claim or demand or to enforce any remedy under this Agreement or any other agreement, by any waiver or modification of any provision thereof, by any default, failure or delay, willful or otherwise, in the performance of the Obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of the Guarantors or would otherwise operate as a discharge of the Guarantors as a matter of law, unless and until the Obligations are paid in full.

SECTION 9.3. SUBROGATION. Upon payment by any Guarantor of any sums to the Agent or a Bank hereunder, all rights of such Guarantor against the Borrower arising as a result thereof by way of right of subrogation or otherwise, shall in all respects be subordinate and junior in right of payment to the prior final and indefeasible payment in full of all the Obligations. If any amount shall be paid to such Guarantor for the account of the Borrower, such amount shall be held in trust for the benefit of the Agent and the Banks and shall forthwith be paid to the Agent and the Banks to be credited and applied to the Obligations, whether matured or unmatured.

SECTION 10. MISCELLANEOUS

SECTION 10.1. NOTICES. Notices and other communications provided for herein shall be in writing (including telegraphic, telex, facsimile or cable communication) and shall be mailed, telegraphed, telexed, transmitted, cabled or delivered to the Borrower or any Guarantor at 387 Park Avenue South, New York, New York 10016, Attention: Chief Financial Officer and to a Bank or the Agent to it at its address set forth on the signature pages of this Agreement, or such other address as such party may from time to time designate by giving written notice to the other parties hereunder. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the fifth Business Day after the date when sent by registered or certified mail, postage prepaid, return receipt requested, if by mail; or when delivered to the telegraph company, charges prepaid, if by telegram; or when receipt is acknowledged, if by any telegraphic communications or facsimile equipment of the sender; in each case addressed to such party as provided in this Section 10.1 or in accordance with the latest unrevoked written direction from such party; provided, however, that in the case of notices to the Agent notices pursuant to the preceding sentence and pursuant to Section 2 shall be effective only when received by the Agent.

SECTION 10.2. SURVIVAL OF AGREEMENT, REPRESENTATIONS AND WARRANTIES, ETC. All warranties, representations and covenants made by the Borrower or any Guarantor herein or in any certificate or other instrument delivered by it or on its behalf in connection with this Agreement shall be considered to have been relied upon by the Banks and shall survive the making of the Loans herein contemplated and the issuance and delivery to the Banks of the Notes regardless of any investigation made by any Bank or on its behalf and shall continue in full force and effect so long as any amount due or to become due hereunder is outstanding and unpaid and so long as the Commitments have not been terminated. All statements in any such certificate or other instrument shall constitute representations and warranties by the Borrower and the Guarantors hereunder with respect to the Borrower.

SECTION 10.3. SUCCESSORS AND ASSIGNS.

(a) This Agreement shall be binding upon and inure to the benefit of the Borrower, the Agent and the Banks and their respective successors and assigns. Neither the Borrower nor any of the Guarantors may

assign or transfer any of their rights or obligations hereunder without the prior written consent of all of the Banks. Each Bank may sell participations to any Person in all or part of any Loan, or all or part of its Note or Commitment, in which event, without limiting the foregoing, the provisions of Section 2.14 shall inure to the benefit of each purchaser of a participation (provided that such participant shall look solely to the seller of such participation for such benefits and the Borrower's and the Guarantors' liability, if any, under Sections 2.14 and 2.17 shall not be increased as a result of the sale of any such participation) and the PRO RATA treatment of payments, as described in Section 2.16, shall be determined as if such Bank had not sold such participation. In the event any Bank shall sell any participation, such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrower and each of the Guarantors relating to the Loans, including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement (provided that such Bank may grant its participant the right to consent to such Bank's execution of amendments, modifications or waivers which (i) reduce any Fees payable hereunder to the Banks, (ii) reduce the amount of any scheduled principal payment on any Loan or reduce the principal amount of any Loan or the rate of interest payable hereunder or (iii) extend the maturity of the Borrower's obligations hereunder). The sale of any such participation shall not alter the rights and obligations of the Bank selling such participation hereunder with respect to the Borrower.

(b) Each Bank may assign to one or more Banks or Eligible Assignees all or a portion of its interests, rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the same portion of the related Loans at the time owing to it and the related Note held by it), PROVIDED, HOWEVER, that (i) other than in the case of an assignment to a Person at least 50% owned by the assignor Bank, or by a common parent of both, or to another Bank, the Agent and the Fronting Bank must give their respective prior written consent, which consent will not be unreasonably withheld, (ii) the

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aggregate amount of the Commitment and/or Loans of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall, unless otherwise agreed to in writing by the Borrower and the Agent, in no event be less than \$5,000,000 (or \$1,000,000 in the case of an assignment between Banks) and (iii) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register (as defined below), an Assignment and Acceptance with blanks appropriately completed, together with any Note subject to such assignment and a processing and recordation fee of \$3,000 (for which the Borrower shall have no liability). Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be within ten Business Days after the execution thereof (unless otherwise agreed to in writing by the Agent), (A) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder and (B) the Bank thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto).

