

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-12-11** | Period of Report: **2002-11-09**  
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### FILER

#### **CPI CORP**

CIK: **25354** | IRS No.: **431256674** | State of Incorporation: **DE** | Fiscal Year End: **0206**  
Type: **10-Q** | Act: **34** | File No.: **001-10204** | Film No.: **02854369**  
SIC: **7200** Personal services

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

CPI CORP.  
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For the Quarter Ended November 9, 2002  
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Commission File Number 1-10204  
-----

DELAWARE  
-----

43-1256674  
-----

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

1706 Washington Avenue, St. Louis, Missouri 63103-1790  
-----

(Address of Principal Executive Offices) (Zip Code)

(314) 231-1575  
-----

(Registrant's Telephone Number)

Indicate by check mark whether the registrant has (1) 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

As of December 10, 2002 there were 8,044,203 shares of the Registrant's common stock outstanding.

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	November 9, 2002 (UNAUDITED)	February 2, 2002
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 25,343	\$ 46,555
Receivables, less allowance of \$663 and \$429, respectively	20,968	8,417
Inventories	10,656	9,510
Prepaid expenses and other current assets	7,668	4,257
Refundable income taxes	11,305	9,123
	-----	-----
Total current assets	75,940	77,862
	-----	-----
Net property and equipment	51,493	63,708
Assets of business transferred under contractual arrangements:		
Preferred security	10,221	10,069
Loan receivable	4,710	1,518
Assets of supplemental retirement plan:		
Cash surrender value of life insurance policies (net of borrowings of \$1,595, as of November 9, 2002)	9,196	9,455
Long-term investments held in Rabbi Trust	4,846	4,951
Other assets, net of amortization of \$1,359	5,655	5,239
	-----	-----
Total assets	\$ 162,061	\$ 172,802
	=====	=====

See accompanying notes to consolidated financial statements.

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CPI CORP. INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS -  
LIABILITIES AND STOCKHOLDERS' EQUITY  
(in thousands of dollars except share and per share amounts)

	November 9, 2002 (UNAUDITED)	February 2, 2002
	-----	-----
Current liabilities:		
Current maturities of long-term debt	\$ 8,580	\$ 8,580
Accounts payable	14,380	9,741

Accrued employment costs	11,101	13,538
Deferred revenue	9,860	9,529
Sales taxes payable	2,744	2,816
Accrued advertising expense	3,927	1,384
Accrued expenses and other liabilities	5,949	4,134
	-----	-----
Total current liabilities	56,541	49,722
	-----	-----
Long-term debt	34,103	42,639
Other liabilities	9,047	10,686
Deferred revenue	3,002	3,677
Stockholders' equity:		
Preferred stock, no par value, 1,000,000 shares authorized; no shares outstanding	-	-
Preferred stock, Series A, no par value, 200,000 shares authorized; no shares outstanding	-	-
Common stock, \$0.40 par value, 50,000,000 shares authorized; 18,282,506 and 18,201,743 shares issued at November 9, 2002 and February 2, 2002, respectively	7,313	7,281
Additional paid-in capital	51,137	49,845
Retained earnings	233,824	242,015
Accumulated other comprehensive income	(5,241)	(5,387)
	-----	-----
	287,033	293,754
Treasury stock at cost, 10,238,303 shares at both November 9, 2002 and February 2, 2002	(227,642)	(227,642)
Unamortized deferred compensation- restricted stock	(23)	(34)
	-----	-----
Total stockholders' equity	59,368	66,078
	-----	-----
Total liabilities and stockholders' equity	\$ 162,061	\$ 172,802
	=====	=====

See accompanying notes to consolidated financial statements.

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CPI CORP. INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
(UNAUDITED) Sixteen weeks ended November 9, 2002 and  
November 10, 2001  
(in thousands of dollars except share and per share amounts)

	Sixteen Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
	-----	-----
Net sales	\$ 90,190	\$ 96,872
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization expense shown below)	12,132	12,774

Selling, general and administrative expenses	74,406	75,749
Depreciation and amortization	5,865	7,247
Impairment loss	4,436	-
	-----	-----
	96,839	95,770
	-----	-----
Income (loss) from operations	(6,649)	1,102
Interest expense	1,023	1,228
Interest income	501	619
Other income (expense), net	37	(372)
	-----	-----
Income (loss) before income tax benefit	(7,134)	121
Income tax benefit	(2,782)	(32)
	-----	-----
Net earnings (loss)	\$ (4,352)	\$ 153
	=====	=====
Net earnings (loss) per share-diluted	\$ (0.54)	\$ 0.02
	=====	=====
Net earnings (loss) per share-basic	\$ (0.54)	\$ 0.02
	=====	=====
Dividends per share	\$ 0.14	\$ 0.14
	=====	=====
Weighted average number of common and common equivalent shares outstanding - diluted	8,044,203	7,982,501
	=====	=====
Weighted average number of common and common equivalent shares outstanding - basic	8,044,203	7,912,532
	=====	=====

See accompanying notes to consolidated financial statements.

CPI CORP. INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
(UNAUDITED)

Forty weeks ended November 9, 2002 and November 10, 2001  
(in thousands of dollars except share and per share amounts)

	Forty Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
	-----	-----
Net sales	\$ 208,746	\$ 220,970
Costs and expenses:		
Cost of sales (exclusive of depreciation and amortization expense shown below)	29,136	29,411
Selling, general and administrative expenses	165,972	170,754
Depreciation and amortization	15,996	18,300

Impairment loss	4,436	-
	-----	-----
	215,540	218,465
	-----	-----
Income (loss) from operations	(6,794)	2,505
Interest expense	2,793	3,304
Interest income	1,608	1,313
Other income (expense), net	79	(2,052)
	-----	-----
Loss before income tax benefit	(7,900)	(1,538)
Income tax benefit	(3,081)	(613)
	-----	-----
Net loss	\$ (4,819)	\$ (925)
	=====	=====
Net loss per share - diluted	\$ (0.60)	\$ (0.12)
	=====	=====
Net loss per share - basic	\$ (0.60)	\$ (0.12)
	=====	=====
Dividends per share	\$ 0.42	\$ 0.42
	=====	=====
Weighted average number of common and common equivalent shares outstanding - diluted	8,038,874	7,809,179
	=====	=====
Weighted average number of common and common equivalent shares outstanding - basic	8,038,874	7,809,179
	=====	=====

See accompanying notes to consolidated financial statements.

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<TABLE>

CPI CORP. INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(UNAUDITED) (in thousands of dollars except share and per share amounts)

Forty weeks ended November 9, 2002

<CAPTION>

	Common stock	Add'l paid-in capital	Retained earnings	Accum other comp'h income	Treasury stock at cost	Deferred comp'n restr'td stock	Total
	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at Feb. 2, 2002	\$7,281	\$49,845	\$242,015	\$ (5,387)	\$ (227,642)	\$ (34)	\$ 66,078
	-----	-----	-----	-----	-----	-----	-----
Issuance of common stock in conjunction with employee benefit plans and option exercises (80,763 shares)	32	1,292	-	-	-	-	1,324
Comprehensive income:							
Net loss	-	-	(4,819)	-	-	-	
Foreign currency							

translation	-	-	-	146	-	-	
Comprehensive income	-	-	-	-	-	-	(4,673)
Dividends (\$0.42 per common share)	-	-	(3,372)	-	-	-	(3,372)
Amortization of deferred compensation - restricted stock	-	-	-	-	-	11	11
-----							
Balance at Nov. 9, 2002	\$7,313	\$51,137	\$233,824	\$(5,241)	\$(227,642)	\$ (23)	\$ 59,368
=====							

<FN>

See accompanying notes to consolidated financial statements.

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CPI CORP. INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED) (in thousands of dollars)  
Forty weeks ended November 9, 2002 and November 10, 2001

RECONCILIATION OF NET LOSS TO CASH FLOWS PROVIDED BY (USED IN)  
OPERATING ACTIVITIES

	40 Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
	-----	-----
Net loss	\$ (4,819)	\$ (925)
Adjustments for items not requiring cash:		
Depreciation and amortization	15,996	18,300
Deferred income taxes	(1,630)	5,703
Deferred revenue	(317)	(1,096)
Post-closing adjustment on preferred security	147	-
Accrued interest on preferred security	(652)	(305)
Impairment loss	4,436	-
Other	(2,502)	1,307
Increase (decrease) in current assets:		
Receivables and inventories	(13,697)	(7,800)
Refundable income taxes	(2,182)	(11,832)
Prepaid expenses and other current assets	(2,374)	(2,427)
Increase (decrease) in current liabilities:		
Accounts payable, accrued expenses and other liabilities	6,488	9,562
Income taxes	-	(1,067)
	-----	-----
Cash flows provided by (used in) operating activities	\$ (1,106)	\$ 9,420
	=====	=====

See accompanying notes to consolidated financial statements.



CPI CORP. INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED) (in thousands of dollars)  
Forty weeks ended November 9, 2002 and November 10, 2001

	40 Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
Cash flows provided by (used in) operating activities	\$ (1,106)	\$ 9,420
Cash flows (used in) provided by financing activities:		
Repayment of long-term debt	(8,580)	(8,580)
Proceeds from borrowing against cash surrender value of life insurance	1,595	-
Issuance of common stock in conjunction with employee benefit plans and option exercises	1,324	5,066
Cash dividends	(3,372)	(3,255)
Issuance of treasury stock	-	62
Purchase of treasury stock	-	(4)
Cash flows used in financing activities	(9,033)	(6,711)
Cash flows (used in) provided by investing activities:		
Additions to property and equipment, net	(8,054)	(14,701)
Change in loan receivable	(3,192)	(5,171)
Purchase of investment securities in Rabbi Trust	(2,544)	(1,909)
Proceeds from sale of investment securities in Rabbi Trust	2,649	3,654
Cash flows used in investing activities	(11,141)	(18,127)
Effect of exchange rate changes on cash and cash equivalents	68	(303)
Net decrease in cash and cash equivalents	(21,212)	(15,721)
Cash and cash equivalents at beginning of period	46,555	38,820
Cash and cash equivalents at end of		

period	\$ 25,343	\$ 23,099
	=====	=====
Supplemental cash flow information:		
Interest paid	\$ 1,920	\$ 2,302
	=====	=====
Income taxes paid	\$ 778	\$ 6,794
	=====	=====

See accompanying notes to consolidated financial statements.

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CPI CORP. NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1

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In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of CPI Corp.'s (the "Company's") financial position as of November 9, 2002 and February 2, 2002 and the results of its operations for the 16 weeks and 40 weeks ended November 9, 2002 and November 10, 2001 and changes in its cash flows for the 40 weeks ended November 9, 2002 and November 10, 2001. Certain prior year amounts have been reclassified to conform to the third quarter 2002 presentation. These financial statements should be read in conjunction with the consolidated financial statements and the notes included in the Company's annual report on Form 10-K for its fiscal year ended February 2, 2002.

Note 2

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The Company has operations in two business segments: Portrait Studios and Technology Development (see Note 6). The Portrait Studios segment functions as the exclusive operator of Sears Portrait Studios with 1,031 locations in the United States, Canada and Puerto Rico as of November 9, 2002. The Technology Development segment operates an internet-based, mail order photofinishing business under the name searsphoto.com and offers software programs primarily for the retail service industry use, software consulting and custom software development under the name Centrics Technology, Inc.

SELECTED INDUSTRY SEGMENT INFORMATION (in thousands of dollars)  
Sixteen Weeks Ended

	Nov. 9, 2002	Nov. 10, 2001
	-----	-----
NET SALES:		
Portrait Studios	\$ 89,992	\$ 96,711
Technology Development	1,205	933
Intersegment sales	(1,007)	(772)
	-----	-----
	\$ 90,190	\$ 96,872
	=====	=====
INCOME (LOSS) FROM OPERATIONS:		
Portrait Studios	\$ (657)	\$ 5,337
Technology Development	(927)	(487)
Corporate expense	(5,065)	(3,748)

-----	-----
\$ (6,649)	\$ 1,102
=====	=====

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SELECTED INDUSTRY SEGMENT INFORMATION (in thousands of dollars)

	Forty Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
	-----	-----
NET SALES:		
Portrait Studios	\$ 207,797	\$ 220,734
Technology Development	3,377	2,377
Intersegment sales	(2,428)	(2,141)
	-----	-----
	\$ 208,746	\$ 220,970
	=====	=====
INCOME (LOSS) FROM OPERATIONS:		
Portrait Studios	\$ 6,425	\$ 13,188
Technology Development	(1,371)	(1,178)
Corporate expense	(11,848)	(9,505)
	-----	-----
	\$ (6,794)	\$ 2,505
	=====	=====
SEGMENT ASSETS:		
Portrait Studios	\$ 78,501	\$ 88,662
Technology Development	1,302	1,316
Corporate cash and cash equivalents	25,343	23,099
Corporate other	56,915	58,800
	-----	-----
	\$ 162,061	\$ 171,877
	=====	=====

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GEOGRAPHIC FINANCIAL INFORMATION

	Sixteen Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
NET SALES:		
United States	\$ 83,831	\$ 89,759
Canada	6,359	7,113
	\$ 90,190	\$ 96,872

	Forty Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
NET SALES:		
United States	\$ 194,718	\$ 205,867
Canada	14,028	15,103
	\$ 208,746	\$ 220,970

LONG-LIVED ASSETS:		
United States	\$ 80,982	\$ 95,422
Canada	5,139	5,180
	\$ 86,121	\$ 100,602

Note 3

On February 3, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). Under SFAS 142, goodwill amortization ceases upon adoption of the new standard. The new rules also require an initial goodwill impairment assessment in the year of adoption and an annual impairment test thereafter. In addition, interim testing of goodwill is now required if an event or circumstance indicates that an impairment loss has been incurred. During the first quarter ended April 27, 2002, the Company performed the first of the required impairment tests of goodwill. No impairment loss resulted from the initial goodwill impairment test. As of February 2, 2002 and November 9, 2002, the carrying value of goodwill was \$513,000 and related to acquisitions by the Portrait Studio division prior to June 30, 2001. For the periods prior to fiscal year 2002, the adoption of SFAS 142 has no proforma effect on the loss per share reported for the sixteen weeks ended November 10, 2001 and a \$.01 increase in earnings per share reported for the 40 weeks ended November 10, 2001.

Note 4

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In July 2001, the Company announced it had provided TRU Retail, Inc., the predecessor legal entity of Prints Plus, Inc. ("Prints Plus") with a \$6.4 million revolving line of credit. The Company further announced the completion of the sale of its Wall Decor segment for \$16.0 million. The sales price reflected the receipt of \$11.0 million in a Preferred Security of Prints Plus, approximately \$4.0 million in cash, other consideration netting to \$1.0 million and the assumption of certain liabilities including the ongoing guarantee of certain operating real estate leases. The sales price was subject to final post-closing adjustments.

Subsequently, in January 2002 and May 2002, the balance of the Preferred Security decreased due to the optional redemption of \$1.0 million and \$353,000, respectively, of the security by Prints Plus, and, in the first quarter of 2002, by a final post-closing adjustment of \$147,000 to the security reflecting a decrease in the final sales price. These events, when offset by the accrued interest income of \$721,000 that is also reflected in the value of the Preferred Security, resulted in a balance on November 9, 2002 of \$10.2 million.

Borrowings under the revolving line of credit extended to Prints Plus were \$4.7 million and \$5.2 million as of November 9, 2002 and November 10, 2001, respectively. Interest income earned on this revolving line of credit for the third quarter 2002 and 2001 was \$64,000 and \$84,000, respectively.

Due to the Company's continuing financial interest in Prints Plus, the Company is required to follow a modified equity method of accounting, which requires cumulative losses, if any, incurred by Prints Plus during its fiscal year be reflected in the Company's financials as a valuation allowance and corresponding charge to income. As a result of Prints Plus' operating performance and compliance with the covenants of the Preferred Security and revolving line of credit, no valuation allowance was recorded as of November 9, 2002.

Further, if Prints Plus defaults on certain operating real estate leases, the Company has guaranteed monthly lease payments over the remaining life of these leases. As of November 9, 2002, the maximum future obligation to the Company would be \$16.0 million before any negotiation with landlords or subleasing. Based on scheduled lease payments, the maximum future obligations will decrease an additional \$908,000 by the end of fiscal 2002, then annually by approximately \$5.2 million to \$4.8 million during the next two years. To recognize the risk associated with these leases and based on the Company's past experience with renegotiating lease obligations, a \$1.0 million reserve was

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established in 2001. At November 9, 2002, the Company had made no further allowances for defaults under these operating leases as, in the opinion of management, Prints Plus is meeting the performance standards established under the operating leases.

Note 5

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As discussed in the Company's Annual Report on Form 10-K, the Company has a \$60.0 million Senior Note Agreement and \$30.0 million Revolving Facility. In April 2002 and November 2002, the Company amended its Revolving Facility to adjust the minimum consolidated earnings before income taxes, depreciation and amortization ("EBITDA") covenant. In the November 2002 amendment, the Company also reduced the line to \$15 million since the Company has minimal borrowing needs other than to support \$7.2 million in outstanding letters of credit as of November 9, 2002. As of November 9, 2002, the Company was in compliance with all covenants under both the amended Revolving Facility and the Senior Note Agreement, and expects to be in compliance with the covenants under the Senior Note Agreement for the remainder of this year.

However, given the sales shortfall incurred in the first three quarters compared to the prior year periods, the Company may not achieve the EBITDA covenant related solely to its Revolving Facility for the fourth quarter of this fiscal year. Other than supporting outstanding letters of credit in the principal amount of \$7.2 million as of November 9, 2002, the Company has no outstanding borrowings under the Revolving Facility, nor does it currently expect to need to draw on the facility prior to its expiration in June 2003. The Company anticipates that it will reach an agreement before the end of the fourth quarter with the lending institutions offering the Revolving Facility whereby either the above mentioned covenant will be amended or the facility will be eliminated and replaced.

Note 6

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During the third quarter of fiscal 2002, management completed its previously announced review of the infrastructure and platform from which it delivers technology development and support services. The objectives of the review were to 1) improve focus on and support for the Company's core portraiture business, 2) improve organizational functionality and systems flexibility, and 3) eliminate duplicative cost structures.

