POORE BROTHERS INC

FORM 10-K
(Annual Report)

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Address	3500 S LA COMETA DR
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Industry	Food Processing
Sector	Consumer/Non-Cyclical
Fiscal Year	12/31

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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 28, 2002

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

For the transition period from _____ to _____

Commission File Number: 1-14556

POORE BROTHERS, INC.

(Exact name of registrant as specified in its charter)

Delaware	86-0786101
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3500 South La Cometa Drive
Goodyear, Arizona 85338
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (623) 932-6200

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of Class	Name of exchange on which registered
Common Stock, $.01 par value	Nasdaq

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the voting stock (Common Stock, $.01 par value) held by non-affiliates of the Registrant was $15,031,234 based upon the closing market price on March 23, 2003.

The number of issued and outstanding shares of Common Stock, $.01 par value, as of March 23, 2003 was 16,729,911.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's Annual Meeting of Shareholders to be held on May 20, 2003 are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including all documents incorporated by reference, includes "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 12E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995, and Poore Brothers, Inc. (the "Company") desires to take advantage of the "safe harbor" provisions thereof. Therefore, the Company is including this statement for the express purpose of availing itself of the protections of the safe harbor with respect to all of such forward-looking statements. In this Annual Report on Form 10-K, the words "anticipates," "believes," "expects," "intends," "estimates," "projects," "will likely result," "will continue," "future" and similar terms and expressions identify forward-looking statements. The forward-looking statements in this Annual Report on Form 10-K reflect the Company's current views with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties, including specifically the Company's relatively brief operating history, significant historical operating losses and the possibility of future operating losses, the possibility that the Company will need additional financing due to future operating losses or in order to implement the Company's business strategy, the possible diversion of management resources from the day-to-day operations of the Company as a result of strategic acquisitions, potential difficulties resulting from the integration of acquired businesses with the Company's business, other acquisition-related risks, significant competition, risks related to the food products industry, volatility of the market price of the Company's common stock, par value $.01 per share (the "Common Stock"), the possible de-listing of the Common Stock from the Nasdaq SmallCap Market if the Company fails to satisfy the applicable listing criteria (including a minimum share price) in the future and those other risks and uncertainties discussed herein, that could cause actual results to differ materially from historical results or those anticipated. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this Annual Report on Form 10-K will in fact transpire or prove to be accurate. Readers are cautioned to consider the specific risk factors described herein and in "Risk Factors," and not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that may arise after the date hereof. All subsequent written or oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this section.

ITEM 1. DESCRIPTION OF BUSINESS

BUSINESS

Poore Brothers, Inc. and its subsidiaries (collectively, "the Company") are engaged in the development, production, marketing and distribution of innovative salted snack food products that are sold primarily through grocery retailers, mass merchandisers, club stores and vend distributors across the United States. The Company (i) manufactures and sells T.G.I. Friday's(R) brand salted snacks under license from TGI Friday's Inc., (ii) manufactures and sells its own brands of salted snack food products including Poore Brothers(R), Bob's Texas Style(R), and Boulder Potato Company(R) brand batch-fried potato chips and Tato Skins(R) brand potato snacks, (iii) manufactures private label potato chips for grocery retail chains in the southwest, and (iv) distributes snack food products that are manufactured by others.

For the fiscal year ended December 28, 2002, net revenues totaled $59,348,471. In fiscal 2002, approximately 93% of revenues were attributable to products manufactured by the Company (89% branded snack food products, 5% private label products) and approximately 7% of revenues were attributable to the distribution by the Company of snack food products manufactured by other companies. For the fiscal year ended December 31, 2001, net revenues totaled $53,904,816. In fiscal 2001, approximately 91% of revenues were attributable to products manufactured by the Company (84% branded snack food products, 7% private label products) and approximately 9% of revenues were attributable to the distribution by the Company of snack food products manufactured by other companies. For the fiscal year ended December 31, 2000, net revenues totaled $39,055,082. In fiscal 2000, approximately 87% of revenues were attributable to products manufactured by the Company (72% branded snack food products, 15% private label products) and approximately 13% of revenues were attributable to the distribution by the Company of snack food products manufactured by other companies. The Company sells its T.G.I. Friday's(R) brand salted snack products to retailers, mass merchandisers and club stores directly and the rest of its products to retailers and vend operators through independent distributors. See **Note 10 "BUSINESS SEGMENTS AND SIGNIFICANT CUSTOMERS" to the financial** statements included in Item 8.