(c) By executing and delivering an Assignment and Acceptance, the Bank assignor thereunder and the assignee thereunder confirm to

and agree with each other and the other parties hereto as follows: (i) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, such Bank assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or any of the other Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any of the other Loan Documents; (ii) such Bank assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any Guarantor or the performance or observance by the Borrower or any Guarantor of any of its obligations under this Agreement or any of the other Loan Documents or any other

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instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement and the other Loan Documents, together with copies of the financial statements referred to in Section 3.4 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such Bank assignor or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms thereto, together with such powers as are reasonably incidental hereof; and (vi) such assignee agrees that it will perform in accordance with their terms all obligations that by the terms of this Agreement are required to be performed by it as a Bank.

(d) The Agent shall maintain at its office a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Banks and the Commitments of, and principal amount of the Loans owing to, each Bank from time to time (the "Register"). The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Guarantors, the Agent and the Banks shall treat each Person the name of which is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Bank at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of an Assignment and Acceptance executed by an assigning Bank and the assignee thereunder together with any Note subject to such assignment and the fee payable in respect thereto, the Agent shall, if such Assignment and Acceptance has been completed with blanks appropriately filled, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt written notice thereof to the Borrower (together with a copy thereof). Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent in exchange for the surrendered Note a new Note to the order

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of such assignee in an amount equal to the Commitment and/or Loans assumed by it pursuant to such Assignment and Acceptance and, if the assigning Bank has retained Commitments and/or Loans hereunder, a new Note to the order of the assigning Bank in an amount equal to the Commitment and/or Loans retained by it hereunder. Such new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Note, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of the surrendered Note. Thereafter, such surrendered Note shall be marked canceled and returned to the Borrower.

(f) Any Bank may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 10.3, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Borrower or any of the Guarantors furnished to such Bank by or on behalf of the Borrower or any of the Guarantors; provided that prior to any such disclosure, each such assignee or participant or proposed assignee or participant shall agree in writing to be bound by the provisions of Section 10.4.

(g) The Borrower hereby agrees, to the extent set forth in the Commitment Letter, to actively assist and cooperate with the Agent in the Agent's efforts to sell participations herein (as described in Section 10.3(a)) and assign to one or more Banks or Eligible Assignees a portion of its interests, rights and obligations under this Agreement (as set forth in Section 10.3(b)).

SECTION 10.4. CONFIDENTIALITY. Each Bank agrees to keep any information delivered or made available by the Borrower or any of the Guarantors to it confidential from anyone other than persons employed or retained by such Bank who are or are expected to become engaged in evaluating, approving, structuring or administering the Loans; PROVIDED that nothing herein shall prevent any Bank from disclosing such information (i) to any other Bank, (ii) to any other person if reasonably incidental to the administration of the Loans, (iii) upon the order of any court or administrative agency, (iv) upon the request or demand of any regulatory agency or authority, (v) which has been publicly disclosed other than as a result of a disclosure by the Agent or any Bank which is not permitted by this Agreement, (vi) in

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connection with any litigation to which the Agent, any Bank, or their respective Affiliates may be a party to the extent reasonably required, (vii) to the extent reasonably required in connection with the exercise of any remedy hereunder, (viii) to such Bank's legal counsel and independent auditors, and (ix) to any actual or proposed participant or assignee of all or part of its rights hereunder subject to the proviso in Section 10.3(f).

SECTION 10.5. EXPENSES. Whether or not the transactions hereby contemplated shall be consummated, the Borrower and the Guarantors agree to pay all reasonable out-of-pocket expenses incurred by the Agent (including but not limited to the reasonable fees and disbursements of Zalkin, Rodin & Goodman LLP, special counsel for the Agent, any other counsel that the Agent shall retain and any internal or third-party consultants and auditors advising the Agent and Chase Securities Inc.) in connection with the preparation, execution, delivery and administration of this Agreement, the Notes and the other Loan Documents, the making of the Loans and the issuance of the Letters of Credit, the syndication of the transactions contemplated hereby, the reasonable and customary costs, fees and expenses of the Agent in connection with its monthly and other periodic field audits, monitoring of assets and