To achieve the aforementioned objectives, the Company is in the process of transferring the technology development activities, previously performed by its subsidiary Centrics Technology, Inc. ("Centrics"), back into a newly reorganized and right-sized corporate technology function. In addition, the Company will no longer pursue the sale of consulting and

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software development to third parties. As a result of these decisions, the Company is currently negotiating with management of Centrics for the acquisition of the stock of Centrics by its management group. If an agreement is reached, the Company anticipates the transaction will close prior to the end of its current fiscal year. If an agreement is not reached, all of the aforementioned transfer and reorganization activities will still be completed by the end of the Company's current fiscal year.

Under either the sale or transfer of activities scenarios, the Company expects to incur certain fourth quarter charges to earnings when the ultimate outcome is known. Under either the sale or transfer of activities scenarios, the Company anticipates incurring a charge for employee severance ranging from approximately \$450,000 to \$550,000. Under the sale scenario, the Company would record a loss on sale ranging from approximately \$150,000 to \$200,000, representing the excess of the net book value of assets transferred over liabilities assumed, without giving effect to the contingent consideration to be received in the form of royalties on future sales of consulting services and/or software by the buyer. Under the transfer scenario, the Company would also incur a charge for anticipated settlement of the existing Centrics office lease of approximately \$284,000, representing the remaining lease payments under the lease and assuming no sub-lease rentals or negotiated settlements.

Through the elimination of the currently existing duplicative cost structures and the reorganization and right-sizing of the newly formed corporate technology group, the Company anticipates annualized payroll costs savings beginning in fiscal 2003 of approximately \$4.0 million.

As part of the ongoing transfer and reorganization activities, certain strategic technology decisions were made in the third quarter of fiscal 2002 that either reduce or eliminate the future utility of certain historic capitalized technology development costs necessitating a write-down or write-off of these costs, thus resulting in a pre-tax, non-cash, charge of \$4.2 million. The impacted development activities include a proprietary digital camera development project (\$2.9 million, including \$2.5 million in equipment costs), a digital manufacturing system (\$445,000) and, a portion of the store automation system platform (\$863,000). In the case of both the digital camera project and the digital manufacturing system, the Company has made the decision to prospectively utilize commercially-available cameras and digital manufacturing software. The Company's change in technology direction and its decision to no longer pursue the sale of technology services to third parties resulted in the need to write-off a portion of its store automation system capitalized software code.

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Note 7  
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The projected accumulated benefit obligation of the Company's defined benefit pension plan as of December 31, 2002 (the measurement date) exceeds the fair value of the plan's assets as of September 30, 2002 by approximately \$10.4 million. Should a shortfall exist at year-end, the Company would be required to record a charge to accumulated other comprehensive income in stockholders' equity, consisting of the amount of any shortfall plus the amount of the prepaid pension asset (approximately \$5.2 million, net of tax, at September 30, 2002).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

THE STATEMENTS CONTAINED IN THIS REPORT, AND IN PARTICULAR IN THE "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" SECTION THAT ARE NOT HISTORICAL FACTS ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION ACT OF 1995, AND INVOLVE RISKS AND UNCERTAINTIES. MANAGEMENT WISHES TO CAUTION THE READER THAT THESE FORWARD-LOOKING STATEMENTS, SUCH AS THE COMPANY'S OUTLOOK FOR PORTRAIT STUDIOS AND OTHER STRATEGIC INITIATIVES, FUTURE CASH REQUIREMENTS, COMPLIANCE WITH DEBT COVENANTS, VALUATION ALLOWANCES, AND CAPITAL EXPENDITURES, ARE ONLY PREDICTIONS OR EXPECTATIONS; ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY AS A RESULT OF RISKS FACING THE COMPANY. SUCH RISKS INCLUDE, BUT ARE NOT LIMITED TO: CUSTOMER DEMAND FOR THE COMPANY'S PRODUCTS AND SERVICES, THE OVERALL LEVEL OF ECONOMIC ACTIVITY IN THE COMPANY'S MAJOR MARKETS, COMPETITORS' ACTIONS, MANUFACTURING INTERRUPTIONS, DEPENDENCE ON CERTAIN SUPPLIERS, CHANGES IN THE COMPANY'S RELATIONSHIP WITH SEARS AND THE CONDITION AND STRATEGIC PLANNING OF SEARS, FLUCTUATIONS IN OPERATING RESULTS, THE CONDITION OF PRINTS PLUS, INC., THE



ATTRACTION AND RETENTION OF QUALIFIED PERSONNEL AND OTHER RISKS AS MAY BE DESCRIBED IN THE COMPANY'S FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, INCLUDING ITS FORM 10-K FOR THE YEAR ENDED FEBRUARY 2, 2002.

The Company's fiscal year ends the first Saturday of February. Accordingly, fiscal year 2001 ended February 2, 2002 and consisted of 52 weeks. The third fiscal quarters of 2002 and 2001, which consisted of sixteen weeks, and the first three quarters of 2002 and 2001, which consisted of forty weeks, ended November 9, 2002 and November 10, 2001, respectively. Throughout "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION," reference to 2001 will mean the fiscal year ended February 2, 2002 and reference to third quarter 2002 and third quarter 2001 or first three quarters 2002 and first three quarters 2001 will mean the third fiscal quarter or the first three quarters fiscal of 2002 and 2001, respectively.

The Company has operations in two business segments: Portrait Studios and Technology Development (see Item 1. Financial Statements, Note 6). The Portrait Studios segment functions as the exclusive operator of Sears Portrait Studios with 1,031 locations in the United States, Canada and Puerto Rico as of November 9, 2002. The Technology Development segment operates an internet-based, mail order photofinishing business under the name searsphoto.com and offers software programs primarily for the retail service industry use, software consulting and custom software development under the name Centrics Technology, Inc.

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RESULTS OF OPERATIONS

SIXTEEN WEEKS ENDED NOVEMBER 9, 2002 COMPARED TO SIXTEEN WEEKS ENDED NOVEMBER 10, 2001

Net Sales and Income (Loss) From Operations

The following table sets forth certain operating information for each period and should be viewed in conjunction with the consolidated financial statements and notes included in Item 1 of this Form 10-Q.

	Sixteen Weeks Ended		Change Increase (Decrease)
	Nov. 9, 2002	Nov. 10, 2001	
(in thousands of dollars except sittings and average sales per customer sitting)			
Net sales:			
Portrait Studios	\$ 89,992	\$ 96,711	(6.9)%
Technology Development	1,205	933	29.2 %
Intersegment sales	(1,007)	(772)	30.4 %

	\$ 90,190	\$ 96,872	(6.9) %
Operating earnings (losses):			
Portrait Studios	\$ (657)	\$ 5,337	(112.3) %
Technology Development	(927)	(487)	90.3 %
Total operating earnings (loss)	(1,584)	4,850	(132.7) %
General corporate expenses	5,065	3,748	35.1 %
Income (loss) from operations	\$ (6,649)	\$ 1,102	(703.4) %
Sittings:			
Custom	891,919	946,244	(5.7) %
Package	592,560	772,677	(23.3) %
	1,484,479	1,718,921	(13.6) %
Average sales per customer sitting:			
Custom	\$ 71.16	\$ 67.48	5.5 %
Package	\$ 44.65	\$ 42.44	5.2 %
Overall	\$ 60.57	\$ 56.24	7.7 %

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Net sales for the Portrait Studios segment decreased in third quarter of 2002 from third quarter of 2001, as a decrease in sittings was only partially offset by an increase in average sales per customer sitting. The decrease in sittings continues to be a function of significantly reduced sittings related to the Company's package offers. The decline in package sittings is attributable to both the impacts of a larger percentage of the Company's customers choosing the higher value custom offer versus the package offer and the effects of competitors with lower price package offers. The increase in average sales per customer sitting is primarily the result of the Company's success in converting more of its customers to the higher value custom offer and the Company's decision made during the second quarter to begin selling custom proof sheets which had previously been provided free of charge as part of the custom offer.

The operating loss for the Portrait Studios segment in the third quarter of 2002 compared to the operating earnings recorded in the same time frame in 2001 was significantly impacted by the \$4.2 million pre-tax, non-cash charge related to the write-off or write-down of certain previously capitalized technology development costs (see further details below).

Exclusive of these write-offs and write-downs, lower operating expenses partially offset the lower sales results. The lower operating expenses are due to reduced cost of sales and commissions attributable to lower sales, reduced depreciation expense due to certain assets becoming fully depreciated, reduced credit card fees due to credit card transactions being processed directly by Sears and other various reductions resulting from the Company's continuing focus on expense reductions.

Net sales for the Technology Development segment reflected an increase in the third quarter of 2002 from the third quarter of 2001. However, after elimination of intersegment sales, the negative swing in operating results quarter to quarter is attributable to higher employment costs and the write-off of certain assets having diminished or no future utility.

During the third quarter of fiscal 2002, management completed its previously announced review of the infrastructure and platform from which it delivers technology development and support services. The objectives of the review were to 1) improve focus on and support for the Company's core portraiture business, 2) improve organizational functionality and systems flexibility, and 3) eliminate duplicative cost structures.

To achieve the aforementioned objectives, the Company is in the process of transferring the technology development activities, previously performed by its subsidiary Centrics Technology, Inc. ("Centrics"), back into a newly reorganized and right-sized corporate technology function. In addition, the

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Company will no longer pursue the sale of consulting and software development to third parties. As a result of these decisions, the Company is currently negotiating with management of Centrics for the acquisition of the stock of Centrics by its management group. If an agreement is reached, the Company anticipates the transaction will close prior to the end of its current fiscal year. If an agreement is not reached, all of the aforementioned transfer and reorganization activities will still be completed by the end of the Company's current fiscal year.

Under either the sale or transfer of activities scenarios, the Company expects to incur certain fourth quarter charges to earnings when the ultimate outcome is known. Under either the sale or transfer of activities scenarios, the Company anticipates incurring a charge for employee severance ranging from approximately \$450,000 to \$550,000. Under the sale scenario, the Company would record a loss on sale ranging from approximately \$150,000 to \$200,000, representing the excess of the net book value of assets transferred over liabilities assumed, without giving effect to the contingent consideration to be received in the form of royalties on future sales of consulting services and/or software by the buyer. Under the transfer scenario, the Company would also incur a charge for anticipated settlement of the existing Centrics office lease of approximately \$284,000, representing the remaining lease payments under the lease and assuming no sub-lease rentals or negotiated settlements.

Through the elimination of the currently existing duplicative cost structures and the reorganization and right-sizing of the newly formed corporate technology group, the Company anticipates annualized payroll costs savings beginning in fiscal 2003 of approximately \$4.0 million.

As part of the ongoing transfer and reorganization activities, certain strategic technology decisions were made in the third quarter of fiscal 2002 that either reduce or eliminate the future utility of certain historic capitalized technology development costs necessitating a write-down or write-off of these costs, thus resulting in a pre-tax,

non-cash, charge of \$4.2 million. The impacted development activities include a proprietary digital camera development project (\$2.9 million, including \$2.5 million in equipment costs), a digital manufacturing system (\$445,000) and, a portion of the store automation system platform (\$863,000). In the case of both the digital camera project and the digital manufacturing system, the Company has made the decision to prospectively utilize commercially-available cameras and digital manufacturing software. The Company's change in technology direction and its decision to no longer pursue the sale of technology services to third parties resulted in the need to write-off a portion of its store automation system capitalized software code.

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General corporate expenses increased between quarters due to increases in supplemental retirement benefit plan costs, workers' compensation costs, professional service fees and severance costs in the third quarter of 2002 compared to 2001.

## Other Items Effecting Results of Operations

The following table sets forth certain operating information for each period and should be viewed in conjunction with the consolidated financial statements and notes included in Item 1 of this Form 10-Q.

	Sixteen Weeks Ended		Change Increase (Decrease)
	Nov. 9, 2002	Nov. 10, 2001	
	(in thousands of dollars)		
Interest expense:			
Debt	\$ 980	\$ 1,177	(16.7)%
Other	43	51	(15.7)%
Total interest expense	\$ 1,023	\$ 1,228	(16.6)%
Interest income:			
Investments	\$ 175	\$ 230	(24.2)%
Income from Preferred Security	262	305	(13.8)%
Revolver	64	84	(23.5)%
Total interest income	\$ 501	\$ 619	(19.0)%
Other income (expense), net:			
Other income	\$ 37	\$ 30	23.3%
Investment revaluation	-	(402)	-
Total other income (expense), net	\$ 37	\$ (372)	(109.9)%
Effective income tax rate	39.0%	26.8%	

Interest expense decreased in third quarter of 2002 from the third quarter of 2001 as a result of the scheduled repayment of long-term debt.

Interest income was lower in the third quarter of 2002 compared to third quarter of 2001 due principally to the lower income earned on invested cash as a result of higher invested balances offset by significantly lower interest rates.

The Company's effective income tax rate increased from 26.8% in fiscal 2001 to 39% in fiscal 2002. The fiscal 2001 rate was

positively impacted by adjustments to the income tax reserve related to various income tax matters.

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RESULTS OF OPERATIONS

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 FORTY WEEKS ENDED NOVEMBER 9, 2002 COMPARED TO FORTY WEEKS  
 ENDED NOVEMBER 10, 2001

Net Sales and Income From Operations  
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The following table sets forth certain operating information for each period and should be viewed in conjunction with the consolidated financial statements and notes included in Item 1 of this Form 10-Q.

	Forty Weeks Ended		Change
	Nov. 9, 2002	Nov. 10, 2001	Increase (Decrease)
	-----	-----	-----
	(in thousands of dollars except sittings and average sales per customer sitting)		
Net sales:			
Portrait Studios	\$207,797	\$220,734	(5.9)%
Technology Development	3,377	2,377	42.1%
Intersegment sales	(2,428)	(2,141)	13.4%
	-----	-----	
	\$208,746	\$220,970	(5.5)%
	=====	=====	
Operating earnings (losses):			
Portrait Studios	\$ 6,425	\$ 13,188	(51.3)%
Technology Development	(1,371)	(1,178)	16.4%
	-----	-----	
Total operating earnings	5,054	12,010	(57.9)%
	-----	-----	
General corporate expenses	11,848	9,505	24.7%
	-----	-----	
Income (loss) from operations	\$ (6,794)	\$ 2,505	(371.2)%
	=====	=====	
Sittings:			
Custom	2,050,502	1,987,224	3.2%
Package	1,374,109	1,834,234	(25.1)%
	-----	-----	
	3,424,611	3,821,458	(10.4)%
	=====	=====	
Average sales per customer sitting:			
Custom	\$ 70.83	\$ 69.58	1.8%
Package	\$ 45.46	\$ 44.88	1.3%
Overall	\$ 60.65	\$ 57.73	5.1%

Net sales for the Portrait Studios segment decreased in the first three quarters of 2002 from the first three quarters of 2001, as a decrease in sittings was only partially offset by an increase in average sales per customer sitting. The decrease in sittings is attributable to the effects of an early Easter that historically results in reduced sittings in the first quarter and significantly reduced sittings related to the Company's package offers. The decline in package sittings is attributable to both the impacts of a larger percentage of the Company's customers choosing the higher value custom offer versus package offer and the effects of competitors with lower price package offers. The increase in average sales per customer sitting is primarily the result of the Company's success in converting more of its customers to the higher value custom offer and the Company's decision made during the second quarter to begin selling custom proof sheets which had previously been provided free of charge as part of the custom offer.

Operating earnings for the Portrait Studios segment decreased in the first three quarters of 2002 from the same timeframe in 2001 primarily due to the \$4.2 million non-cash charge related to the write-off or write-down of certain previously capitalized technology development costs.

Exclusive of write-off and write-down amounts, lower operating expenses partially offset the lower sales results. The lower operating expenses resulted from reduced cost of sales and commissions attributable to lower sales, reduced advertising expense resulting principally from planned reductions in spring television and direct mail advertising, reduced depreciation expense due to certain assets becoming fully depreciated, reduced credit card fees due to credit card transactions being processed directly by Sears and other various reductions resulting from the Company's continuing focus on expense reductions.

Net sales for the Technology Development segment reflected an increase in the first three quarters of 2002 from the first three quarters of 2001 due to an increase in intersegment sales and net sales to nonaffiliated companies. After elimination of intersegment sales, operating losses for the same timeframe increased reflecting the increase in nonaffiliated sales offset by higher employment costs, costs relating to supplies and maintenance and the write-down of certain assets having diminished or no future utility.

General corporate expenses increased between the first three quarters of 2002 compared to the first three quarters of 2001 primarily due to the incurrence in 2002 of additional professional service fees, which included \$688,000 associated with the final phase of the Company's strategic planning initiative and increases in supplemental retirement benefit plan costs, workers' compensation and severance costs.

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## Other Items Effecting Results of Operations

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 The following table sets forth certain operating information for each period and should be viewed in conjunction with the consolidated financial statements and notes included in Item 1 of this Form 10-Q.

	Forty Weeks Ended		Change Increase (Decrease)
	Nov. 9, 2002	Nov. 10, 2001	
(in thousands of dollars)			
Interest expense:			
Debt	\$ 2,686	\$ 3,176	(15.4)%
Other	107	128	(17.1)%
Total interest expense	\$ 2,793	\$ 3,304	(15.5)%
Interest income:			
Investments	\$ 523	\$ 924	(43.4)%
Interest on income tax refund	297	-	-
Income from Preferred Security	658	305	116.1%
Revolver	130	84	55.5%
Total interest income	\$ 1,608	\$ 1,313	22.6%
Other income (expense), net:			
Other income	\$ 79	\$ 64	23.4%
Investment revaluation	-	(402)	-
Separation expense (1)	-	(1,714)	-
Total other income (expense), net	\$ 79	\$ (2,052)	103.8%
Effective income tax rate	39.0%	39.9%	

(1) See Separation discussion on page 27.

Interest expense decreased in the first three quarters of 2002 from the first three quarters of 2001 as a result of the scheduled repayment of long-term debt.

Interest income was higher in the first three quarters of 2002 compared to first half of 2001 due to the receipt of interest on a federal income tax refund and accrued income relating to the Preferred Security and Revolver offsetting the lower income earned on invested cash. The lower income earned on invested cash was a result of higher invested balances offset by significantly lower interest rates.