publicity expenses, and, following the occurrence of an Event of Default, all reasonable out-of-pocket expenses incurred by the Banks and the Agent in the enforcement or protection of the rights of any one or more of the Banks or the Agent in connection with this Agreement, the Notes or the other Loan Documents, including but not limited to the reasonable fees and disbursements of any counsel for the Banks or the Agent. Such payments shall be made on the date of the Interim Order and thereafter on demand upon delivery of a statement setting forth such costs and expenses. Whether or not the transactions hereby contemplated shall be consummated, the Borrower and the Guarantors agree to reimburse the Agent and Chase Securities Inc. for the expenses set forth in the Commitment Letter and the reimbursement provisions thereof are hereby incorporated herein by reference. The obligations of the Borrower and the Guarantors under this Section shall survive the termination of this Agreement and/or the payment of the Loans.

SECTION 10.6. INDEMNITY. The Borrower and each of the Guarantors agree to indemnify and hold harmless the Agent, Chase

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Securities Inc. and the Banks and their directors, officers, employees, agents and Affiliates (each an "Indemnified Party") from and against any and all expenses, losses, claims, damages and liabilities incurred by such Indemnified Party arising out of claims made by any Person in any way relating to the transactions contemplated hereby, but excluding therefrom all expenses, losses, claims, damages, and liabilities arising out of or resulting from the gross negligence or willful misconduct of such Indemnified Party.

SECTION 10.7. CHOICE OF LAW. THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS SHALL IN ALL RESPECTS BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY WITHIN SUCH STATE.

SECTION 10.8. NO WAIVER. No failure on the part of the Agent or any of the Banks to exercise, and no delay in exercising, any right, power or remedy hereunder or under the Notes or any of the other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All remedies hereunder are cumulative and are not exclusive of any other remedies provided by law.

SECTION 10.9. EXTENSION OF MATURITY. Should any payment of principal of or interest on the Notes or any other amount due hereunder become due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day and, in the case of principal, interest shall be payable thereon at the rate herein specified during such extension.

SECTION 10.10. AMENDMENTS, ETC.

(a) No modification, amendment or waiver of any provision of this Agreement, the Notes or the Security and Pledge Agreement, and no consent to any departure by the Borrower or any Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Banks, and

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then such waiver or consent shall be effective only in the specific instance and for the purpose for which given; provided, however, that no such modification or amendment shall without the written consent of the Bank affected thereby (x) increase the Commitment of a Bank (it being understood that a waiver of an Event of Default shall not constitute an increase in the Commitment of a Bank), or (y) reduce the principal amount of any Loan or the rate of interest payable thereon, or extend any date for the payment of interest hereunder or reduce any Fees payable hereunder or extend the final maturity of the Borrower's obligations hereunder; and, provided, further, that no such modification or amendment shall without the written consent of (A) all of the Banks (i) amend or modify any provision of this Agreement which provides for the unanimous consent or approval of the Banks, (ii) amend this Section 10.10 or the definition of Required Banks or (iii) amend or modify the Super-Priority Claim status of the Banks contemplated by Section 2.22 or (B) Banks holding Loans representing at least 85% of the aggregate principal amount of the Loans outstanding, or if no Loans are outstanding, Banks having Commitments representing at least 85% of the Total Commitment, release all or any substantial portion of the Liens granted to the Agent hereunder, under the Orders or under any other Loan Document, or release any Guarantor. No such amendment or modification may adversely affect the rights and obligations of the Agent or any Fronting Bank hereunder without its prior written consent. No notice to or demand on the Borrower or any Guarantor shall entitle the Borrower or any Guarantor to any other or further notice or demand in the same, similar or other circumstances. Each holder of a Note shall be bound by any amendment, modification, waiver or consent authorized as provided herein, whether or not a Note shall have been marked to indicate such amendment, modification, waiver or consent and any consent by a Bank, or any holder of a Note, shall bind any Person subsequently acquiring a Note, whether or not a Note is so marked. No amendment to this Agreement shall be effective against the Borrower or any Guarantor unless signed by the Borrower or such Guarantor, as the case may be.

(b) Notwithstanding anything to the contrary contained in Section 10.10(a), in the event that the Borrower requests that this Agreement be modified or amended in a manner which would require the unanimous consent of all of the Banks (or the consent described in clause (B) of the first sentence of Section 10.10(a))

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and such modification or amendment is agreed to by the Supermajority Banks (as

hereinafter defined), then with the consent of the Borrower and the Super-majority Banks, the Borrower and the Super-majority Banks shall be permitted to amend the Agreement without the consent of the Bank or Banks which did not agree to the modification or amendment requested by the Borrower (such Bank or Banks, collectively the "Minority Banks") to provide for (w) the termination of the Commitment of each of the Minority Banks, (x) the addition to this Agreement of one or more other financial institutions (each of which shall be an Eligible Assignee), or an increase in the Commitment of one or more of the Super-majority Banks, so that the Total Commitment after giving effect to such amendment shall be in the same amount as the Total Commitment immediately before giving effect to such amendment, (y) if any Loans are outstanding at the time of such amendment, the making of such additional Loans by such new financial institutions or Super-majority Bank or Banks, as the case may be, as may be necessary to repay in full the outstanding Loans of the Minority Banks immediately before giving effect to such amendment and (z) such other modifications to this Agreement as may be appropriate. As used herein, the term "Super-majority Banks" shall mean, at any time, Banks, including Chase, holding Loans representing at least 66-2/3% of the aggregate principal amount of the Loans outstanding, or if no Loans are outstanding, Banks having Commitments representing at least 66-2/3% of the Total Commitment.

SECTION 10.11. SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 10.12. HEADINGS. Section headings used herein are for convenience only and are not to affect the construction of or be taken into consideration in interpreting this Agreement.

SECTION 10.13. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall

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constitute an original, but all of which taken together shall constitute one and the same instrument.

SECTION 10.14. PRIOR AGREEMENTS. This Agreement represents the entire agreement of the parties with regard to the subject matter hereof and the terms of any letters and other documentation entered into between the Borrower or a Guarantor and any Bank or the Agent prior to the execution of this Agreement which relate to Loans to be made hereunder shall be replaced by the terms of this Agreement (except as otherwise expressly provided herein with respect to the Commitment Letter and the Fee Letter, including without limitation the Borrower's agreement to actively assist the Agent in the syndication of the transactions contemplated hereby referred to in Section 10.3(g) and including also the provisions of Section 2.21).

SECTION 10.15. FURTHER ASSURANCES. Whenever and so often as reasonably requested by the Agent, the Borrower and the Guarantors will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things as may be necessary and reasonably required in order to further and more fully vest in the Agent all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred by this Agreement and the other Loan Documents.

SECTION 10.16. WAIVER OF JURY TRIAL. EACH OF THE BORROWER, THE GUARANTORS, THE AGENT AND EACH BANK HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREBY.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and the year first written.

MARVEL ENTERTAINMENT GROUP, INC.

By:/s/ Steven Isko

Title: Vice President and Secretary

GUARANTORS:
THE ASHER CANDY COMPANY

By:/s/ Steven Isko

Title: Vice President and Secretary

FLEER CORP.

By:/s/ Steven Isko

Title: Vice President and Secretary

FRANK H. FLEER CORP.

By:/s/ Steven Isko

Title: Vice President and Secretary

HEROES WORLD DISTRIBUTION, INC.

By:/s/ Steven Isko

Title: Vice President and Secretary

MALIBU COMICS ENTERTAINMENT, INC.

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By:/s/ Steven Isko

Title: Vice President and Secretary

MARVEL CHARACTERS, INC.

By:/s/ Steven Isko

Title: Vice President and Secretary

MARVEL DIRECT MARKETING INC.

By:/s/ Steven Isko

Title: Vice President and Secretary

SKYBOX INTERNATIONAL INC.

By:/s/ Steven Isko

Title: Vice President and Secretary

THE CHASE MANHATTAN BANK,
INDIVIDUALLY AND AS AGENT

By:/s/ Jane E. Jacobs

Title: Vice President
270 Park Avenue
New York, New York 10017

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ANNEX A TO
REVOLVING CREDIT AND
GUARANTY AGREEMENT

ANNEX A
TO
REVOLVING CREDIT AND GUARANTY AGREEMENT

DATED AS OF DECEMBER 27, 1996

Bank ----	Commitment Amount -----	Commitment Percentage -----
The Chase Manhattan Bank	\$100,000,000	100.00%

FIRST AMENDMENT TO REVOLVING CREDIT AND GUARANTY AGREEMENT

FIRST AMENDMENT, dated as of January 24, 1997 (the "Amendment"), to the REVOLVING CREDIT AND GUARANTY AGREEMENT, dated as of December 27, 1996, among MARVEL ENTERTAINMENT GROUP, INC., a Delaware corporation (the "Borrower"), as a debtor and debtor-in- possession under Chapter 11 of the Bankruptcy Code, the Guarantors named therein (the "Guarantors"), as debtors and debtors-in-possession under Chapter 11 of the Bankruptcy Code, THE CHASE MANHATTAN BANK, a New York banking corporation ("Chase"), each of the other financial institutions party thereto (together with Chase, the "Banks") and THE CHASE MANHATTAN BANK, as Agent for the Banks (in such capacity, the "Agent"):

W I T N E S S E T H:

WHEREAS, the Borrower, the Guarantors, the Banks and the Agent are parties to that certain Revolving Credit and Guaranty Agreement, dated as of December 27, 1996 (as the same may be amended, modified or supplemented from time to time, the "Credit Agreement"); and

WHEREAS, the parties hereto have agreed that from and after the Effective Date (as hereinafter defined) of this Amendment, the Credit Agreement shall be amended subject to and upon the terms and conditions set forth herein.