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#### Discontinued Operations

In July 2001, the Company announced it had provided TRU Retail, Inc., the predecessor legal entity of Prints Plus, Inc. ("Prints Plus") with a \$6.4 million revolving line of credit. The Company further announced the completion of the sale of its Wall Decor segment for \$16.0 million. The sales price reflected the receipt of \$11.0 million in a Preferred Security of Prints Plus, approximately \$4.0 million in cash, other consideration netting to \$1.0 million and the assumption of certain liabilities including the ongoing guarantee of certain operating real estate leases. The sales



price was subject to final post-closing adjustments.

Subsequently, in January 2002 and May 2002, the balance of the Preferred Security decreased due to the optional redemption of \$1.0 million and \$353,000, respectively, of the security by Prints Plus, and, in the first quarter of 2002, by a final post-closing adjustment of \$147,000 to the security reflecting a decrease in the final sales price. These events, when offset by the accrued interest income of \$721,000 that is also reflected in the value of the Preferred Security, resulted in a balance on November 9, 2002 of \$10.2 million.

Borrowings under the revolving line of credit extended to Prints Plus were \$4.7 million and \$5.2 million as of November 9, 2002 and November 10, 2001, respectively. Interest income earned on this revolving line of credit for the third quarter 2002 and 2001 was \$64,000 and \$84,000, respectively.

Due to the Company's continuing financial interest in Prints Plus, the Company is required to follow a modified equity method of accounting, which requires cumulative losses, if any, incurred by Prints Plus during its fiscal year be reflected in the Company's financials as a valuation allowance and corresponding charge to income. As a result of Prints Plus' operating performance and compliance with the covenants of the Preferred Security and revolving line of credit, no valuation allowance was recorded as of November 9, 2002.

Further, if Prints Plus defaults on certain operating real estate leases, the Company has guaranteed monthly lease payments over the remaining life of these leases. As of November 9, 2002, the maximum future obligation to the Company would be \$16.0 million before any negotiation with landlords or subleasing. Based on scheduled lease payments, the maximum future obligations will decrease an additional \$908,000 by the end of fiscal 2002, then annually by approximately \$5.2 million to \$4.8 million during the next two years. To recognize the risk associated with these leases and based on the Company's past experience with renegotiating lease obligations, a \$1.0 million reserve was established in 2001. At November 9, 2002, the Company had made

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no further allowances for defaults under these operating leases as, in the opinion of management, Prints Plus is meeting the performance standards established under the operating leases.

For further detailed information regarding risk, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation-Liquidity, Capital Resources and Financial Condition-Risk and Critical Accounting Policies," in the Company's Annual Report on Form 10-K for fiscal year ended February 2, 2002.

Separation

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In February 2001, the Company announced it had hired J. David Pierson as Chairman and Chief Executive Officer to replace the retiring Alyn V. Essman. The Company incurred \$1.7 million in expenses in the first quarter of 2001, which is included in Other Expenses, related to the severance pay,

recognition of unamortized supplemental employee retirement plan benefits and other costs associated with the retirement of Mr. Essman and the recruitment of Mr. Pierson.

#### LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL CONDITION

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##### Operating Activities

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Net cash used in operating activities in the first three quarters of 2002 of \$1.1 million decreased \$10.5 million from the \$9.4 million provided by in the first three quarters of 2001 due to changes in various deferred and refundable income taxes relating to the net operating loss carrybacks that resulted from the sale of Prints Plus in second quarter of 2001, a decline in accrued advertising based on cost reduction initiatives and an increase in outstanding receivable balances that resulted primarily from normal seasonal growth and from a change in settlement methods with Sears Roebuck and Company ("Sears") in the second quarter of 2002. The settlement method change resulted from a recent amendment to the Company's Sears agreement that now allows the Company's credit card transactions to be processed directly through Sears, thereby reducing credit card processing fees paid to third-party vendors but resulting in a slight increase in the collection period of the receivable from Sears.

##### Financing Activities

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Net cash used in financing activities in the three quarters of 2002 of \$9.0 million increased \$2.3 million from the \$6.7 million recorded in the first three quarters of 2001 due to a decrease in funds provided by the issuance of common stock in conjunction with employee benefit plans and option exercises in 2001 not being repeated in 2002 offset by proceeds from the borrowing against the cash surrender value of life insurance.

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As discussed in the Company's Annual Report on Form 10-K, the Company has a \$60.0 million Senior Note Agreement and \$30.0 million Revolving Facility. In April 2002 and November 2002, the Company amended its Revolving Facility to adjust the minimum consolidated earnings before income taxes, depreciation and amortization ("EBITDA") covenant. In the November 2002 amendment, the Company also reduced the line to \$15 million since the Company has minimal borrowing needs other than to support \$7.2 million in outstanding letters of credit as of November 9, 2002. As of November 9, 2002, the Company was in compliance with all covenants under both the amended Revolving Facility and the Senior Note Agreement, and expects to be in compliance with the covenants under the Senior Note Agreement for the remainder of this year.

However, given the sales shortfall incurred in the first three quarters compared to the prior year periods, the Company may not achieve the EBITDA covenant related solely to its Revolving Facility for the fourth quarter of this fiscal year. Other than supporting outstanding letters of credit in the principal amount of \$7.2 million as of November 9, 2002, the Company has no outstanding borrowings under the Revolving Facility, nor does it currently expect to need to draw on the facility prior to its expiration in June 2003.

The Company anticipates that it will reach an agreement before the end of the fourth quarter with the lending institutions offering the Revolving Facility whereby either the above mentioned covenant will be amended or the facility will be eliminated and replaced.

#### Investing Activities

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Net cash used in investing activities in the first three quarters of 2002 of \$11.1 million reflects a \$7.0 million decrease from the first three quarters of 2001 due principally to lower levels of capital expenditures.

#### Cash Flows

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Cash flows from operations and cash and cash equivalents on hand represent the Company's expected source of funds in fiscal year 2002 for planned capital expenditures, scheduled principal payments in June of each year on long-term debt of \$8.6 million, normal business operations and dividends to shareholders. With the exception of letters of credit used to support the Company's self-insurance program and operating leases, the Company does not use off-balance sheet arrangements to finance business activities.

#### Financial Condition

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Assets of the Company decreased 6.2% in the first three quarters of 2002 from year-end 2001 due primarily to a decrease

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in net property and equipment resulting from depreciation charges exceeding property and equipment additions, the write-down or write-off of certain previously capitalized technology development costs, decreases in cash and cash equivalents resulting from the second scheduled principal payment in June 2002 of \$8.6 million of the Company's long-term debt and decreases in cash balances driven by normal seasonal cash needs.

Liabilities of the Company decreased 3.8% primarily as a result of the \$8.6 million debt repayment in June 2002 offset by seasonal increases in accounts payable and accrued expenses related to advertising.

Stockholders' equity decreased 10.2% at the end of the first three quarters of 2002 from year-end 2001 reflecting the year-to-date 2002 net losses and payments of dividends to stockholders, offset by increases in additional paid-in capital that resulted from issuing shares of stock in conjunction with employee benefit plans and option exercises.

#### Strategic Planning Initiatives

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On June 4, 2002, the Company announced that its Board of Directors had approved management's recommendation for the recently completed strategic planning process. For additional information on the Company's strategic initiatives, refer to the Company's Form 8-K filed on June 4, 2002.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates and changes in foreign exchange rates. The Company's outstanding debt obligations carry primarily fixed interest rates; therefore, the Company's exposure to changes in interest rates is minimal. The Company's exposure to changes in foreign exchange rates relates to the Canadian operations, which is minimal, as these operations constitute 6.8% of the Company's total assets and 6.7% of the Company's total sales.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation of the Company's disclosure controls and procedures (as defined in Section 13(a)-14(c) of the Securities Exchange Act of 1934 (the "Act") was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management within the 90-day period preceding the filing date of this quarterly report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

In the quarter ended November 9, 2002, the Company did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls. In addition, since the date of this evaluation to the filing date of this Quarterly Report, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART II OTHER INFORMATION

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) EXHIBITS

The following exhibits are being filed as part of this Report:

- Exhibit 10.53 - Fifth Amendment to Sears License Agreement
- Exhibit 10.54 - Sixth Amendment to Sears License Agreement
- Exhibit 10.55 - Third Amendment to Sears License Agreement (Off Mall)
- Exhibit 10.56 - Fourth Amendment to Sears License Agreement (Off Mall)
- Exhibit 10.57 - Fifth Amendment to Sears License Agreement (Off Mall)
- Exhibit 10.58 - Employment Agreement by and between Peggy J. Deal and CPI Corp.
- Exhibit 10.59 - Employment Agreement by and between Thomas Gallahue and CPI Corp.
- Exhibit 11.0 - Computation of Earnings Per Common Share
- Exhibit 99.1 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
- Exhibit 99.2 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer

b) REPORTS ON FORM 8-K

On August 2, 2002, CPI Corp. filed an 8-K Current Report announcing the issuance of a press release dated July 31, 2002 on the election of Jim Clifford to CPI Corp.'s Board of Directors.

On August 8, 2002, CPI Corp. filed an 8-K Current Report announcing the issuance of a press release dated August 6, 2002 declaring a third quarter cash dividend of 14 cents per share.

On August 15, 2002, CPI Corp. filed an 8-K Current Report announcing the issuance of a press release dated August 15, 2002 reporting the second quarter FY 2002 results.

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SIGNATURE

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

CPI Corp.  
(Registrant)

By: /s/ Gary W. Douglass  
-----  
Gary W. Douglass  
Authorized Officer and  
Principal Financial Officer

Dated: December 11, 2002

CERTIFICATION

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I, J. David Pierson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CPI Corp.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in

internal controls;  
and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 11, 2002

By: /s/ J. David Pierson

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J. David Pierson  
Chief Executive Officer



## CERTIFICATION

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I, Gary W. Douglass, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CPI Corp.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls;

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b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: December 11, 2002

By: /s/ Gary W. Douglass

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Gary W. Douglass  
Chief Financial Officer

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CPI CORP.

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EXHIBIT 10.53

(This exhibit has been filed with the Securities and Exchange Commission and is retained at the office of the Company.)

Material Contract:  
Fifth Amendment to Sears License Agreement

EXHIBIT 10.54

(This exhibit has been filed with the Securities and Exchange Commission and is retained at the office of the Company.)

Material Contract:  
Sixth Amendment to Sears License Agreement

EXHIBIT 10.55

(This exhibit has been filed with the Securities and Exchange Commission and is retained at the office of the Company.)

Material Contract:  
Third Amendment to Sears License Agreement (Off Mall)

EXHIBIT 10.56

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Fourth Amendment to Sears License Agreement (Off Mall)

EXHIBIT 10.57

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Material Contract:  
Fifth Amendment to Sears License Agreement (Off Mall)

EXHIBIT 10.58

(This exhibit has been filed with the Securities and Exchange Commission and is retained at the office of the Company.)

Material Contract:  
Employment Agreement by and between  
Peggy J. Deal and CPI Corp.



EXHIBIT 10.59

(This exhibit has been filed with the Securities and Exchange Commission and is retained at the office of the Company.)

Material Contract:  
Employment Agreement by and between  
Thomas Gallahue and CPI Corp.



(PAGE NUMBERS REFER TO PAPER DOCUMENT ONLY)

EXHIBIT 10.53 - FIFTH AMENDMENT TO LICENSE AGREEMENT

FIFTH AMENDMENT TO LICENSE AGREEMENT

Finite #195-020  
Vendor #000-404-285

THIS FIFTH AMENDMENT TO LICENSE AGREEMENT ("FIFTH AMENDMENT") is made as of \_\_\_\_\_, 2002 by and between SEARS ROEBUCK AND CO., a New York corporation ("SEARS"), and CONSUMER PROGRAMS INCORPORATED, a Missouri corporation ("LICENSEE").

REFERENCE is made to the License Agreement made and entered into as of January 1, 1999 as previously amended (the "LICENSE AGREEMENT") by and between Sears and Licensee for the sale of products and services (the "LICENSED BUSINESS") at On Premises locations.

WHEREAS, Licensee desires to open certain portrait photography studios that will not use Sears Tradenames or Marks (the "CPI STUDIOS") and that will not be considered a Competitive Business as defined in the License Agreement; and

WHEREAS, Licensee and Sears agree to exclude the CPI Studios from the provisions of SECTIONS 5.18 and 14.7 of the License Agreement;

NOW, THEREFORE, Sears and Licensee agree as follows:

1. SECTION 5.18 as set forth in the Second Amendment to License Agreement, dated as of November 10, 1999, shall be amended by inserting the following paragraph before the final paragraph:

Licensee's ownership and operation of the CPI Studios shall not be deemed a Competitive Business and shall not violate the provisions of this Section 5.18; provided that the CPI Studios shall be distinguished from Licensee's operations in the Designated Locations as set forth herein. The CPI Studios shall (a) operate under CPI's own brand; (b) not be located in or operate in conjunction with any third party specialty store, department store, discount store or other similar retail format; (c) offer (i) portrait photography services and products in an environment of artistic customization; (ii) high level skills and service; (iii) extended session times; and (iv) alternative photography venues;

(d) be targeted to (i) compete with independent professional photographers and (ii) attract high income families, with emphasis on graduating seniors, pets, weddings and customers outside the preschool segment that is the primary customer served by Licensee in the Designated Locations; and (e) the CPI Studios shall not share the same photographers or facilities as the Designated Locations.

In addition, Licensee agrees to open no more than 10 locations (in addition to the three Mainstreet Studios operated by Licensee) during the Term unless otherwise agreed by the parties. Upon the opening of the 10th CPI Studio, the parties shall meet to discuss the impact of the CPI Studios upon the Licensed Business. In the event that Sears determines that the CPI Studios have a detrimental impact upon the Licensed Business, the parties shall have ninety (90) days to amend the Agreement. In the event that agreement cannot be reached, Licensee shall not open any additional CPI Studios during the remainder of the Term.

2. SECTION 14.7 as set forth in the Second Amendment to the License Agreement shall be amended by adding the following at the end of the section:

Licensee's ownership and operation of CPI Studios shall not be deemed a Competitive Business and shall not violate the provisions of this Section 14.7.

Except as expressly modified by this Fifth Amendment, All other provisions of the License Agreement shall remain in Full force and effect. To the extent that the terms of this Fifth Amendment are inconsistent with any of the terms of the License Agreement, the terms of this Fifth Amendment shall supercede and govern.

IN WITNESS WHEREOF, Sears and Licensee have signed this Fifth Amendment as of the date set forth above by their duly authorized officers and agents.

SEARS, ROEBUCK AND CO.

By: /s/ John Pigott

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John Pigott

Its: Vice President of Sears,  
Roebuck and Co.

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CONSUMER PROGRAMS INCORPORATED

By: /s/ Jack Krings

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Jack Krings

Its: Vice President,

Consumer Programs, Inc.

(PAGE NUMBERS REFER TO PAPER DOCUMENT ONLY)

EXHIBIT 10.54 - SIXTH AMENDMENT TO LICENSE AGREEMENT

SIXTH AMENDMENT TO LICENSE AGREEMENT

Finite #195-020

Vendor #000-404-285

THIS SIXTH AMENDMENT TO LICENSE AGREEMENT ("SIXTH AMENDMENT") is made as of \_\_\_\_\_, 2002 by and between SEARS ROEBUCK AND CO., a New York corporation ("SEARS"), and CONSUMER PROGRAMS INCORPORATED, a Missouri corporation ("LICENSEE").

REFERENCE is made to the License Agreement made and entered into as of January 1, 1999 as previously amended (the "LICENSE AGREEMENT") by and between Sears and Licensee for the sale of products and services (the "LICENSED BUSINESS") at On Premises locations.

WHEREAS, Licensee desires to operate a mobile photography business in child care centers in the United States that will not use Sears Tradenames or Marks in its name (the "CHILDCARE BUSINESS") and that will not be considered a Competitive Business as defined in the License Agreement; and

WHEREAS, Licensee and Sears agree to exclude the Childcare Business from the provisions of SECTION 5.18 of the License Agreement;

NOW, THEREFORE, Sears and Licensee agree as follows:

1. SECTION 5.18 as set forth in the Second Amendment to License Agreement, dated as of November 10, 1999, and the Fifth Amendment to License Agreement of even date, shall be amended by inserting the following paragraph before the final paragraph:

Licensee's ownership and operation of the Childcare Business shall not be deemed a Competitive Business and shall not violate the provisions of this Section 5.18; provided that the Childcare Business shall be distinguished from Licensee's operations in the Designated Locations as set forth herein. The Childcare Business shall (a) operate under Licensee's own brand; (b) not be operated in conjunction with any third party specialty store, department store, discount store or other similar retail format; and (c) the Childcare Business shall not use any of the photographers or facilities from the Designated Locations.

2. The parties agree to amend SECTION 2.1 of the License Agreement by inserting the following paragraph as the final paragraph of this Section as follows:

USE OF SEATS MARKS FOR CHILDCARE BUSINESS. Sears hereby grants Licensee the limited right to use the name SEARS PORTRAIT STUDIOS and the Sears Marks that do not include the name "SEARS" or any derivation thereof that are used by Licensee in the operation of Sears Portrait Studios in the Childcare Business. Licensee may use the Licensed Business Name or Marks only in communicating with customers and prospective customers, including advertising to or other communications with child care centers and parents or guardians of children who attend any child care centers served by Licensee ("CHILDCARE BUSINESS CUSTOMERS"). The form and content of Licensee's use of the Licensed Business Name and Marks in any such communications or advertising shall be subject to the prior written approval of Sears. Except as agreed for cross marketing purposes with Sears Portrait Studio, Licensee shall have no right to use the Licensed Business Name or Marks in the Child Care Business. Any names and marks used by Licensee in the Childcare Business (other than the Sears Marks) shall be the sole property of Licensee and Sears shall claim no ownership rights therein.

3. SECTION 4.1 of the License Agreement is hereby amended to include the following as the final sentence of this Section:

Licensee shall pay Sears a commission on the Childcare Business ("Sears Childcare Commission") as set forth on EXHIBIT A-1, attached hereto and incorporated herein by reference.

4. SECTION 8.2 of the License Agreement is amended by adding the following as the final paragraph of this Section:

Sears shall, at Licensee's request, furnish a point of sale terminal ("POS Terminal") for Licensee's use in the Childcare Business. Such POS Terminals shall be comparable to those used by Licensee in its On Premises Locations and shall have the capability of processing a Sears Card (as defined below) and any other credit cards Sears may accept from time to time. Licensee shall immediately return such POS Terminal to Sears upon demand and Sears shall have the right to take possession of the POS Terminal at any time without prior notice to Licensee.