NOW, THEREFORE, it is agreed:

1. As used herein all terms which are defined in the Credit Agreement shall have the same meanings herein.
2. Section 7.1 of the Credit Agreement is hereby amended by deleting clause (h) set forth therein in its entirety and inserting in lieu thereof the following new clause (h):

"(h) (x) Any Person, other than Ronald O. Perelman or, in the event of his incompetence or death, his estate, heirs, executor, administrator, committee or other personal representative and his (or any of

their) Affiliates (collectively, "ROP"), shall "control" the Borrower, as such term is used in Rule 405 promulgated under the Securities Act of 1933, as amended, or (y) in the event that ROP ceases to so "control" the Borrower, any other Person shall own more than 25% of the issued and outstanding voting stock of the Borrower (except any stock which has the right to vote only upon the happening of a contingency); or"

3. Section 7.1 of the Credit Agreement is hereby amended by deleting clause (i) set forth therein in its entirety and inserting in lieu thereof the following new clause (i):

"(i) the Bankruptcy Court shall enter an order authorizing or directing the rejection by the Borrower or any of the Guarantors, pursuant to Section 365 of the Bankruptcy Code, of the exclusive license for the use of Marvel characters heretofore granted to Toy Biz; or"

4. Section 7.1 of the Credit Agreement is hereby amended by deleting clause (g) set forth therein in its entirety and inserting in lieu thereof the following:

"(g) Intentionally Omitted"

5. This Amendment shall not become effective (the "Effective Date") until the date on which this Amendment shall have been executed by the Borrower, the Guarantors, Chase and the Agent, and the Agent shall have received evidence satisfactory to it of such execution.

6. The Borrower agrees that its obligations set forth in Section 10.5 of the Credit Agreement shall extend to the preparation, execution and delivery of this Amendment.

7. This Amendment shall be limited precisely as written and shall not be deemed (a) to be a consent granted pursuant to, or a waiver or modification of, any other term or condition of the Credit Agreement or any of the instruments or agreements referred to therein or (b) to prejudice any right or rights which the Agent or the Banks may now have or have in the future under or in connection with the Credit Agreement or any of the instruments or agreements referred to therein. Whenever the Credit Agreement is referred to in the Credit Agreement or any of the instruments, agreements or other documents or papers executed or delivered in connection therewith, such reference shall be deemed to mean the Credit Agreement as modified by this Amendment.

8. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

9. This Amendment shall in all respects be construed in accordance with and governed by the laws of the State of New York applicable to contracts made and to be performed wholly within such State.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and the year first above written.

MARVEL ENTERTAINMENT GROUP, INC.

By: /s/ Bobby G. Jenkins

Title: Chief Financial Officer

GUARANTORS:
THE ASHER CANDY COMPANY

FLEER CORP.
FRANK H. FLEER CORP.
HEROES WORLD DISTRIBUTION, INC.
MALIBU COMICS ENTERTAINMENT, INC.

MARVEL CHARACTERS, INC.
MARVEL DIRECT MARKETING INC.
SKYBOX INTERNATIONAL INC.

By:/s/ Steven Isko

Title: Vice President

THE CHASE MANHATTAN BANK,
INDIVIDUALLY AND AS AGENT

By:/s/ illegible

Title: Managing Director
270 Park Avenue
New York, New York 10017

SECOND AMENDMENT TO REVOLVING CREDIT AND GUARANTY AGREEMENT

SECOND AMENDMENT, dated as of February 11, 1997 (the "Amendment"), to the REVOLVING CREDIT AND GUARANTY AGREEMENT dated as of December 27, 1996 among MARVEL ENTERTAINMENT GROUP, INC., a Delaware corporation (the "Borrower"), as a debtor and debtor-in-possession under Chapter 11 of the Bankruptcy Code, the Guarantors named therein (the "Guarantors"), as debtors and debtors-in-possession under Chapter 11 of the Bankruptcy Code, THE CHASE MANHATTAN BANK, a New York banking corporation ("Chase"), each of the other financial institutions party thereto (together with Chase, the "Banks") and THE CHASE MANHATTAN BANK, as Agent for the Banks (in such capacity, the "Agent"):