5. The parties agree that SECTION 9.2 and SCHEDULE 9.2, as amended, of the License Agreement shall specifically apply to acceptance of Credit Cards through the Sears POS for the Childcare Business.

6. SECTION 9.3 of the License Agreement is hereby amended

by inserting the following after the first sentence:

For the Childcare Business only, Licensee shall submit an accounting at the end of each week of the Gross Sales, the returns, allowances and customer adjustments made during such week and all credit sales documents for transactions completed that week to Sears at the location designated in writing by Sears.

Except as expressly modified by this Sixth Amendment, all other provisions of the License Agreement shall remain in full force and effect. To the extent that the terms of this Sixth Amendment are inconsistent with any of the terms of the License Agreement, the terms of this Sixth Amendment shall supercede and govern.

IN WITNESS WHEREOF, Sears and Licensee have signed this Sixth Amendment as of the date set forth above by their duly authorized officers and agents.

SEARS, ROEBUCK AND CO.

By: /s/ John Pigott

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John Pigott

Its: Vice President of Sears,  
Roebuck and Co.

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CONSUMER PROGRAMS INCORPORATED

By: /s/ Jack Krings

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Jack Krings

Its: Vice President,  
Consumer Programs, Inc.





EXHIBIT 10.55 - THIRD AMENDMENT TO LICENSE AGREEMENT (OFF MALL)

THIRD AMENDMENT TO LICENSE AGREEMENT

Finite #195-020  
Vendor #000-404-285

THIS THIRD AMENDMENT TO LICENSE AGREEMENT ("Third Amendment") is made as of \_\_\_\_\_, 2002 by and between SEARS ROEBUCK AND CO., a New York corporation ("Sears"), and CONSUMER PROGRAMS INCORPORATED, a Missouri corporation ("Licensee").

REFERENCE is made to the License Agreement (Off Mall) made and entered into as of January 1, 1999 as previously amended (the "LICENSE AGREEMENT") by and between Sears and Licensee for the sale of products and services (the "LICENSED BUSINESS") at Off Premises locations.

WHEREAS, Licensee desires to open certain portrait photography studios that will not use Sears Tradenames or Marks (the "CPI STUDIOS") and that will not be considered a Competitive Business as defined in the License Agreement; and

WHEREAS, Licensee and Sears agree to exclude the CPI Studios from the provisions of SECTIONS 5.11 and 14.5 of the License Agreement;

NOW, THEREFORE, Sears and Licensee agree as follows:

1. SECTION 5.11 as set forth in the Second Amendment to License Agreement, dated as of November 10, 1999, shall be amended by inserting the following paragraph before the final paragraph:

Licensee's ownership and operation of the CPI studios shall not be deemed a Competitive Business and shall not violate the provisions of this Section 5.11, provided that the CPI Studios shall be distinguished from Licensee's operation of the Designated Locations as set forth herein. The CPI Studios shall: (a) operate under CPI's own brand; (b) not be located in or operate in conjunction with any third party specialty store, department store, discount store or other similar retail format; (c) offer (i) portrait photography services and products in an environment of customization; (ii) high level skills and service; (iii) extended session times; and (iv) alternative photography venues; (d) be targeted to (i) compete with independent professional photographers and (ii) attract high income families, with emphasis on graduating seniors, pets, weddings and customers

outside the preschool segment; (d) generally shall offer more customized, higher priced products and services to attract a different segment of customers than is currently served by Licensee in the Designated Locations; and (e) the CPI Studios shall not share the same photographers or facilities as any Designated Location.

In addition, Licensee agrees to open no more than 10 locations(in addition to the three Mainstreet Studios operated by Licensee) during the Term unless otherwise agreed by the parties. Upon the opening of the 10th CPI Studio, the parties shall meet to discuss the impact of the CPI Studios upon the Licensed Business. In the event that Sears determines that the CPI Studios have a detrimental impact upon the Licensed Business, the parties shall have ninety (90) days to amend the Agreement. In the event that agreement cannot be reached, Licensee shall not open any additional CPI Studios during the remainder of the Term.

2. SECTION 14.5 as set forth in the Second Amendment to the License Agreement shall be amended by adding the following at the end of the section:

Licensee's ownership and operation of CPI Studios shall not be deemed a Competitive Business and shall not violate the provisions of this Section 14.5.

Except as expressly modified by this Third Amendment, all other provisions of the License Agreement shall remain in full force and effect. To the extent that the terms of this Third Amendment are inconsistent with any of the terms of the License Agreement, the terms of this Third Amendment shall supercede and govern.

IN WITNESS WHEREOF, Sears and Licensee have signed this Third Amendment as of the date set forth above by their duly authorized officers and agents.

SEARS, ROEBUCK AND CO.

By: /s/ John Pigott

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John Pigott

Its: Vice President of Sears,  
Roebuck and Co.

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CONSUMER PROGRAMS INCORPORATED

By: /s/ Jack Krings

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Jack Krings

Its: Vice President,

Consumer Programs, Inc.

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EXHIBIT 10.56 - FOURTH AMENDMENT TO LICENSE AGREEMENT (OFF MALL)

FOURTH AMENDMENT TO LICENSE AGREEMENT

Finite #195-020

Vendor #000-404-285

THIS FOURTH AMENDMENT TO LICENSE AGREEMENT ("Fourth Amendment") is made as of \_\_\_\_\_, 2002 by and between SEARS ROEBUCK AND CO., a New York corporation ("Sears"), and CONSUMER PROGRAMS INCORPORATED, a Missouri corporation ("Licensee").

REFERENCE is made to the License Agreement (Off Mall) made and entered into as of January 1, 1999 as previously amended (the "License Agreement") by and between Sears and Licensee for the sale of products and services (the "Licensed Business") at Off Premises locations.

WHEREAS, the parties agree to amend Section 8.2, Section 9.1 and Section 9.2 of the License Agreement, and

WHEREAS, the parties desire to amend Exhibit C to the License Agreement to revise the schedule of commissions payable at Off Premise locations;

NOW, THEREFORE, Sears and Licensee agree as follows:

1. SECTION 8.2 of the License Agreement is hereby deleted in its entirety and replaced with the following:

Sears shall, at Licensee's request, provide access to Sears' point of sale system (the "Sears System") for Licensee's use in the Designated Locations. With such access, Licensee shall have functionality comparable to that available to Licensee in its On Premises Sears Portrait Studios and shall have the ability to process a Sears Card (as defined in subsection 9.2) and any other credit cards Sears may accept from time to time. Licensee shall immediately surrender access to the Sears System to Sears upon demand from Sears.

2. SECTION 9.1 of the License Agreement is hereby deleted in its entirety and replaced with the following:

Licensee shall make certain that all checks received from sales made through the Designated Locations are processed

and approved through the Sears System in accordance with the Sears policies in effect from time to time. Sears shall guarantee the acceptance of all checks that are processed and approved through the Sears System. Licensee shall reimburse Sears for the face value of any check accepted by Licensee which is not processed and approved through the Sears System and is not paid upon presentment ("Dishonored Check"). Dishonored Checks shall not be returned to

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Licensee and Licensee shall not be permitted to collect or initiate collections on such Dishonored Checks or to recover any merchandise purchased with a Dishonored Check. Sears is entitled to any Sears commission which may be lost as a result of Licensee's failure to properly process and receive approval for checks. A check on which a Licensed Business Customer stops payment due to a customer satisfaction issue shall not be deemed a Dishonored Check for purposes of this Section 9.1, and Licensee shall reimburse Sears for the face amount of such checks, but Licensee shall resolve the customer satisfaction issues in accordance with Section 5.3 above, and Licensee may collect any amounts due from customer through any method of payment otherwise authorized under this Agreement.

3. SECTION 9.2 of the License Agreement is hereby deleted in its entirety and replaced by the following:

Subject to the terms and conditions outlined in Schedule 9.2 (the "Credit Card Conditions") Licensee shall accept the SearsCard(R), Sears Premiere Card(R), Sears Charge Plus (SM), and, unless covered by a separate merchant agreement, the Sears MasterCard(R), the Preferred MasterCard(R) by Sears and The Great Indoors(R) Gold MasterCard(R) (each a "Sears Card") issued by Sears National Bank for payment for goods and services sold by Licensee under this Agreement. Licensee shall also accept such other credit cards as Sears may designate from time to time ("Third Party Credit Cards") subject to the terms and conditions outlined in Schedule 9.2 unless covered by a separate merchant agreement. The Sears Card and the Third Party Credit Cards are referred to collectively herein as the "Credit Cards". Licensee shall accept the Credit Cards at all Licensed Business locations in the United States for the purchase of Authorized Services, provided that the Credit Card transactions resulting from the acceptance of each Credit Card shall be in United States dollars. All

Credit Card transactions shall be submitted to Sears for settlement with the issuing bank ("Issuer"). Each Issuer shall process such transactions as if Sears had engaged in such transactions itself. Subject to all of the terms and conditions of this Agreement, Sears shall pay Licensee all sums due Licensee on each sale of Authorized Services to a Cardholder that is charged to a Credit Card account ("Credit Card Sale"). Payment or settlement by the Issuer with Sears for each Credit Card Sale shall be deemed to be settlement by the Issuer with Licensee, and the Issuer shall have no further obligation to Licensee, whose sole recourse shall be to Sears. All losses sustained by Sears as a result of a non-payment on a Credit Card account shall be borne by Sears, provided Licensee is not responsible for the non-payment and has complied with the Credit Card Conditions. Except for the non-payment of a Credit Card account, Sears shall have no liability whatsoever to Licensee for Sears' failure to properly accept or reject a customer's charge.

Licensee may not distribute or solicit any customer applications or referral for any Third Party Credit Cards in or through the Licensed Business. Other than Credit Cards, Licensee shall not accept payment from customers under any other credit or financing plan without the prior consent of the Licensing Manager.

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4. EXHIBIT C to the License Agreement shall be deleted in its entirety and replaced by the following:

#### SEARS COMMISSION

1. For all Designated Locations operated by Licensee as of October 15, 2002, Licensee shall pay to Sears a commission ("Sears Commission") which shall be a sum equal to seven and one half percent (7 1/2 %) on Net Sales made through December 31, 2004 and five percent (5%) on Net Sales made from January 1, 2005 until the earlier of (i) expiration of the Term or (ii) termination of the License Agreement.

2. For each Designated Location opened by Licensee after October 15, 2002, Licensee shall pay a Sears Commission which shall be a sum equal to one percent (1%) of Net Sales made in the first year of operations of such Designated Locations, three and one half percent (3 1/2%) of Net Sales made in the second year of operations and five percent (5%) in the third and all subsequent years of operation until the earlier of (i) expiration of the Term or (ii) termination of the License Agreement.

3. Notwithstanding the provisions of paragraphs 1 and 2 of this Exhibit C, for any period of time during the Term of this Agreement in which Licensee operates less than 40 Designated Locations, the Sears Commission shall be seven and one-half percent (7 1/2%) of Net Sales on all Designated Locations operating under this License Agreement.

5. Except as expressly modified by this Fourth Amendment, all other provisions of the License Agreement shall remain in full force and effect. To the extent that the terms of this Fourth Amendment are inconsistent with any of the terms of the License Agreement, the terms of this Fourth Amendment shall supercede and govern.

IN WITNESS WHEREOF, Sears and Licensee have signed this Fourth Amendment as of the date set forth above by their duly authorized officers and agents.

SEARS, ROEBUCK AND CO.

By: /s/ John Pigott

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John Pigott

Its: Vice President of Sears,  
Roebuck and Co.

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CONSUMER PROGRAMS INCORPORATED

By: /s/ Jack Krings

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Jack Krings

Its: Vice President,  
Consumer Programs, Inc.





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EXHIBIT 10.57 - FIFTH AMENDMENT TO LICENSE AGREEMENT (OFF MALL)

FIFTH AMENDMENT TO LICENSE AGREEMENT

Finite #195-020

Vendor #000-404-285

THIS FIFTH AMENDMENT TO LICENSE AGREEMENT ("Fifth Amendment") is made as of \_\_\_\_\_, 2002 by and between SEARS ROEBUCK AND CO., a New York corporation ("Sears"), and CONSUMER PROGRAMS INCORPORATED, a Missouri corporation ("Licensee").

REFERENCE is made to the License Agreement (Off Mall) made And entered into as of January 1, 1999 as previously amended (the "License Agreement") by and between Sears and Licensee for the sale of products and services (the "Licensed Business") at Off Premises locations.

WHEREAS, Licensee desires to operate a mobile photography business in child care centers in the United States that will not use Sears Tradenames or Marks in its name (the "Childcare Business") and that will not be considered a Competitive Business as defined in the License Agreement; and

WHEREAS, Licensee and Sears agree to exclude the Childcare Business from the provisions of Section 5.11 and Section 14.5 of the License Agreement;

NOW, THEREFORE, Sears and Licensee agree as follows:

1. SECTION 5.11 as set forth in the Second Amendment to License Agreement, dated as of November 10, 1999, and the Third Amendment to License Agreement of even date, shall be amended by inserting the following paragraph before the final paragraph:

Licensee's ownership and operation of the Childcare Business shall not be deemed a Competitive Business and shall not violate the provisions of this SECTION 5.11; provided that the Childcare Business shall be distinguished from Licensee's operations in the Designated Locations as set forth herein. The Childcare Business shall (a) operate under Licensee's own brand; (b) not be operated in conjunction with any third party specialty store, department store, discount store or other similar retail format; and (c) the Childcare Business shall not use any of the photographers or facilities from the Designated Locations.

2. The parties agree to amend Section 2.1 of the License

Agreement by inserting the following paragraph as the final Paragraph of this Section as follows:

USE OF SEARS MARKS FOR CHILDCARE BUSINESS. Sears hereby grants Licensee the limited right to use the name SEARS PORTRAIT STUDIOS and the Sears Marks that do not include the name "SEARS" or any derivation thereof that are used by Licensee in the operation of Sears Portrait Studios in the Childcare Business. Licensee may use the Licensed Business Name or Marks only in communicating with customers and prospective customers, including advertising to or other communications with child care centers and parents or guardians of children who attend any child care centers served by Licensee ("CHILDCARE BUSINESS CUSTOMERS"). The form and content of Licensee's use of the Licensed Business Name and Marks in any such communications or advertising shall be subject to the prior written approval of Sears. Except as agreed for cross marketing purposes with Sears Portrait Studio, Licensee shall have no right to use the Licensed Business Name or Marks in the Child Care Business. Any names and marks used by Licensee in the Childcare Business (other than the Sears Marks) shall be the sole property of Licensee and Sears shall claim no ownership rights therein.

2. SECTION 4.1 of the License Agreement is hereby amended To include the following as the final sentence of this Section:

Licensee shall pay Sears a commission on the Childcare Business ("SEARS CHILDCARE COMMISSION") as set forth on EXHIBIT C-1, attached hereto and incorporated herein by reference.

3. SECTION 8.2 of the License Agreement is amended by adding the following as the final paragraph of this Section:

Sears shall, at Licensee's request, furnish a point of sale terminal ("POS TERMINAL") for Licensee's use in the Childcare Business. Such POS Terminals shall be comparable to those used by Licensee in its On Premises Locations and shall have the capability of processing a Sears Card (as defined below) and any other credit cards Sears may accept from time to time. Licensee shall immediately return such POS Terminal to Sears upon demand and Sears shall have the right to take possession of the POS Terminal at any time without prior notice to Licensee.

5. The parties agree that SECTION 9.2 and SCHEDULE 9.2, as amended, of the License Agreement shall specifically apply to acceptance of Credit Cards through the Sears POS for the Childcare Business.

6. SECTION 9.3 of the License Agreement is hereby amended by inserting the following after the first sentence:

For the Childcare Business only, Licensee shall submit an accounting at the end of each week of the Gross Sales, the returns, allowances and customer adjustments made during such week and all credit sales documents for transactions completed that week to Sears at the location designated in writing by Sears.

7. SECTION 14.5 as set forth in the Second Amendment to the License Agreement shall be amended by adding the following as the final sentence of the Section:

Licensee's ownership and operation of the Childcare Business shall not be deemed a Competitive Business and shall not violate the provisions of this Section 14.5.

Except as expressly modified by this Fifth Amendment, all other provisions of the License Agreement shall remain in full force and effect. To the extent that the terms of this Fifth Amendment are inconsistent with any of the terms of the License Agreement, the terms of this Fifth Amendment shall supercede and govern.

IN WITNESS WHEREOF, Sears and Licensee have signed this Fifth Amendment as of the date set forth above by their duly authorized officers and agents.

SEARS, ROEBUCK AND CO.

By: /s/ John Pigott

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John Pigott

Its: Vice President of Sears,  
Roebuck and Co.

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CONSUMER PROGRAMS INCORPORATED

By: /s/ Jack Krings

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Jack Krings

Its: Vice President,  
Consumer Programs, Inc.



EXHIBIT 10.58

EMPLOYMENT AGREEMENT

AGREEMENT, dated October 21, 2002 between CONSUMER PROGRAMS INCORPORATED, a Missouri corporation (the "Corporation"), and PEGGY J. DEAL (the "Executive").

WHEREAS, the Corporation desires to employ the Executive in the capacity of Executive Vice President of Field Operations, Portrait Studio Division and the Executive will serve as one of the key executives of the Corporation;

WHEREAS, there is much competition for the type of business performed by the Corporation in the locales in which the Corporation operates, and the Corporation and Executive acknowledge that the Corporation is active in the product markets in which it competes;

WHEREAS, Executive, during her employment, will be entrusted with confidential information;

WHEREAS, Executive and the Corporation recognize and acknowledge that, to ensure the continued growth and stability of the Corporation, it is necessary to obtain an agreement from Executive not to compete with the Corporation and not to disclose confidential information of the Corporation; and

WHEREAS, the Corporation desires that the Executive commence and continue employment with the Corporation as a result of her potential for making future contributions to the Corporation, and the Executive is willing to make a commitment to commence and continue such employment upon the terms and subject to the conditions of this Agreement.

NOW, THEREFORE, in consideration of the mutual promises contained herein and other good and valuable consideration, the parties hereto hereby agree as follows:

1. DEFINITIONS. For purposes of this Agreement:

(a) "Affiliated Companies" shall mean any corporation (or other business entity) controlling, controlled by or under common control with the Corporation.

(b) "Beneficiary" shall mean the person designated in writing by the Executive as her beneficiary under this Agreement, or in the absence of such designation, her estate.

(c) "Cause" shall mean:

(1) prior to a Change of Control, (i) conduct or activity of the Executive materially detrimental to the Corporation's reputation or business (including financial) operations; (ii) gross or habitual neglect or breach of duty or misconduct of the Executive in discharging the duties of her position; or (iii) prolonged absence by the Executive from her duties (other than on account of illness or disability) without the consent of the Corporation.

(2) after a Change of Control, (i) an act or acts of dishonesty on the Executive's part which are intended to result in her substantial personal enrichment at the expense of the Corporation; (ii) any material violation by the Executive of her obligations and covenants pursuant to this Agreement which is demonstrably willful and deliberate on the Executive's part and which results in material injury to the Corporation; or

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(iii) the conviction of Executive of a felony or of a crime involving moral turpitude.

(d) A "Change of Control" shall mean a change in control of a nature that would be required to be reported in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act") or would have been required to be so reported but for the fact that such event had been "previously reported" as that term is defined in Rule 12b-2 of Regulation 12B

of the Exchange Act unless the transactions that give rise to the change in control are approved or ratified by a majority of the members of the Incumbent Board of CPI Corp. who are not employees of the Corporation; provided that, without limitation, notwithstanding anything herein to the contrary, such a change in control shall be deemed to have occurred if (a) any Person is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of CPI Corp. representing 40% or more of the combined voting power of CPI Corp.'s then outstanding securities ordinarily (apart from rights accruing under special circumstances) having the right to vote at elections of directors ("Voting Securities"), (b) individual who constitute the Board of CPI Corp. on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by CPI Corp.'s shareholders, was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of CPI Corp. in which such person is named as a nominee for director, without objection to such nomination) shall be, for

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purposes of this clause (b), considered as though such person were a member of the Incumbent Board, or (c) approval by the stockholders of CPI Corp. of a reorganization, merger or consolidation, in each case, with respect to which persons who were the stockholders of CPI Corp. immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own, directly or indirectly, more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, or a liquidation or dissolution of CPI Corp. or of the sale of all or substantially all of the assets of CPI Corp. For purposes of this Agreement, the term "Person" shall mean and include any individual, corporation, partnership, group, association or other "person," as such term is used in Section 14(d) of the Exchange Act, other than CPI Corp., the Corporation or an Affiliated Company or any employee benefit plan(s) sponsored or maintained by the Corporation or any Affiliated Company.

(e) "Code" shall mean the Internal Revenue Code of 1986, as may be amended from time to time.

(f) "Continuing Directors" shall have the meaning set forth in Paragraph 3(G) of Article Ten of CPI Corp.'s Certificate of Incorporation.

(g) "Fiscal Year" shall mean the Fiscal Year of the Corporation.

(h) "Permanent Disability" shall mean the inability of Executive to perform the services contemplated by Section 4 hereof for a period of at least one hundred eighty (180) consecutive calendar days or for thirty-five (35) weeks (whether or not consecutive) in anytwelve (12) month period on



account of any sickness, injury or other infirmity or disability.

(i) "Retirement" shall mean the Executive's voluntary or

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involuntary termination of employment with the Corporation except for termination on account of (A) Cause as defined in Subsection 6(b) hereof, (B) death or (C) Permanent Disability before attaining age sixty-five (65).

(j) "Term of Employment" shall have the meaning set forth in Section 3 hereof.

(k) "Vesting Percentage" shall mean the percentage of Supplemental Retirement Benefits, death benefits, and disability benefits in which Executive has a nonforfeitable interest (except in the event of termination for Cause) based upon the number of Years of Service Executive has completed, determined as follows:

Completed Years of Service	Vesting Percentage
0	0%
1	10%
2	20%
3	30%
4	40%
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

Notwithstanding anything herein to the contrary, if Executive's employment with the Corporation terminates following a Change of Control, unless such termination is for Cause, for purposes of Subsections 5(g), 5(h), and 5(i) of this Agreement Executive shall be deemed to have completed ten (10) Years of Service and her Vesting Percentage shall be deemed to be 100%.

(l) "Year of Service" shall mean any Fiscal Year during which the Executive has worked for the Corporation at least one thousand (1,000) hours, including Fiscal Years prior to the effective date of this Agreement.

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2. EMPLOYMENT. The Corporation hereby employs and engages the services of the Executive as one of its key executives initially in

the position of Executive Vice President of Field Operations of the Corporation's Portrait Studio Division for the Term of Employment set forth in Section 3. The Executive agrees to serve the Corporation for the Term of Employment as provided herein.

3. TERM OF EMPLOYMENT. The Executive's Term of Employment shall be a period commencing on October 21, 2002 and ending one (1) year thereafter; provided, however, that upon the expiration of theaforesaid period (the "Expiration Date") and upon each anniversary of the Expiration Date, the Term of Employment shall automatically be extended for an additional one (1) year period unless Executive or the Corporation notifies the other in writing at least sixty (60) days prior to the commencement of such one (1) year period of an intention to terminate this Agreement. Notwithstanding anything herein to the contrary, the Term of Employment shall terminate upon Executive's death or Permanent Disability as set forth in subsection 6(a) hereof or upon the Corporation's termination of Executive's employment for Cause pursuant to subsection 6(b) hereof. The Term of Employment shall also terminate upon the Executive's attainment of age 65, unless the Board of Directors requests that the Executive extend her service to the Corporation after age 65. No such extension after age 65 shall exceed one year, provided that the Term may thereafter be renewed from year to year by request of the Board of Directors.

#### 4. POSITION AND DUTIES.

(a) Prior to a Change of Control, during the Term of Employment, the Executive shall serve the Corporation in such capacity as the Corporation may determine. After a Change of Control, during the Term of Employment, the

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Executive's position, authority and responsibilities, the type of work she is asked to perform, and the status and stature of the people with whom she is asked to work, shall be comparable to that existing with respect to the Executive as of the date immediately prior to the Change of Control, and after a Change of Control the Executive's services shall be performed at the location where the Executive was employed as of the date immediately prior to the Change of Control, or at such other location as may be mutually agreed between the Corporation and the Executive.

(b) The Executive agrees to devote her full business time during normal business hours to the business and affairs of the Corporation (except as otherwise provided herein) and to use her best efforts to promote the interests of the Corporation and its Affiliated Companies and to perform faithfully and efficiently the responsibilities assigned to her in accordance with the terms of this Agreement to the extent necessary to discharge such responsibilities, except for (i) service on corporate, civic or charitable boards or committees not significantly interfering with

the performance of such responsibilities and (ii) periods of vacation and sick leave to which she is entitled. It is expressly understood and agreed that the Executive's continuing service on any boards and committees with which she shall be connected, as a member or otherwise, as of the date hereof, or any such service approved by the Corporation during the Term of Employment, shall not be deemed to interfere with the performance of the Executive's services to the Corporation pursuant to this subparagraph 4(b).

5. COMPENSATION AND OTHER CONDITIONS OF EMPLOYMENT.

(a) BASE SALARY. During the Term of Employment, the Executive shall receive an annual base salary (the "Base Salary"), in equal installments

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payable bi-weekly or at such other intervals as salary is normally paid by the Corporation to its employees, at an annual rate established by the Corporation and any Affiliated Companies as of the date hereof. Executive's Base Salary for the Corporation's Fiscal Year 2002 is set forth on Exhibit A, attached hereto and incorporated herein. The Base Salary shall be reviewed at least once each year and may be increased at any time and from time to time by action of the Board of Directors of CPI Corp., any committee thereof or any individual having authority to take such action, in accordance with the Corporation's regular practices. Any increase in the Base Salary shall not serve to limit or reduce any other obligation of the Corporation hereunder, and after such increase the Base Salary shall not be reduced from such increased level.

(b) ANNUAL BONUS. After a Change of Control, in addition to the Base Salary, the Executive shall be awarded for each Fiscal Year during the Term of Employment an annual bonus (the "Annual Bonus") (pursuant to any bonus plan or program of the Corporation, any incentive plan or program of the Corporation, or otherwise) in cash at least equal to the highest bonus paid or payable to the Executive in respect of any of the Fiscal Years during the three Fiscal Years immediately prior to the date of the Change of Control. Prior to a Change of Control, the amount of the Executive's Annual Bonus shall be determined in accordance with the Corporation's regular practice. The bonus plan applicable to Executive for Fiscal Year 2002 is set forth on Exhibit B, attached hereto.

(c) OTHER COMPENSATION PLANS. After a Change of Control, in addition to the Base Salary and Annual Bonus payable as hereinabove provided, during the Term of Employment, the Executive shall be entitled to participate

in all other compensation plans and programs, including, without limitation, savings plans, stock option plans, and retirement plans of the Corporation and its Affiliated Companies (collectively, the "Savings Plans"), on a basis at least equivalent to that provided by the Corporation and its Affiliated Companies to the Executive under such programs immediately prior to the date of the Change of Control. Prior to a Change of Control, the Executive's entitlement to participate in the Savings Plans shall be determined in accordance with the Corporation's regular practice. Prior to a Change of Control, nothing herein shall be construed to prevent the Corporation from amending or altering any such plans in accordance with the terms thereof. All agreements between the Corporation and the Executive existing on the date hereof providing for special pension, retirement or similar benefits are continued by this Agreement.

(d) BENEFIT PLANS. After a Change of Control, during the Term of Employment, the Executive, her spouse, or her dependents, as the case may be, shall be entitled to receive all amounts which she, her spouse or her dependents are or would have been entitled to receive as benefits under all other benefit plans of the Corporation and its Affiliated Companies, including, without limitation, medical, dental, disability, group life, accidental death and travel accident insurance plans and programs (collectively, the "Benefit Plans") on a basis at least as favorable to the Executive as on the date immediately prior to the date of the Change of Control. Prior to a Change of Control, the Executive's and such other persons' entitlement to participate in the Benefit Plans shall be determined in accordance with the Corporation's regular practice.

(e) EXPENSES During the Term of Employment, the Executive

shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the regular policies and procedures of the Corporation.

(f) OFFICE AND SUPPORT STAFF. After a Change of Control the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance, at least equal to those provided to the Executive as of the date immediately prior to the date of the Change of Control.

(g) DEATH BENEFITS. In the event of Executive's death after completion of at least ten (10) Years of Service, unless (1) Executive's employment with the Corporation was terminated for

Cause or (2) Executive (or her Beneficiary) is entitled to receive Supplemental Retirement Benefits pursuant to subsection 5(i), the Corporation shall pay to Executive's Beneficiary an annual death benefit equal to forty percent (40%) (but not to exceed \$150,000) of the highest annual Base Salary paid to Executive from and after fiscal year 2002 (as defined in subsection 5(a) hereof), payable in equal monthly installments, commencing with the month following the month of Executive's death and ending with the two-hundred fortieth (240th) month following the month of Executive's death. In the event that Executive dies before age 65 but has not completed at least ten (10) Years of Service with the Corporation, death benefits shall be reduced to an amount equal to the benefits determined under the preceding sentence multiplied by the Vesting Percentage applicable to Executive.

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(h) DISABILITY BENEFITS. In the event of Executive's Permanent Disability prior to attaining age 65 and prior to termination of employment with the Corporation, unless Executive's employment with the Corporation was terminated for Cause, the Corporation shall pay Executive annual disability benefits equal to forty percent (40%) (but not to exceed \$150,000) of the highest annual Base Salary paid to Executive from and after fiscal year 2002, payable in equal monthly installments, commencing with the month following the month in which Executive terminated employment as a result of Permanent Disability and ending on the earlier of (i) the month in which Executive reaches age 65 or (ii) the month of her death. In the event that at the time of Permanent Disability Executive has not completed at least ten (10) Years of Service, the disability benefits shall be reduced to an amount equal to the benefits determined under the preceding sentence multiplied by the Vesting Percentage applicable to Executive. Disability benefits pursuant to this subsection (h) shall be reduced by any amounts paid to Executive under the Corporation's long-term disability insurance policy, but shall not be reduced for any payments received by Executive from Social Security or from any disability insurance coverage individually owned by Executive.

(i) SUPPLEMENTAL RETIREMENT BENEFITS.

(1) In the event of Executive's Retirement after completion of at least ten (10) Years of Service, unless Executive's employment with the Corporation was terminated for Cause, the Corporation shall pay Executive retirement benefits for twenty (20) years in an annual amount equal to forty percent (40%) (but not to exceed \$150,000) of the highest annual Base Salary paid to Executive from and after fiscal year 2001 ("Supplemental Retirement Benefits"). In the event of Executive's Retirement

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before completion of ten (10) Years of Service, Corporation shall pay Executive retirement benefits on the same terms as set forth in the

preceding sentence except that retirement benefits shall be reduced to an amount equal to Supplemental Retirement Benefits multiplied by the Vesting Percentage.

(2) Supplemental Retirement Benefits shall be payable in two hundred forty (240) equal monthly installments commencing with the month following the later of (i) the month of Executive's Retirement or (ii) the month during which Executive reaches age sixty-five (65). If Executive dies prior to the end of the two hundred forty (240) month period during which Supplemental Retirement Benefits are payable, Supplemental Retirement Benefits shall be payable during the remainder of such 240-month period to her Beneficiary.

(3) Notwithstanding anything herein to the contrary, in the event of Executive's termination of employment with the Corporation prior to attaining age 65 as a result of Permanent Disability, if Executive attains age 65 and her employment with the Corporation was not terminated for Cause, the Corporation shall pay to Executive the Supplemental Retirement Benefits set forth in this Subsection 5(i) in accordance with Executive's Vesting Percentage, commencing as of the month following the month in which Executive attains age 65; provided, however, that any Supplemental Retirement Benefits paid pursuant to this sentence shall be reduced by any amounts paid to Executive under the Corporation's long-term disability insurance policy (but shall not be reduced for any payments received by Executive from Social Security or from any disability insurance coverage individually owned by Executive) for the same period.

(j) SURVIVABILITY OF DEATH AND SUPPLEMENTAL RETIREMENT BENEFITS.

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In the event of Executive's Retirement or death, Executive's entitlement to death benefits pursuant to Subsection 5(g) hereof and Supplemental Retirement Benefits pursuant to Subsection 5(i) hereof shall survive the Term of Employment and Executive or her Beneficiary shall be entitled to such death benefits and Supplemental Retirement Benefits based on the same terms and conditions as would have been applicable had her death or Retirement, as the case may be, occurred during the Term of Employment.

6. TERMINATION OF EMPLOYMENT.

(a) DEATH OR PERMANENT DISABILITY. Except for the obligations of the Corporation set forth in this Subsection 6(a), this Agreement shall terminate automatically upon the Executive's death or Permanent Disability. In the event of such termination, the Corporation shall pay to the Executive's Beneficiary or, in the event of Permanent Disability, the Executive or her legal representative, all benefits and Base Salary accrued through the date of termination, including, without limitation, amounts payable

under any plan referred to in Subsection 5(d) plus any benefits to which Executive may be entitled pursuant to Subsection 5(g), Subsection 5(h) or Subsection 5(i) hereof.

(b) CAUSE. The Corporation may terminate the Executive's employment for Cause. If the Executive's employment is terminated for Cause, the Corporation shall pay the Executive her full accrued Base Salary through the effective date of the termination of her employment (which shall be no earlier than the date of receipt of notice thereof) at the rate in effect at the time of such termination, and the Corporation shall have no further obligations to the Executive under this Agreement.

(c) NOTIFICATION PRIOR TO ONE YEAR EXTENSION. Either Executive

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or the Corporation may terminate this Agreement by notifying the other party in writing of an intention to do so at least sixty (60) days prior to the commencement of a one-year extension period described in Section 3 hereof.

(d) PAYMENTS FOR INVOLUNTARY TERMINATION WITHOUT CAUSE.

(1) If prior to a Change of Control (i) the Corporation terminates Executive's employment (other than for Cause pursuant to subsection 6(b) hereof), or (ii) the Executive's employment terminates by reason of the Corporation's termination of this Agreement pursuant to subsection 6 (c) hereof, the Corporation shall pay Executive following such involuntary termination her full accrued Base Salary through the date of termination of employment plus an amount equal to one hundred percent (100%) of Executive's Base Salary for the fiscal year in which termination occurs, payable in twenty-six (26) equal bi-weekly installments or at such other intervals as salary is normally paid by the Corporation to its employees. In addition, within ninety (90) days after conclusion of the Fiscal Year in which the Executive's employment is involuntarily terminated without Cause, the Corporation shall pay the Executive the Annual Bonus she would have earned for the Fiscal Year, if any, prorated on the basis of the percentage of the Fiscal Year preceding such termination of Executive's employment. The payments pursuant to this Subsection 6(d) (1) and any payments to which Executive may be entitled pursuant to Subsections 5(g), 5(h), and 5(i) shall be in full discharge of any claims, actions, demands or damages of every nature and description which Executive might have or might assert against the Corporation or any Affiliated Company in connection with or arising from the termination of Executive's employment or the termination of this Agreement.

(2) If following a Change of Control (i) the Corporation

terminates Executive's employment (other than for Cause pursuant to Subsection 6(b) hereof), or (ii) the Executive's employment terminates by reason of the Corporation's termination of this Agreement pursuant to subsection 6(c) hereof, the Corporation shall, at the time of such involuntary termination, make a lump sum cash payment to Executive equal to 200% of her Base Salary for the Fiscal Year of termination. In addition to the payment pursuant to this Subsection 6(d)(2) and any payments to which Executive may be entitled pursuant to Subsections 5(g), 5(h) and 5(i), Executive shall be entitled to all remedies available under this Agreement or at law in respect of any damages suffered by Executive as a result of an involuntary termination of employment without Cause.

(e) Notwithstanding the provisions of subsections 6(c)(i) and (ii) above, unless the Board of Directors requests that the Term of Employment be extended after Executive's attaining age 65 in accordance with the provisions of section 3 above, (i) no severance payment shall be payable to the Executive after age 65; and (ii) the amount of the severance payable pursuant to subsection 6(d)(i) shall be reduced by an amount equal to one month of Base Salary for every month of Executive's employment after she attains age 64. If, however, the Term of Employment is extended at the request of the Board of Directors after Executive's attaining age 65, the severance payment shall continue to be payable and shall not be subject to reduction pursuant to subsection 6(d)(ii) to the extent of such extension.