W I T N E S S E T H:

WHEREAS, the Borrower, the Guarantors, Chase and the Agent are parties to that certain Revolving Credit and Guaranty Agreement, dated as of December 27, 1996 (as heretofore supplemented by that certain Supplementary Letter and that certain Second Supplementary Letter each dated as of December 27, 1996 and as heretofore amended by that certain First Amendment to Revolving Credit and Guaranty Agreement dated as of January 24, 1997, and as the same may be further amended, modified or supplemented from time to time, the "Credit Agreement"); and

WHEREAS, Section 10.3(b) of the Credit Agreement provides that each Bank may assign to one or more Eligible Assignees all or a portion of its interests, rights and obligations under the Credit Agreement (including, without limitation, all or a portion of its Commitment and the same portion of the related Loans at the time owing to it and the related Note held by it) by executing and delivering with such Eligible Assignee an Assignment and Acceptance in substantially the form of Exhibit E to the Credit Agreement (a copy of which is annexed hereto as Schedule I); and

WHEREAS, Chase wishes to assign to each of the financial institutions (other than Chase) that is named on Annex A hereto (such financial institutions other than Chase, collectively the "New Banks"), and each of the New Banks wishes to assume, a pro rata portion of Chase's interests, rights and obligations under the Credit Agreement; and

WHEREAS, the Borrower, the Guarantors, Chase, the New Banks and the Agent have determined that the execution and delivery of this Amendment to effectuate a reallocation of the Total Commitment among Chase and the New Banks will be more expeditious and administratively efficient than the execution and delivery of a separate Assignment and Acceptance between Chase and each of the New Banks; and

WHEREAS, upon the occurrence of the Effective Date (as hereinafter defined) of this Amendment, each of the New Banks shall become a party to the Credit Agreement as a Bank and shall have the rights and obligations of a Bank thereunder and the respective Commitment of Chase and each of the New Banks under the Credit Agreement shall be in the amount set forth opposite its name on Annex A hereto, as the same may be reduced from time to time pursuant to Section 2.9 of the Credit Agreement;

NOW, THEREFORE, it is agreed:

1. As used herein all terms that are defined in the Credit Agreement shall have the same meanings herein.
2. Annex A to the Credit Agreement is hereby replaced in its entirety by Annex A hereto.
3. The signature pages of the Credit Agreement are hereby amended to conform to the signature pages hereto.
4. By its execution and delivery hereof, Chase shall be deemed to have made each of the statements set forth in clauses (i) and (ii) of paragraph 2 of the Assignment and Acceptance as if such statements were fully set forth herein at length.
5. By its execution and delivery hereof, each of the New Banks shall be deemed to have made each of the statements set forth in clauses (i), (ii), (iii), (iv) and (v) of paragraph 3 of

the Assignment and Acceptance as if such statements were fully set forth herein at length.

6. On the Effective Date, (i) each New Bank will pay to the Agent (for the account of Chase) such amount as represents such New Bank's pro rata portion of the aggregate principal amount of the Loans, if any, that are outstanding on the Effective Date and such New Bank's pro rata portion of the aggregate amount of the then unreimbursed drafts, if any, that were theretofore drawn under Letters of Credit, and (ii) the Agent shall pay to each of the New Banks such fees as have been previously agreed to between the Agent and such New Bank. Promptly following the occurrence of the Effective Date, the Borrower will execute and deliver to the Agent in exchange for the Note presently held by Chase a new Note payable to the order of each of the Banks in a principal amount equal to such Bank's Commitment reflected on Annex A hereto.

7. By its execution and delivery hereof, each of the New Banks (i) agrees that any interest, Commitment Fees and Letter of Credit Fees (pursuant to Sections 2.7, 2.19 and 2.20 of the Credit Agreement) that accrued prior to the Effective Date shall not be payable to such New Bank and authorizes and directs the Agent to deduct such amounts from any interest, Commitment Fees or Letter of Credit Fees paid after the date hereof and to pay such amounts to Chase (it being understood that interest, Commitment Fees and Letter of Credit Fees respecting the Commitment of Chase and each New Bank which accrue on or after the Effective Date shall be payable to such Bank in accordance with its Commitment), (ii) acknowledges that if such New Bank is organized under the laws of a jurisdiction outside of the United States, such New Bank has heretofore furnished to the Agent the forms prescribed by the Internal Revenue Service of the United States certifying as to such New Bank's exemption from United States withholding taxes with respect to any payments to be made to such New Bank under the Credit Agreement (or such other documents as are necessary to indicate that all such payments are subject to such tax at a rate reduced by an applicable tax treaty) and (iii) acknowledges that such New Bank has heretofore supplied to the Agent the information

requested on the administrative questionnaire which is attached to the Assignment and Acceptance as Exhibit A.