#### 7. GROSS-UP FOR PARACHUTE TAX.

(a) GENERAL. In the event that following a Change of Control Executive becomes entitled to any payments (whether pursuant to this Employment Agreement or any other plan, arrangement or agreement) from the

Corporation in the nature of compensation ("Parachute Payments") that in the opinion of a certified public accounting firm (selected in the manner set forth in Subsection 7(b)) or that under the provisions of a notice of assessment from the Internal Revenue Service causes imposition of the tax under Section 4999 of the Code or any similar tax that may hereafter be imposed (the "Excise Tax"), the Corporation shall pay Executive, at the time specified in Subsection 7(d), the Gross-Up Payment (as determined in accordance with Subsection 7(c)).

(b) SELECTION OF C.P.A. Within fifteen (15) days after any termination of Executive's employment following a Change of Control, the majority of the Continuing Directors as of the date immediately prior to the Change of Control shall select a certified public accounting



firm (the "C.P.A.") to determine the amount, if any, of the Excise Tax and the amount, if any, of the Gross-Up Payments.

(c) AMOUNT OF GROSS-UP PAYMENTS.

(1) The Gross-Up Payments shall be in an amount such that the net amount retained by Executive with respect to the Parachute Payments and Gross-Up Payments, after deduction of any Excise Tax to which the Parachute Payments may be subject and any federal, state, and local income taxes and Excise Tax upon the Gross-Up Payments, shall be equal to the gross amount of the Parachute Payments.

(2) For purposes of determining the amount of the Gross-Up Payments, Executive shall be deemed to pay federal income taxes at the applicable rate of federal income taxation for the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the applicable rate of taxation for the calendar year in which the Gross-Up

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Payment is to be made.

(3) In the event that the Excise Tax is subsequently determined to exceed the amount taken into account at the time the Gross-Up Payment is made pursuant to Subsection 7(d)(1) hereof (including any excess attributable to any Parachute Payments the existence or amount of which could not be accurately determined at the time of the Gross-Up Payment), the Corporation shall make an additional Gross-Up Payment in respect of such excess (plus any interest and addition to tax payable with respect to such excess) within fifteen (15) days after the amount of such excess is determined by the C.P.A. or by the Internal Revenue Service (the "IRS") in a notice of assessment.

(d) TIMING OF GROSS-UP PAYMENTS. Gross-Up Payments other than Gross-Up Payments pursuant to Subsection 7(c)(3) shall be paid not later than forty-five (45) days following payment of any Parachute Payments to which the Gross-Up Payments are attributable; provided, however, that if the amount of such Gross-Up Payment or portion thereof cannot be finally determined on or before such day, the Corporation shall pay to Executive on such day an estimate, as determined in good faith by the Corporation, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the applicable federal rate provided in Section 1274(d) of the Code) as soon as the amount thereof can be determined by the C.P.A., but in no event later than forty-five (45) days after payment of such Parachute Payments.

(e) CORPORATION'S RIGHT TO DESIGNATE TAX REPRESENTATIVE; ASSIGNMENT OF REFUND PROCEEDS. If the IRS proposes an assessment of the Excise Tax against Executive or proposes an additional

Tax in excess of the amount previously reported by Executive:

(1) Executive shall within five (5) days after receipt from the IRS of notice of the proposed Excise Tax assessment notify the Corporation in writing and furnish the Corporation with copies of all correspondence from the IRS relating to the proposed Excise Tax assessment.

(2) The Corporation shall be authorized to designate an attorney and/or accountant (the "Tax Representative") to serve as Executive's exclusive representative with respect to all proceedings with the IRS relating to the proposed Excise Tax assessment, including but not limited to negotiating a settlement or compromise of the proposed Excise Tax assessment, filing a claim for refund with respect thereto, and seeking judicial review of any disallowance of a claim for refund. Executive hereby agrees to execute an appropriate power of attorney authorizing the Tax Representative to represent Executive with respect to the Excise Taxes. Executive further agrees to take any other appropriate actions reasonably requested by the Tax Representative in connection therewith; provided, however, that the Corporation shall reimburse Executive for any expenses incurred by Executive as a result of compliance with such requests.

(3) If the Tax Representative files a claim for refund of Excise Taxes with respect to which the Corporation has made a Gross-Up Payment and such refund claim is allowed by the IRS or by the final judgment of a court of competent jurisdiction, Executive shall endorse the refund check payable to the Corporation and shall send the refund check to the Corporation not later than five (5) days after receipt from the IRS.

(4) If the Corporation designates a Tax Representative, the Corporation shall pay all of his or her professional fees and expenses and

hold Executive harmless from any claims in connection therewith. The Tax Representative shall keep Executive timely informed of all significant developments in the Excise Tax matter and shall send to Executive copies of all correspondence relating thereto.

(5) Notwithstanding anything herein to the contrary, if the Corporation is in material breach of any of its obligations pursuant to this Agreement, the Corporation's rights pursuant to

this Subsection 7(e) shall be extinguished and Executive shall have the right to revoke any power of attorney executed pursuant to this Subsection 7(e).

8. NO OBLIGATION TO MITIGATE DAMAGES. The Executive shall not be obligated to mitigate any damages by seeking other employment or otherwise, and no amount payable hereunder and no benefit or service credit for benefits shall be reduced in the event that the Executive shall accept alternative employment.

9. BENEFITS PAYABLE ONLY FROM CORPORATE ASSETS.

(a) NO TRUST. Nothing contained in this Agreement, and no action taken pursuant to its provisions by either party hereto shall create, or be construed to create, a trust of any kind, or a fiduciary relationship between the Corporation and the Executive or her Beneficiary.

(b) EXECUTIVE'S STATUS AS UNSECURED GENERAL CREDITOR. The payment of any benefits hereunder to the Executive or her Beneficiary shall be made from assets which shall continue, for all purposes, to be a part of the general assets of the Corporation; no person shall have or acquire any interest in such assets by virtue of the provisions of this Agreement. To the extent that the Executive or her Beneficiary acquires a right to receive payments from the Corporation under the provisions hereof, such right shall be no greater

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than the right of any unsecured general creditor of the Corporation.

(c) RECOVERY OF COST OF PROVIDING BENEFITS. In the event that, in its discretion, the Corporation purchases an insurance policy insuring the life of the Executive to enable the Corporation to recover, in whole or in part, the cost of providing any benefits hereunder, neither the Executive nor her Beneficiary under this Agreement shall have or acquire any rights whatsoever therein. The Corporation shall be the sole owner and beneficiary of any such policy and, as such, shall possess and may exercise all incidents of ownership therein.

10. DETERMINATION OF BENEFITS AND CLAIMS PROCEDURE. The Corporation shall make all determinations as to rights to benefits under this Agreement. Subject to and in compliance with the specific procedures contained in the applicable regulations promulgated under the Employee Retirement Income Security Act of 1974, as amended: (i) any decision by the Corporation denying a claim for benefits under this Agreement by the Executive or her Beneficiary shall be stated in writing by the Corporation and delivered or mailed to the claimant; (ii) each such notice shall set forth the

specific reasons for the denial, written to the best of the Corporation's ability in a manner that may be understood without legal or actuarial counsel; and (iii) the Corporation shall afford a reasonable opportunity to the claimant whose claim for benefits has been denied for a review of the decision denying such claim.

11. NON-EXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Corporation or any Affiliated Companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may

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have under any other agreements with the Corporation or any Affiliated Companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Corporation or any Affiliated Companies shall be payable in accordance with the terms of such plan or program.

12. FULL SETTLEMENT. After a Change of Control, the Corporation's obligation to make the payments provided for herein and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Corporation may have against the Executive or others. Unless it is finally determined by a court of competent jurisdiction after all available appeals that the Corporation has validly terminated the Executive's employment for Cause, the Corporation agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Corporation or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof, plus, in each case, interest compounded quarterly, on the total unpaid amount determined be payable hereunder, such interest to be calculated on the basis of the prime commercial lending rate announced by Firststar Bank, N.A. in effect from time to time, for the period commencing on the date of such contest and ending on the date on which the Corporation shall pay such amount.

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13. COVENANTS.

(a) NON-COMPETITION.

(1) Executive recognizes that during the course of Executive's employment with the Corporation, Executive has been and will be instructed about and become acquainted with confidential

information of the Corporation, including, without limitation, customer lists, methods of sales, the existence and contents and terms of this Agreement, methods of sales procurement, sales procurement techniques, sales procedures and equipment/supply information, equipment and supply acquisition procedures and processes and sources, customer evaluation procedures, customer maintenance and supply maintenance procedures and corresponding information relating to persons, firms and corporations which are or may become customers of the Corporation and, further, companies from which the Corporation obtains various products and supplies for sale, resale and distribution to customers of the Corporation. This confidential information further includes, but is not limited to, customer identity, supplier identity and terms, purchase terms, sales techniques, purchase conditions and rates, customer needs, billing procedures and processes, contacts and customer information. Further, Executive agrees and acknowledges that the development and assemblage and maintenance of the customer base of the Corporation has taken extraordinary time, money, resources, training, and effort by the Corporation and its employees.

(2) Executive agrees that she will not during the Term of Employment and for a period of two (2) years following cessation of her employment at the Corporation ("Restricted Period"), for any cause or reason, directly or indirectly:

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(A) engage in any business in competition with the Corporation and its Affiliates or supply and sell to present customers, former customers and prospects of the Corporation and its Affiliates; or

(B) own, manage, operate, control, advise, be employed by, consult, or materially participate in, or be materially involved in any manner with the ownership, management, operation or control of, individually or through any other entity or device, any business that competes with the business then conducted by the Corporation or any Affiliate; provided, however, that mere ownership as an investor of not more than five percent (5%) of the securities of a corporation or other business enterprise shall not in and of itself be deemed to violate this Section 13(a)(2)(B).

(b) NONDISCLOSURE OF CONFIDENTIAL INFORMATION.

(1) Executive will not, except as authorized by the Corporation in writing, during or at any time after the termination of Executive's employment with the Corporation, directly or indirectly, use for herself or others, or disclose, communicate, divulge, furnish to, or convey to any other person, firm, or corporation, any secret or confidential information, knowledge or data of the Corporation or that of third parties obtained by Executive during the period of

her employment with the Corporation. Such information, knowledge or data includes, without limitation, the following:

(A) Secret or confidential matters of a technical nature such as, but not limited to, methods, know-how, formulations, compositions, processes, discoveries, machines, inventions, computer programs, and similar items or research projects involving such items,

(B) Secret or confidential matters of a business

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nature such as, but not limited to, marketing policies or strategies, information about costs, price lists, purchasing and purchasing policies, profits, market, sales or lists of customers, customer history information, and

(C) Secret or confidential matters pertaining to future developments such as, but not limited to, research and development or future marketing or merchandising.

(2) Executive, upon termination of her employment with the Corporation, or at any other time upon the Corporation's request, shall deliver promptly to the Corporation all manuals, letters, notes, notebooks, reports, formulations, computer programs and similar items, memoranda, lists of customers, customer history information and all other materials and copies thereof relating in any way to the Corporation's business and in any way obtained by Executive during the term of employment with the Corporation which are in her possession or under her control and Executive will not make or retain any copies of any of the foregoing and will so represent to the Corporation upon termination of her employment.

(c) INDUCEMENT.

(1) Executive agrees that during the Term of Employment and during the Restricted Period, Executive shall not use any confidential information for the purposes of inducing or attempting to induce any present, former, or prospective customer of the Corporation or its Affiliates to become a customer of Executive or any person, firm, or corporation, or business association with which Executive is affiliated in any capacity with respect to the markets supplied by the Corporation or its Affiliates.

(2) Executive agrees that during the Term of Employment

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and during the Restricted Period, Executive shall not directly or indirectly

solicit for employment or employ any of the Corporation's employees to work for Executive or any business association with which/whom Executive is affiliated, or to work for any other company in the markets supplied by the Corporation or its Affiliates.

(d) INTEREST OF PARTIES. Executive agrees that the duration of the limitations set forth in this Section 13 are reasonable under the circumstances, considering Executive's position with the Corporation and other relevant factors, and that this will not constitute a serious handicap to Executive in securing future employment.

(e) DISCLOSURE TO CORPORATION. Executive shall promptly communicate and disclose to the Corporation all information, observations and data obtained by Executive in the course of Executive's employment. All written materials, records and documents made by Executive or coming into Executive's possession during the Term of Employment concerning any inventions, products, processes or equipment, manufactured, used, developed, investigated or considered by the Corporation or any Affiliated Companies shall be the property of the Corporation, and upon termination of the Term of Employment, or upon request of the Corporation during the Term of Employment, Executive shall promptly deliver the same to the Corporation. Executive agrees to render to the Corporation such reports of the activities of the business undertaken by Executive or conducted under Executive's direction during the Term of Employment as the Corporation may reasonably request.

(f) INVENTIONS.

(1) Executive shall promptly communicate and disclose in writing to the Corporation all those inventions and developments whether

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patentable or not, as well as patents and patent applications (hereinafter collectively called "Inventions"), made, conceived, developed or purchased by Executive, or under which Executive acquires the right to grant licenses or to become licensed, alone or jointly with others, during the Term of Employment, which have arisen or may arise out of Executive's employment, or relate to any matters pertaining to, applicable to, or useful in connection with, the business or affairs of the Corporation or any Affiliated Companies. All of Executive's right, title and interest in, to and under all such inventions, licenses and rights to grant licenses shall be the sole property of the Corporation. Any such inventions disclosed to anyone by Executive within one (1) year after the termination of the Term of Employment for any cause whatsoever shall be deemed to have been made or conceived by Executive during the Term of Employment.

(2) As to all such inventions, Executive shall, upon request of the Corporation, during the Term of Employment or thereafter:

(A) Execute all documents which the Corporation shall deem necessary or proper to enable it to establish title to such inventions, or other rights, and to enable it to file and prosecute applications for letters patent of the United States and any foreign country; and

(B) Do all things (including the giving of evidence in suits and other proceedings) which the Corporation shall deem necessary or proper to obtain, maintain or to assert patents for any and all such inventions or to assert its rights in any inventions not patented.

All expenses incident to any action required by the Corporation or taken on its behalf pursuant to the provisions of this paragraph shall be borne by

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the Corporation including without limitation a reasonable payment for Executive's time and expenses involved in case she is not then in its employ.

(g) LITIGATION. Executive agrees that during the Term of Employment or thereafter, Executive shall do all things, including the giving of evidence in suits and other proceedings, which the Corporation shall deem necessary or proper to obtain, maintain or assert rights accruing to the Corporation during the Term of Employment and in connection with which Executive has knowledge, information or expertise. All reasonable expenses incurred by Executive during the Term of Employment or thereafter in fulfilling the duties set forth in this Section, shall be reimbursed by the Corporation to the full extent legally appropriate including, without limitation, a reasonable payment for Executive's time in the event this Agreement has terminated prior to the time Executive renders such assistance, advice and counsel.

14. EQUITY. The parties hereto agree that the services to be rendered by Executive are special, unique and of an extraordinary character. In the event of the breach by Executive of any of the provisions of this Agreement, the Corporation, in addition and as a supplement to such other rights and remedies as may exist in its favor, may apply to any court of law or equity having jurisdiction to enforce the specific performance of this Agreement, and/or may apply for injunctive relief against any act which would violate any of the provisions of this Agreement.

15. ENTIRE AGREEMENT. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof.



16. NO ASSIGNMENT.

(a) This Agreement is personal to the Executive and without the prior written consent of the Corporation shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives and Beneficiary.

(b) This Agreement shall inure to the benefit of and be binding upon the Corporation and its successors. The Corporation shall require any successor to all or substantially all of the business and/or assets of the Corporation, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Corporation would be required to perform if no such succession had taken place.

17. SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision or clause were omitted.

18. MISCELLANEOUS.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified other than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) In the event that litigation is required to enforce any

provision of this Agreement, subject to the provisions of Section 12 hereof, the prevailing party shall be entitled to reasonable attorneys fees.

(c) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

IF TO THE EXECUTIVE:  
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Peggy J. Deal  
8551 Countryview Drive  
Broadview Heights, Ohio 44147

IF TO THE CORPORATION:  
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Consumer Programs Incorporated  
1706 Washington Avenue  
St. Louis, Missouri 63103

Attention: J. David Pierson, Chairman and CEO

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(d) This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof.

(e) The Corporation may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate, all as of the day and year first above written.

CONSUMER PROGRAMS INCORPORATED

By: /s/ J. David Pierson  
-----

EXECUTIVE

By: /s/ Peggy J. Deal

-----  
Peggy J. Deal

EXHIBIT 10.59

EMPLOYMENT AGREEMENT

AGREEMENT, dated November 15, 2002, between CONSUMER PROGRAMS INCORPORATED, a Missouri corporation (the "Corporation"), and THOMAS GALLAHUE (the "Executive").

WHEREAS, the Corporation desires to employ the Executive in the capacity of Executive Vice President of Studio Development and Operations, Portrait Studio Division, and the Executive will be one of the key executives of the Corporation;

WHEREAS, there is much competition for the type of business performed by the Corporation in the locales in which the Corporation operates, and the Corporation and Executive acknowledge that the Corporation is active in the product markets in which it competes;

WHEREAS, Executive, during his employment, will be entrusted with confidential information; and

WHEREAS, Executive and the Corporation recognize and acknowledge that, to ensure the continued growth and stability of the Corporation, it is necessary to obtain an agreement from Executive not to compete with the Corporation and not to disclose confidential information of the Corporation.

NOW, THEREFORE, in consideration of the mutual promises contained herein and other good and valuable consideration, the parties hereto hereby agree as follows:

1. DEFINITIONS. For purposes of this Agreement:

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(a) "Affiliated Companies" shall mean any corporation (or other business entity) controlling, controlled by or under common control with the Corporation.

(b) "Beneficiary" shall mean the person designated in writing by the Executive as his beneficiary under this Agreement, or in the absence of such designation, his estate.

(c) "Cause" shall mean:

(1) prior to a Change of Control, (i) conduct or

activity of the Executive materially detrimental to the Corporation's reputation or business (including financial) operations; (ii) gross or habitual neglect or breach of duty or misconduct of the Executive in discharging the duties of his position; or (iii) prolonged absence by the Executive from his duties (other than on account of illness or disability) without the consent of the Corporation.

(2) after a Change of Control, (i) an act or acts of dishonesty on the Executive's part which are intended to result in his substantial personal enrichment at the expense of the Corporation; (ii) any material violation by the Executive of his obligations and covenants pursuant to this Agreement which is demonstrably willful and deliberate on the Executive's part and which results in material injury to the Corporation; or (iii) the conviction of Executive of a felony or of a crime involving moral turpitude.

(d) A "Change of Control" shall mean a change in control of a nature that would be required to be reported in response to Item 1(a) of the Current Report on Form 8-K, as in effect on the date hereof, pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act") or would have been required to be so reported but for the fact that such event had been "previously reported" as that term is defined in Rule 12b-2 of Regulation 12B of the Exchange Act unless the transactions that give rise to the change in

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control are approved or ratified by a majority of the members of the Incumbent Board of CPI Corp. who are not employees of the Corporation; provided that, without limitation, notwithstanding anything herein to the contrary, such a change in control shall be deemed to have occurred if (a) any Person is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of CPI Corp. representing 40% or more of the combined voting power of CPI Corp.'s then outstanding securities ordinarily (apart from rights accruing under special circumstances) having the right to vote at elections of directors ("Voting Securities"), (b) individuals who constitute the Board of CPI Corp. on the date hereof (the "Incumbent Board") cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by CPI Corp.'s shareholders, was approved by a vote of at least three-quarters of the directors comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of CPI Corp. in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this clause (b), considered as though such person were a member of the Incumbent Board, or (c) approval by the stockholders of CPI Corp. of a reorganization, merger or

consolidation, in each case, with respect to which persons who were the stockholders of CPI Corp. immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own, directly or indirectly, more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged or consolidated company's then outstanding voting securities, or a liquidation or dissolution of CPI Corp. or of the sale of all or substantially all of the assets of CPI Corp. For purposes of this Agreement, the term "Person" shall mean and include any individual,

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corporation, partnership, group, association or other "person," as such term is used in Section 14(d) of the Exchange Act, other than CPI Corp., the Corporation or an Affiliated Company or any employee benefit plan(s) sponsored or maintained by the Corporation or any Affiliated Company.

(e) "Code" shall mean the Internal Revenue Code of 1986, as may be amended from time to time.

(f) "Continuing Directors" shall have the meaning set forth in Paragraph 3(G) of Article Ten of CPI Corp.'s Certificate of Incorporation.

(g) "Fiscal Year" shall mean the Fiscal Year of the Corporation.

(h) "Permanent Disability" shall mean the inability of Executive to perform the services contemplated by Section 4 hereof for a period of at least one hundred eighty (180) consecutive calendar days or for thirty-five (35) weeks (whether or not consecutive) in any twelve (12) month period on account of any sickness, injury or other infirmity or disability.

(i) "Retirement" shall mean the Executive's voluntary or involuntary termination of employment with the Corporation except for termination on account of (A) Cause as defined in Subsection 6(b) hereof, (B) death or (C) Permanent Disability before attaining age sixty-five (65).

(j) "Term of Employment" shall have the meaning set forth in Section 3 hereof.

2. EMPLOYMENT. The Corporation hereby employs and engages the services of the Executive as one of its key executives in the position of Executive Vice President of Studio Development and Operations, Portrait Studio Division, for the Term of Employment set forth in

Section 3. The Executive agrees to serve the Corporation for the Term of Employment as provided herein.

3. TERM OF EMPLOYMENT. The Executive's Term of Employment shall be a period commencing on the date hereof and ending one (1) year thereafter; provided, however, that upon the expiration of the aforesaid period (the "Expiration Date") the Term of Employment shall continue unless Executive or the Corporation notifies the other in writing of termination of this Agreement. Notwithstanding anything herein to the contrary, the Term of Employment shall terminate upon Executive's death or Permanent Disability as set forth in subsection 6(a) hereof or upon the Corporation's termination of Executive's employment for Cause pursuant to subsection 6(b) hereof. The Term of Employment shall also terminate upon the Executive's attainment of age 65, unless the Board of Directors of CPI Corp. requests that the Executive extend his service to the Corporation after age 65. No such extension shall exceed one year, provided that the Term may thereafter be renewed from year to year by request of the Board of Directors.

4. POSITION AND DUTIES.

(a) Prior to a Change of Control, during the Term of Employment, the Executive shall serve the Corporation in such capacity as the Corporation may determine. After a Change of Control, during the Term of Employment, the Executive's position, authority and responsibilities, the type of work he is asked to perform, and the status and stature of the people with whom he is asked to work, shall be comparable to that existing with respect to the Executive as of the date immediately prior to the Change of Control, and after a Change of Control the Executive's services shall be performed at the location where the Executive was employed as of the date immediately prior to the Change of Control, or at such other location as

may be mutually agreed between the Corporation and the Executive.

(b) The Executive agrees to devote his full business time during normal business hours to the business and affairs of the Corporation (except as otherwise provided herein), to use his best efforts to promote the interests of the Corporation and its Affiliated Companies and to perform faithfully and efficiently the responsibilities assigned to him in accordance with the terms of this Agreement to the extent necessary to discharge such responsibilities, except for (i) service on corporate, civic or charitable boards or committees not significantly interfering with the performance of such responsibilities and (ii) periods of

vacation and sick leave to which he is entitled. It is expressly understood and agreed that the Executive's continuing service on any boards and committees with which he shall be connected, as a member or otherwise, as of the date hereof, or any such service approved by the Corporation during the Term of Employment, shall not be deemed to interfere with the performance of the Executive's services to the Corporation pursuant to this subparagraph 4(b).

5. COMPENSATION AND OTHER CONDITIONS OF EMPLOYMENT.

(a) BASE SALARY. During the Term of Employment, the Executive shall receive an annual base salary (the "Base Salary"), in equal installments payable bi-weekly or at such other intervals as salary is normally paid by the Corporation to its employees, at an annual rate established by the Corporation and any Affiliated Companies as of the date hereof. Executive's Base Salary for Fiscal Year 2002 is set forth on Exhibit A, attached hereto and incorporated herein. The Base Salary shall be reviewed at least once each year and may be increased at any time and from time to time by action of the Board of Directors of CPI Corp., any committee thereof or any individual having authority to take such action, in accordance with

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the Corporation's regular practices. Any increase in the Base Salary shall not serve to limit or reduce any other obligation of the Corporation hereunder, and after such increase the Base Salary shall not be reduced from such increased level.

(b) BONUS. After a Change of Control, in addition to the Base Salary, the Executive shall be awarded for each Fiscal Year during the Term of Employment an annual bonus (the "Annual Bonus") (pursuant to any bonus plan or program of the Corporation, any incentive plan or program of the Corporation, or otherwise) in cash at least equal to the highest bonus paid or payable to the Executive in respect of any of the Fiscal Years during the three Fiscal Years immediately prior to the date of the Change of Control. Prior to a Change of Control, the amount of the Executive's Annual Bonus shall be determined in accordance with the Corporation's regular practice. Executive's Annual Bonus Plan for the Corporation's Fiscal Year 2002 is set forth on Exhibit B, attached hereto and incorporated herein.

(c) OTHER COMPENSATION PLANS. After a Change of Control, in addition to the Base Salary and Annual Bonus payable as hereinabove provided, during the Term of Employment, the Executive shall be entitled to participate in all other compensation plans and programs, including, without limitation, savings plans, stock option plans, and retirement plans of the Corporation and its Affiliated Companies (collectively, the "Savings Plans"), on a basis at least equivalent to that provided by the Corporation and



its Affiliated Companies to the Executive under such programs immediately prior to the date of the Change of Control. Prior to a Change of Control, the Executive's entitlement to participate in the Savings Plans shall be determined in accordance with the Corporation's regular practice. Prior to a Change of Control, nothing herein shall be construed to prevent the Corporation from amending or altering any such

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plans in accordance with the terms thereof.

(d) BENEFIT PLANS. After a Change of Control, during the Term of Employment, the Executive, his spouse, or his dependents, as the case may be, shall be entitled to receive all amounts which he, his spouse or his dependents are or would have been entitled to receive as benefits under all other benefit plans of the Corporation and its Affiliated Companies, including, without limitation, medical, dental, disability, group life, accidental death and travel accident insurance plans and programs (collectively, the "Benefit Plans") on a basis at least as favorable to the Executive as on the date immediately prior to the date of the Change of Control. Prior to a Change of Control, the Executive's and such other persons' entitlement to participate in the Benefit Plans shall be determined in accordance with the Corporation's regular practice.

(e) EXPENSES. During the Term of Employment, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the regular policies and procedures of the Corporation.

(f) OFFICE AND SUPPORT STAFF. After a Change of Control the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance, at least equal to those provided to the Executive as of the date immediately prior to the date of the Change of Control.

(g) DEATH BENEFITS. In the event of Executive's death after completion of at least ten (10) Years of Service, unless (1) Executive's employment with the Corporation was terminated for Cause or (2) Executive (or his Beneficiary) is entitled to receive Supplemental Retirement Benefits pursuant to subsection 5(i), the Corporation shall pay to Executive's Beneficiary an annual death benefit equal to forty percent (40%) (but not to exceed

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\$150,000) of the highest annual Base Salary paid to Executive from and after fiscal year 2002 (as defined in subsection 5(a) hereof), payable in equal monthly installments, commencing with the month

following the month of Executive's death and ending with the two-hundred fortieth (240th) month following the month of Executive's death. In the event that Executive dies before age 65 but has not completed at least ten (10) Years of Service with the Corporation, death benefits shall be reduced to an amount equal to the benefits determined under the preceding sentence multiplied by the Vesting Percentage applicable to Executive.

(h) DISABILITY BENEFITS. In the event of Executive's Permanent Disability prior to attaining age 65 and prior to termination of employment with the Corporation, unless Executive's employment with the Corporation was terminated for Cause, the Corporation shall pay Executive annual disability benefits equal to forty percent (40%) (but not to exceed \$150,000) of the highest annual Base Salary paid to Executive from and after fiscal year 2002, payable in equal monthly installments, commencing with the month following the month in which Executive terminated employment as a result of Permanent Disability and ending on the earlier of (i) the month in which Executive reaches age 65 or (ii) the month of his death. In the event that at the time of Permanent Disability Executive has not completed at least ten (10) Years of Service, the disability benefits shall be reduced to an amount equal to the benefits determined under the preceding sentence multiplied by the Vesting Percentage applicable to Executive. Disability benefits pursuant to this subsection (h) shall be reduced by any amounts paid to Executive under the Corporation's long-term disability insurance policy, but shall not be reduced for any payments received by Executive from Social Security or from any disability insurance coverage individually owned by Executive.

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(i) SUPPLEMENTAL RETIREMENT BENEFITS.

(1) In the event of Executive's Retirement after completion of at least ten (10) Years of Service, unless Executive's employment with the Corporation was terminated for Cause, the Corporation shall pay Executive retirement benefits for twenty (20) years in an annual amount equal to forty percent (40%) (but not to exceed \$150,000) of the highest annual Base Salary paid to Executive from and after fiscal year 2001 ("Supplemental Retirement Benefits"). In the event of Executive's Retirement before completion of ten (10) Years of Service, Corporation shall pay Executive retirement benefits on the same terms as set forth in the preceding sentence except that retirement benefits shall be reduced to an amount equal to Supplemental Retirement Benefits multiplied by the Vesting Percentage.

(2) Supplemental Retirement Benefits shall be payable in two hundred forty (240) equal monthly installments commencing with the month following the later of (i) the month of Executive's Retirement or (ii) the month during which Executive reaches age sixty-five (65). If Executive dies prior to the end of the two hundred forty (240) month period during which

Supplemental Retirement Benefits are payable, Supplemental Retirement Benefits shall be payable during the remainder of such 240-month period to her Beneficiary.

(3) Notwithstanding anything herein to the contrary, in the event of Executive's termination of employment with the Corporation prior to attaining age 65 as a result of Permanent Disability, if Executive attains age 65 and his employment with the Corporation was not terminated for Cause, the Corporation shall pay to Executive the Supplemental Retirement Benefits set forth in this Subsection 5(i) in accordance with Executive's Vesting

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Percentage, commencing as of the month following the month in which Executive attains age 65; provided, however, that any Supplemental Retirement Benefits paid pursuant to this sentence shall be reduced by any amounts paid to Executive under the Corporation's long-term disability insurance policy (but shall not be reduced for any payments received by Executive from Social Security or from any disability insurance coverage individually owned by Executive) for the same period.

(j) SURVIVABILITY OF DEATH AND SUPPLEMENTAL RETIREMENT BENEFITS. In the event of Executive's Retirement or death, Executive's entitlement to death benefits pursuant to Subsection 5(g) hereof and Supplemental Retirement Benefits pursuant to Subsection 5(i) hereof shall survive the Term of Employment and Executive or his Beneficiary shall be entitled to such death benefits and Supplemental Retirement Benefits based on the same terms and conditions as would have been applicable had his death or Retirement, as the case may be, occurred during the Term of Employment.

(k) OTHER BENEFITS. Executive shall also be entitled to the benefits described in Exhibit C, attached hereto and incorporated herein.

## 6. TERMINATION OF EMPLOYMENT.

(a) DEATH OR PERMANENT DISABILITY: AGE 65. Except for the obligations of the Corporation set forth in this Subsection 6(a), this Agreement shall terminate automatically upon the Executive's death, Permanent Disability or attainment of age 65. In the event of such termination, the Corporation shall pay to the Executive's Beneficiary or, in the event of Permanent Disability or attainment of age 65, the Executive or his or her legal representative, all benefits and Base Salary accrued through the date of termination, including, without limitation,

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amounts payable under Subsections 5(c) and (d) plus any benefits to which Executive may be entitled pursuant to Subsection 5(g), Subsection 5(h) or Subsection 5(i) hereof.

(b) CAUSE. The Corporation may terminate the Executive's employment for Cause. If the Executive's employment is terminated for Cause, the Corporation shall pay the Executive his full accrued Base Salary through the effective date of the termination of his or her employment (which shall be no earlier than the date of receipt of notice thereof) at the rate in effect at the time of such termination, and the Corporation shall have no further obligations to the Executive under this Agreement.

(c) PAYMENTS FOR INVOLUNTARY TERMINATION WITHOUT CAUSE.

(1) If prior to a Change of Control, the Corporation terminates Executive's employment (other than for Cause pursuant to subsection 6(b) hereof), the Corporation shall pay Executive following such involuntary termination his full accrued Base Salary through the date of termination of employment plus an amount equal to (i) one hundred percent (100%) of Executive's Base Salary, payable in twenty-six equal bi-weekly installments. The payment pursuant to this Subsection 6(c)(1) shall be in full discharge of any claims, actions, demands or damages of every nature and description which Executive might have or might assert against the Corporation or any Affiliated Company in connection with or arising from the termination of Executive's employment or the termination of this Agreement.

(2) If following a Change of Control, the Corporation terminates Executive's employment (other than for Cause pursuant to Subsection 6(b) hereof), the Corporation shall, at the time of such involuntary termination, make a lump sum cash payment to Executive equal to 200% of his Base Salary for the Fiscal Year of termination. In addition to the

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payment pursuant to this Subsection 6(c)(2), Executive shall be entitled to all remedies available under this Agreement or at law in respect of any damages suffered by Executive as a result of an involuntary termination of employment without Cause.

7. GROSS-UP FOR PARACHUTE TAX.

(a) GENERAL. In the event that following a Change of Control Executive becomes entitled to any payments (whether pursuant to this Employment Agreement or any other plan, arrangement or agreement) from the Corporation in the nature of compensation ("Parachute Payments") that in the opinion of a certified public accounting firm (selected in the manner set forth in Subsection 7(b)) or that under the provisions of a notice of assessment from the Internal Revenue Service causes imposition of the tax under Section 4999 of the Code or any similar tax that may hereafter be imposed (the "Excise Tax"), the Corporation

shall pay Executive, at the time specified in Subsection 7(d), the Gross-Up Payment (as determined in accordance with Subsection 7(c)).

(b) SELECTION OF C.P.A. Within fifteen (15) days after any termination of Executive's employment following a Change of Control, the majority of the Continuing Directors as of the date immediately prior to the Change of Control shall select a certified public accounting firm (the "C.P.A.") to determine the amount, if any, of the Excise Tax and the amount, if any, of the Gross-Up Payments.

(c) AMOUNT OF GROSS-UP PAYMENTS.

(1) The Gross-Up Payments shall be in an amount such that the net amount retained by Executive with respect to the Parachute Payments and Gross-Up Payments, after deduction of any Excise Tax to which the Parachute Payments may be subject and any

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federal, state, and local income taxes and Excise Tax upon the Gross-Up Payments, shall be equal to the gross amount of the Parachute Payments.

(2) For purposes of determining the amount of the Gross-Up Payments, Executive shall be deemed to pay federal income taxes at the applicable rate of federal income taxation for the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the applicable rate of taxation for the calendar year in which the Gross-Up Payment is to be made.

(3) In the event that the Excise Tax is subsequently determined to exceed the amount taken into account at the time the Gross-Up Payment is made pursuant to Subsection 7(d)(1) hereof (including any excess attributable to any Parachute Payments the existence or amount of which could not be accurately determined at the time of the Gross-Up Payment), the Corporation shall make an additional Gross-Up Payment in respect of such excess (plus any interest and addition to tax payable with respect to such excess) within fifteen (15) days after the amount of such excess is determined by the C.P.A. or by the Internal Revenue Service (the "IRS") in a notice of assessment.

(d) TIMING OF GROSS-UP PAYMENTS. Gross-Up Payments other than Gross-Up Payments pursuant to Subsection 7(c)(3) shall be paid not later than forty-five (45) days following payment of any Parachute Payments to which the Gross-Up Payments are attributable; provided, however, that if the amount of such Gross-Up Payment or portion thereof cannot be finally determined on or before such day, the Corporation shall pay to Executive on such day an estimate, as determined in good faith by the Corporation, of the minimum amount of such payments and shall pay the remainder of such payments

(together with interest at the applicable

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federal rate provided in Section 1274(d) of the Code) as soon as the amount thereof can be determined by the C.P.A., but in no event later than forty-five (45) days after payment of such Parachute Payments.

(e) CORPORATION'S RIGHT TO DESIGNATE TAX REPRESENTATIVE; Assignment of Refund Proceeds. If the IRS proposes an assessment of the Excise Tax against Executive or proposes an additional assessment of Excise Tax in excess of the amount previously reported by Executive:

(1) Executive shall within five (5) days after receipt from the IRS of notice of the proposed Excise Tax assessment notify the Corporation in writing and furnish the Corporation with copies of all correspondence from the IRS relating to the proposed Excise Tax assessment.