8. This Amendment shall not become effective (the "Effective Date") until (i) the date on which this Amendment shall have been

executed by the Borrower, the Guarantors, Chase, the New Banks and the Agent, and the Agent shall have received evidence satisfactory to it of such execution and (ii) the payments provided for in clauses (i) and (ii) of paragraph 6 hereof shall have been made.

9. The Borrower agrees that its obligations set forth in Section 10.5 of the Credit Agreement shall extend to the preparation, execution and delivery of this Amendment.

10. This Amendment shall be limited precisely as written and shall not be deemed (a) to be a consent granted pursuant to, or a waiver or modification of, any other term or condition of the Credit Agreement or any of the instruments or agreements referred to therein or (b) to prejudice any right or rights which the Agent or the Banks may now have or have in the future under or in connection with the Credit Agreement or any of the instruments or agreements referred to therein. Whenever the Credit Agreement is referred to in the Credit Agreement or any of the instruments, agreements or other documents or papers executed or delivered in connection therewith, such reference shall be deemed to mean the Credit Agreement as modified by this Amendment.

11. This Amendment may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument.

12. This Amendment shall in all respects be construed in accordance with and governed by the laws of the State of New York applicable to contracts made and to be performed wholly within such State.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the day and the year first above written.

MARVEL ENTERTAINMENT GROUP, INC.

By: /s/ Bobby G. Jenkins

Title: Chief Financial Officer

GUARANTORS:
THE ASHER CANDY COMPANY
FLEER CORP.
FRANK H. FLEER CORP.
HEROES WORLD DISTRIBUTION, INC.
MALIBU COMICS ENTERTAINMENT, INC.
MARVEL CHARACTERS, INC.
MARVEL DIRECT MARKETING INC.
SKYBOX INTERNATIONAL INC.

By:/s/ Bobby G. Jenkins

Title: Chief Financial Officer

THE CHASE MANHATTAN BANK,
INDIVIDUALLY AND AS AGENT

By:/s/ Susan E. Atkins

Title: Vice President
270 Park Avenue
New York, New York 10017

NEW BANKS:
LEHMAN COMMERCIAL PAPER INC.

By:/s/ Dennis J. Dee

Title: Authorized Signatory
3 World Financial Center
New York, New York 10285-1000

THE TORONTO-DOMINION BANK

By:/s/ Kimberly Burleson

Title: Manager Credit Administration
909 Fannin Street, Suite 1700
Houston, Texas 77010

THE FIRST NATIONAL BANK OF BOSTON

By:/s/ illegible

Title: Director
100 Federal Street
Boston, Massachusetts 02106

CREDIT SUISSE FIRST BOSTON

By:/s/ illegible /s/ illegible

Title: Director Director
Eleven Madison Avenue
New York, New York 10010-3629

BANK OF AMERICA ILLINOIS

By:/s/ L. Dustin Vincent

Title: Managing Director
231 South LaSalle Street

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Chicago, Illinois 60697

CIBC, INC.

By:/s/ Douglas J. Smith

Title: Vice President
425 Lexington Avenue

New York, New York 10017

CREDIT LYONNAIS, NEW YORK BRANCH

By:/s/ Alan Sidrane

Title: First Vice President
1301 Avenue of the Americas
New York, New York 10019-6022

THE LONG-TERM CREDIT BANK OF JAPAN,
LTD., LOS ANGELES AGENCY

By:/s/ Paul B. Clifford

Title: Deputy General Manager
350 South Grand Avenue, Suite 3000
Los Angeles, California 90071

THE NIPPON CREDIT BANK, LTD.

By:/s/ Yoshihide Watanabe

Title: Vice President and Manager
245 Park Avenue, 30th Floor
New York, New York 10167

THE SUMITOMO BANK, LIMITED

By:/s/ John C. Kissinger

Title: Joint General Manager
277 Park Avenue
New York, New York 10172

ANNEX A TO
SECOND AMENDMENT

ANNEX A

to

REVOLVING CREDIT AND GUARANTY AGREEMENT

Dated as of December 27, 1996, as amended

BANK	COMMITMENT AMOUNT	COMMITMENT PERCENTAGE
----	-----	-----
The Chase Manhattan Bank	\$25,000,000	25.0000%
Lehman Commercial Paper Inc.	\$13,500,000	13.5000%
The Toronto-Dominion Bank Cayman Islands Branch	\$13,500,000	13.5000%
The First National Bank of Boston	\$10,000,000	10.0000%
Credit Suisse First Boston	\$10,000,000	10.0000%
Bank of America Illinois	\$5,000,000	5.0000%
CIBC, Inc.	\$5,000,000	5.0000%

Credit Lyonnais	\$5,000,000	5.0000%
The Long-Term Credit Bank of Japan, Ltd., Los Angeles Agency	\$5,000,000	5.0000%
The Nippon Credit Bank, Ltd.	\$5,000,000	5.0000%
The Sumitomo Bank, Limited	\$3,000,000	3.0000%
	-----	-----
Total	\$100,000,000	100.0000%
	=====	=====

Subsidiaries

Heroes World Distribution, Inc.
MRV, Inc.
Marvel Direct Marketing, Inc.
Marvel Characters Inc.
Welsh Publishing Group, Inc.
Marvel Restaurant Venture Corp.
M Restaurant Venture (50% general partnership interest)
Malibu Comics Entertainment Inc.
WG Corp.
Panini S.p.A.
Panini Verlags GMBH
Panini S.A.
Les Editions Recreatris
Panini Nederland B.V.
Panini Canada Ltd.
Panini Brasil S/A
Panini Publishing Ltd.
Panini Stickers Ltd.
Marvel Comics Ltd.
Panini Publishing Services
Adespan U.K. Ltd.
Panini Licensing North America Inc.
Panini Ireland Ltd.
Panini Espana SA
Panini U.S.A. Inc.
The Emerald Foundation
Panini Portugal Editores LDA
Fleer Corp.
Dr. Torrents S.A. (50% joint venture)
Fleer Limited (50% joint venture)
Fleer Espanol
The Asher Candy Company
SkyBox International Inc.
Impel Movieline Inc.

SkyBox Management Inc.
Frank H. Fler Corp.
Fler Sales Corp.

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-3 No. 33-90302) of Marvel Entertainment Group, Inc. and the related Prospectus and the Registration Statement (Form S-8 No. 33-94448) pertaining to the Marvel Entertainment Group, Inc. Amended and Restated Stock Option Plan, of our report dated March 28, 1997 with respect to the consolidated statements and schedule of Marvel Entertainment Group, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 1996.

ERNST & YOUNG LLP

New York, New York
April 11, 1997

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Paul E. Shapiro, Steven R. Isko and Bobby G. Jenkins or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the MARVEL ENTERTAINMENT GROUP, INC. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1996 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

/s/ Ronald O. Perelman

Ronald O. Perelman

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Paul E. Shapiro, Steven R. Isko and Bobby G. Jenkins or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the MARVEL ENTERTAINMENT GROUP, INC. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1996 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

/s/ William C. Bevins

William C. Bevins

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

/s/ Donald G. Drapkin

Donald G. Drapkin

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

/s/ Michael Fuchs

Michael Fuchs

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 24th day of March, 1997.

/s/ Frank Gifford

Frank Gifford

POWER OF ATTORNEY

KNOWN ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Paul E. Shapiro, Steven R. Isko and Bobby G. Jenkins or any of them, each acting alone, his true and lawful attorney-in-fact and agent, with full power of substitution, for him and in his name, place and stead, in any and all capacities, in connection with the MARVEL ENTERTAINMENT GROUP, INC. (the "Corporation") Annual Report on Form 10-K for the year ended December 31, 1996 under the Securities Exchange Act of 1934, as amended, including, without limiting the generality of the foregoing, to sign the Form 10-K in the name and on behalf of the Corporation or on behalf of the undersigned as a director or officer of the Corporation, and any amendments to the Form 10-K and any instrument, contract, document or other writing, of or in connection with the Form 10-K or amendments thereto, and to file the same, with all exhibits thereto, and other documents in connection therewith, including this power of attorney, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, each acting alone, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

/s/ E. Gregory Hookstratten

E. Gregory Hookstratten

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 20th day of March, 1997.

/s/ Morton Janklow

Morton Janklow

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

/s/ Quincy Jones

Quincy Jones

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 20th day of March, 1997.

/s/ Stan Lee

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 27th day of March, 1997.

/s/ Scott C. Marden

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 27th day of March, 1997.

/s/ Scott M. Sassa

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

/s/ David J. Schreff

David J. Schreff

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

/s/ Terry C. Stewart

Terry Stewart

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has signed these presents this 31st day of March, 1997.

/s/ Kenneth Ziffren

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This schedule contains summary financial information extracted from the Marvel Entertainment Group, Inc. Consolidated Balance Sheets and Statements of Operations

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