(2) The Corporation shall be authorized to designate an attorney and/or accountant (the "Tax Representative") to serve as Executive's exclusive representative with respect to all proceedings with the IRS relating to the proposed Excise Tax assessment, including but not limited to negotiating a settlement or compromise of the proposed Excise Tax assessment, filing a claim for refund with respect thereto, and seeking judicial review of any disallowance of a claim for refund. Executive hereby agrees to execute an appropriate power of attorney authorizing the Tax Representative to represent Executive with respect to the Excise Taxes. Executive further agrees to take any other appropriate actions reasonably requested by the Tax Representative in connection therewith; provided, however, that the Corporation shall reimburse Executive for any expenses incurred by Executive as a result of compliance with such requests.

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(3) If the Tax Representative files a claim for refund of Excise Taxes with respect to which the Corporation has made a Gross-Up Payment and such refund claim is allowed by the IRS or by the final judgment of a court of competent jurisdiction, Executive shall endorse the refund check payable to the Corporation and shall send the refund check to the Corporation not later than five (5) days after receipt from the IRS.

(4) If the Corporation designates a Tax Representative, the Corporation shall pay all of his professional fees and expenses and hold Executive harmless from any claims in connection therewith. The Tax Representative shall keep Executive timely informed of all significant developments in the Excise Tax matter and shall send to Executive copies

of all correspondence relating thereto.

(5) Notwithstanding anything herein to the contrary, if the Corporation is in material breach of any of its obligations pursuant to this Agreement, the Corporation's rights pursuant to this Subsection 7(e) shall be extinguished and Executive shall have the right to revoke any power of attorney executed pursuant to this Subsection 7(e).

8. NO OBLIGATION TO MITIGATE DAMAGES. The Executive shall not be obligated to mitigate any damages by seeking other employment or otherwise, and no amount payable hereunder and no benefit or service credit for benefits shall be reduced in the event that the Executive shall accept alternative employment.

9. BENEFITS PAYABLE ONLY FROM CORPORATE ASSETS.

(a) NO TRUST. Nothing contained in this Agreement, and no action taken pursuant to its provisions by either party hereto shall create, or be construed to create, a trust of any kind, or a fiduciary relationship between the Corporation and the Executive or his

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Beneficiary.

(b) EXECUTIVE'S STATUS AS UNSECURED GENERAL CREDITOR. The payment of any benefits hereunder to the Executive or his Beneficiary shall be made from assets which shall continue, for all purposes, to be a part of the general assets of the Corporation; no person shall have or acquire any interest in such assets by virtue of the provisions of this Agreement. To the extent that the Executive or his Beneficiary acquires a right to receive payments from the Corporation under the provisions hereof, such right shall be no greater than the right of any unsecured general creditor of the Corporation.

(c) RECOVERY OF COST OF PROVIDING BENEFITS. In the event that, in its discretion, the Corporation purchases an insurance policy insuring the life of the Executive to enable the Corporation to recover, in whole or in part, the cost of providing any benefits hereunder, neither the Executive nor his Beneficiary under this Agreement shall have or acquire any rights whatsoever therein. The Corporation shall be the sole owner and beneficiary of any such policy and, as such, shall possess and may exercise all incidents of ownership therein.

10. DETERMINATION OF BENEFITS AND CLAIMS PROCEDURE. The Corporation shall make all determinations as to rights to benefits

under this Agreement. Subject to and in compliance with the specific procedures contained in the applicable regulations promulgated under the Employee Retirement Income Security Act of 1974, as amended:

- (i) any decision by the Corporation denying a claim for benefits under this Agreement by the Executive or his Beneficiary shall be stated in writing by the Corporation and delivered or mailed to the claimant;
- (ii) each such notice shall set forth the specific reasons for the denial, written to the best of the Corporation's ability in a manner that may be understood without legal or actuarial counsel; and
- (iii) the Corporation

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shall afford a reasonable opportunity to the claimant whose claim for benefits has been denied for a review of the decision denying such claim.

11. NON-EXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Corporation or any Affiliated Companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any other agreements with the Corporation or any Affiliated Companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Corporation or any Affiliated Companies shall be payable in accordance with the terms of such plan or program.

12. FULL SETTLEMENT. After a Change of Control, the Corporation's obligation to make the payments provided for herein and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Corporation may have against the Executive or others. Unless it is finally determined by a court of competent jurisdiction after all available appeals that the Corporation has validly terminated the Executive's employment for Cause, the Corporation agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Corporation or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof, plus, in each case, interest compounded quarterly, on the total unpaid amount determined to be payable hereunder, such interest to be calculated on the basis of the prime commercial lending rate announced by US

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Bank, N.A. in effect from time to time, for the period commencing on



the date of such contest and ending on the date on which the Corporation shall pay such amount.

13. COVENANTS.

(a) NON-COMPETITION.

(1) Executive recognizes that during the course of Executive's employment with the Corporation, Executive has been and will be instructed about and become acquainted with confidential information of the Corporation, including, without limitation, customer lists, methods of sales, the existence and contents and terms of this Agreement, methods of sales procurement, sales procurement techniques, sales procedures and equipment/supply information, equipment and supply acquisition procedures and processes and sources, customer evaluation procedures, customer maintenance and supply maintenance procedures and corresponding information relating to persons, firms and corporations which are or may become customers of the Corporation and, further, companies from which the Corporation obtains various products and supplies for sale, resale and distribution to customers of the Corporation. This confidential information further includes, but is not limited to, customer identity, supplier identity and terms, purchase terms, sales techniques, purchase conditions and rates, customer needs, billing procedures and processes, contacts and customer information. Further, Executive agrees and acknowledges that the development and assemblage and maintenance of the customer base of the Corporation has taken extraordinary time, money, resources, training, and effort by the Corporation and its employees.

(2) Executive agrees that he will not during the Term of Employment and for a period of two (2) years following cessation of his employment by the Corporation

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("Restricted Period"), for any cause or reason, directly or indirectly:

(A) engage in any business in competition with the Corporation and its Affiliates or supply and sell to present customers, former customers and prospects of the Corporation and its Affiliates; or

(B) own, manage, operate, control, advise, be employed by, consult, or materially participate in, or be materially involved in any manner with the ownership, management, operation or control of, individually or through any other entity or device, any business that competes with the business then conducted by the Corporation or any Affiliate; provided, however, that mere ownership as an investor of not more than five percent (5%) of the securities of a corporation or other business enterprise shall not in and of itself be deemed to violate this Section 13(a)(2)(B).

(b) NONDISCLOSURE OF CONFIDENTIAL INFORMATION.

(1) Executive will not, except as authorized by the Corporation in writing, during or at any time after the termination of Executive's employment with the Corporation, directly or indirectly, use for himself or others, or disclose, communicate, divulge, furnish to, or convey to any other person, firm, or corporation, any secret or confidential information, knowledge or data of the Corporation or that of third parties obtained by Executive during the period of his employment with the Corporation. Such information, knowledge or data includes, without limitation, the following:

(A) Secret or confidential matters of a technical nature such as, but not limited to, methods, know-how, formulations, compositions, processes, discoveries, machines, inventions, computer programs, and similar items or research projects involving such

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items,

(B) Secret or confidential matters of a business nature such as, but not limited to, marketing policies or strategies, information about costs, price lists, purchasing and purchasing policies, profits, market, sales or lists of customers, customer history information, and

(C) Secret or confidential matters pertaining to future developments such as, but not limited to, research and development or future marketing or merchandising.

(2) Executive, upon termination of his employment with the Corporation, or at any other time upon the Corporation's request, shall deliver promptly to the Corporation all manuals, letters, notes, notebooks, reports, formulations, computer programs and similar items, memoranda, lists of customers, customer history information and all other materials and copies thereof relating in any way to the Corporation's business and in any way obtained by Executive during the term of employment with the Corporation which are in his possession or under his control; and Executive will not make or retain any copies of any of the foregoing and will so represent to the Corporation upon termination of his employment.

(c) INDUCEMENT.

(1) Executive agrees that during the Term of Employment and during the Restricted Period, Executive shall not use any confidential information for the purposes of inducing or attempting to induce any present, former, or prospective customer of the Corporation or its Affiliates to become a customer of Executive or any person, firm, or corporation, or business association with which Executive is affiliated

in any capacity with respect to the

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markets supplied by the Corporation or its Affiliates.

(2) Executive agrees that during the Term of Employment and during the Restricted Period, Executive shall not directly or indirectly solicit for employment or employ any of the Corporation's employees to work for Executive or any business association with which/whom Executive is affiliated, or to work for any other company in the markets supplied by the Corporation or its Affiliates.

(d) INTEREST OF PARTIES. Executive agrees that the duration of the limitations set forth in this Section 13 are reasonable under the circumstances, considering Executive's position with the Corporation and other relevant factors, and that this will not constitute a serious handicap to Executive in securing future employment.

(e) DISCLOSURE TO CORPORATION. Executive shall promptly communicate and disclose to the Corporation all information, observations and data obtained by Executive in the course of Executive's employment. All written materials, records and documents made by Executive or coming into Executive's possession during the Term of Employment concerning any inventions, products, processes or equipment, manufactured, used, developed, investigated or considered by the Corporation or any Affiliated Companies shall be the property of the Corporation, and upon termination of the Term of Employment, or upon request of the Corporation during the Term of Employment, Executive shall promptly deliver the same to the Corporation. Executive agrees to render to the Corporation such reports of the activities of the business undertaken by Executive or conducted under Executive's direction during the Term of Employment as the Corporation may reasonably request.

(f) INVENTIONS.

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(1) Executive shall promptly communicate and disclose in writing to the Corporation all those inventions and developments whether patentable or not, as well as patents and patent applications (hereinafter collectively called "Inventions"), made, conceived, developed or purchased by Executive, or under which Executive acquires the right to grant licenses or to become licensed, alone or jointly with others, during the Term of Employment, which have arisen or may arise out of Executive's employment, or relate to any matters pertaining to, applicable to, or useful in connection with, the business or affairs of the Corporation or any Affiliated Companies. All of Executive's right, title and interest in, to and under all such inventions, licenses and rights to grant licenses shall be the sole property of the Corporation. Any such inventions

disclosed to anyone by Executive within one (1) year after the termination of the Term of Employment for any cause whatsoever shall be deemed to have been made or conceived by Executive during the Term of Employment.

(2) As to all such inventions, Executive shall, upon request of the Corporation, during the Term of Employment or thereafter:

(A) Execute all documents which the Corporation shall deem necessary or proper to enable it to establish title to such inventions, or other rights, and to enable it to file and prosecute applications for letters patent of the United States and any foreign country; and

(B) Do all things (including the giving of evidence in suits and other proceedings) which the Corporation shall deem necessary or proper to obtain, maintain or to assert patents for any and all such inventions or to assert its rights in any inventions not patented.

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All expenses incident to any action required by the Corporation or taken on its behalf pursuant to the provisions of this paragraph shall be borne by the Corporation including without limitation a reasonable payment for Executive's time and expenses involved in case he or she is not then in its employ.

(g) LITIGATION. Executive agrees that during the Term of Employment or thereafter, Executive shall do all things, including the giving of evidence in suits and other proceedings, which the Corporation shall deem necessary or proper to obtain, maintain or assert rights accruing to the Corporation during the Term of Employment and in connection with which Executive has knowledge, information or expertise. All reasonable expenses incurred by Executive during the Term of Employment or thereafter in fulfilling the duties set forth in this Section, shall be reimbursed by the Corporation to the full extent legally appropriate including, without limitation, a reasonable payment for Executive's time in the event this Agreement has terminated prior to the time Executive renders such assistance, advice and counsel.

14. EQUITY. The parties hereto agree that the services to be rendered by Executive are special, unique and of an extraordinary character. In the event of the breach by Executive of any of the provisions of this Agreement, the Corporation, in addition and as a supplement to such other rights and remedies as may exist in its favor, may apply to any court of law or equity having jurisdiction to enforce the specific performance of this Agreement, and/or may apply for injunctive relief against any act which would violate any of the provisions of this Agreement.

15. EFFECT ON PRIOR AGREEMENT. This Agreement shall supersede

and replace any and all prior employment agreements entered into between Executive and the Corporation or any Affiliated Company, including but not limited to that certain Employment Agreement dated April

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1, 2002. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof.

16. NO ASSIGNMENT.

(a) This Agreement is personal to the Executive and without the prior written consent of the Corporation shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives and Beneficiary.

(b) This Agreement shall inure to the benefit of and be binding upon the Corporation and its successors. The Corporation shall require any successor to all or substantially all of the business and/or assets of the Corporation, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Corporation would be required to perform if no such succession had taken place.

17. SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision or clause were omitted.

18. MISCELLANEOUS.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

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This Agreement may not be amended or modified other than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) In the event that litigation is required to enforce any provision of this Agreement, subject to the provisions of Section 12 hereof, the prevailing party shall be entitled to reasonable attorneys fees.

(c) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

IF TO THE EXECUTIVE:

Thomas Gallahue

IF TO THE CORPORATION:

Consumer Programs Incorporated  
1706 Washington Avenue  
St. Louis, Missouri 63103  
Attention: Dave Pierson, Chief Executive Officer

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(d) This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof.

(e) The Corporation may withhold from any amounts payable under this Agreement such federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement in duplicate, all as of the day and year first above written.

CONSUMER PROGRAMS INCORPORATED

By: /s/ J. David Pierson

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J. David Pierson, Chairman  
and Chief Executive Officer

EXECUTIVE

By: /s/ Thomas Gallahue

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Thomas Gallahue

EXHIBIT 11.0 - COMPUTATION OF EARNINGS PER COMMON SHARE

CPI CORP. COMPUTATION OF EARNINGS PER COMMON SHARE - DILUTED  
Sixteen Weeks ended November 9, 2002 and November 10, 2001

	Sixteen Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
	-----	-----
Diluted:		
Net earnings (loss) applicable to common shares	\$ (4,352,005)	\$ 153,187
	=====	=====
Shares:		
Weighted average number of common shares outstanding	18,282,506	18,150,769
Shares issuable under employee stock plans-weighted average	-*	33,011
Dilutive effect of exercise of certain stock options	-*	36,956
Less: Treasury stock-weighted average	(10,238,303)	(10,238,235)
	-----	-----
Weighted average number of common and common equivalent shares outstanding	8,044,203	7,982,501
	=====	=====
Net earnings (loss) per common and common equivalent shares	\$ (0.54)	\$ 0.02
	=====	=====

\* The dilutive effect of stock options in the amount of 16,207 shares and 23,374 shares issuable under employee stock plans were not considered as the effect is antidilutive.

EXHIBIT 11.0-COMPUTATION OF EARNINGS PER COMMON SHARE (continued)

CPI CORP. COMPUTATION OF EARNINGS PER COMMON SHARE - DILUTED



Forty Weeks ended November 9, 2002 and November 10, 2001

	Forty Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
	-----	-----
Diluted:		
Net loss applicable to common shares	\$ (4,819,221)	\$ (925,536)
	=====	=====
Shares:		
Weighted average number of common shares outstanding	18,277,177	18,049,486
Shares issuable under employee stock plans-weighted average	-*	-**
Dilutive effect of exercise of certain stock options	-*	-**
Less: Treasury stock-weighted average	(10,238,303)	(10,240,307)
	-----	-----
Weighted average number of common and common equivalent shares outstanding	8,038,874	7,809,179
	=====	=====
Net loss per common and common equivalent shares	\$ (0.60)	\$ (0.12)
	=====	=====

\* The dilutive effect of stock options in the amount of 17,820 shares and 27,589 shares issuable under employee stock plans were not considered as the effect is antidilutive.

\*\* The dilutive effect of stock options in the amount of 71,518 shares and 34,017 shares issuable under employee stock plans were not considered as the effect is antidilutive.

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EXHIBIT 11.0-COMPUTATION OF EARNINGS PER COMMON SHARE (continued)  
 CPI CORP. COMPUTATION OF EARNINGS PER COMMON SHARE - BASIC  
 Sixteen and Forty Weeks ended November 9, 2002 and  
 November 10, 2001

	Sixteen Weeks Ended	
	Nov. 9, 2002	Nov. 10, 2001
	-----	-----

Basic:

Net earnings (loss) applicable to common shares	\$ (4,352,005)	\$ 153,187
	=====	=====

Shares:

Weighted average number of common shares outstanding	18,282,506	18,150,767
Less: Treasury stock-weighted average	(10,238,303)	(10,238,235)
	-----	-----

Weighted average number of common and common equivalent shares outstanding	8,044,203	7,912,532
	=====	=====

Net loss per common and common equivalent shares	\$ (0.54)	\$ 0.02
	=====	=====

Forty Weeks Ended

Nov. 9, 2002	Nov. 10, 2001
-----	-----

Basic:

Net loss applicable to common shares	\$ (4,819,221)	\$ (925,536)
	=====	=====

Shares:

Weighted average number of common shares outstanding	18,277,177	18,049,486
Less: Treasury stock-weighted average	(10,238,303)	(10,240,307)
	-----	-----

Weighted average number of common and common equivalent shares outstanding	8,038,874	7,809,179
	=====	=====

Net loss per common and common equivalent shares	\$ (0.60)	\$ (0.12)
	=====	=====

EXHIBIT 99.1 - CERTIFICATION PURSUANT TO 18 U.S.C. SECTION  
1350, AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CPI Corp. (the "Company") on Form 10-Q for the period ending November 9, 2002as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. David Pierson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Subsection 1350, as adopted pursuant to Subsection 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly present, in all material respects, the financial condition and the results of operations of the Company.

By: /s/ J. David Pierson

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J. David Pierson  
Chief Executive Officer  
December 11, 2002

EXHIBIT 99.2 - CERTIFICATION PURSUANT TO 18 U.S.C. SECTION  
1350, AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CPI Corp. (the "Company") on Form 10-Q for the period ending November 9, 2002as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gary W. Douglass, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Subsection 1350, as adopted pursuant to Subsection 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly present, in all material respects, the financial condition and the results of operations of the Company.

By: /s/ Gary W. Douglass

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Gary W. Douglass  
Chief Financial Officer  
December 11, 2002