The Company produces T.G.I. Friday's(R) brand salted snacks and Tato Skins(R) brand potato snacks utilizing a sheeting and frying process that includes patented technology. The Company licenses the patented technology from a third party and has an exclusive right to use the technology within North America until the patents expire between 2004 and 2006. T.G.I. Friday's(R) brand salted snacks and Tato Skins(R) brand potato snacks are offered in several different flavors and formulations. These products are manufactured at the Company's leased facility in Bluffton, Indiana. The Company acquired the Bluffton, Indiana manufacturing operation in October 1999 as part of its acquisition of Wabash Foods, LLC ("Wabash Foods"). In December 2002, Warner Bros. Consumer Products granted the Company rights to introduce an innovative new brand of salted snacks featuring Looney Tunes(TM) characters. The Company plans to launch the new brand nationwide in the summer of 2003 under a multi-year agreement that grants the Company exclusive salted snack category brand licensing and promotional rights for Looney Tunes(TM) characters. See "PRODUCTS" and "PATENTS AND TRADEMARKS".

Poore Brothers(R), Bob's Texas Style(R) and Boulder Potato Company(R) brand potato chips are manufactured with a batch-frying process that the Company believes produces potato chips with enhanced crispness and flavor. Poore Brothers(R) potato chips are currently offered in 11 flavors, Bob's Texas Style(R) potato chips are currently offered in six flavors, and Boulder Potato Company(R) potato chips are currently offered in seven flavors. The Company also manufactures potato chips for sale on a private label basis using a continuous frying process. The Company's potato chips are manufactured at a Company-owned facility in Goodyear, Arizona. See "PRODUCTS" and "MARKETING AND DISTRIBUTION."

The Company's business objective is to be a leading developer, manufacturer, marketer and distributor of innovative branded salted snack foods by providing high quality products at competitive prices that are superior in taste, texture, flavor variety and brand personality to comparable products. A significant element of the Company's growth strategy is to develop, acquire or license innovative salted snack food brands that provide strategic fit and possess strong national brand equity in order to expand, complement or diversify the Company's existing business. The Company also plans to increase sales of its existing products, increase distribution revenues and continue to improve its manufacturing capacity utilization. See "BUSINESS STRATEGY."

The Company's executive offices are located at 3500 South La Cometa Drive, Goodyear, Arizona 85338, and its telephone number is (623) 932-6200.

COMPANY HISTORY

The Company, a Delaware corporation, was formed in 1995 as a holding company to acquire a potato chip manufacturing and distribution business which had been founded by Donald and James Poore in 1986.

In December 1996, the Company completed an initial public offering of its Common Stock, pursuant to which 2,250,000 shares of Common Stock were offered and sold to the public at an offering price of $3.50 per share. Of such shares, 1,882,652 shares were sold by the Company. The initial public offering was underwritten by Paradise Valley Securities, Inc. (the "Underwriter"). The net proceeds to the Company from the sale of the 1,882,652 shares of Common Stock, after deducting underwriting discounts and commissions and the expenses of the offering payable by the Company, were approximately $5,300,000. On January 6, 1997, 337,500 additional shares of Common Stock were sold by the Company upon the exercise by the Underwriter of an over-allotment option granted to it in connection with the initial public offering. After deducting applicable underwriting discounts and expenses, the Company received net proceeds of approximately $1,000,000 from the sale of such additional shares.

On November 4, 1998, the Company acquired the business and certain assets of Tejas Snacks, L.P., a Texas-based potato chip manufacturer, including Bob's Texas Style(R) potato chips brand, inventories and certain capital equipment. In consideration for these assets, the Company issued 523,077 unregistered shares of Common Stock with a fair value at the time of $450,000 and paid approximately $1,250,000 in cash.

On October 7, 1999, the Company acquired Wabash Foods, including the Tato Skins(R), O'Boisies(R), and Pizzarias(R) trademarks for a total purchase price of $12,763,000. The Company acquired all of the membership interests of Wabash Foods from Pate Foods Corporation in exchange for (i) the issuance of 4,400,000 unregistered shares of Common Stock, (ii) the issuance of a five-year warrant to purchase 400,000 unregistered shares of Common Stock at an exercise price of $1.00 per share, and (iii) the effective assumption of $8,073,000 in liabilities.

On June 8, 2000, the Company acquired Boulder Natural Foods, Inc. and the business and certain related assets and liabilities of Boulder Potato Company, a Colorado-based potato chip marketer and distributor. The assets included the Boulder Potato Company(R) and Boulder Chips(TM) brand, accounts receivable, inventories, certain other intangible assets and specified liabilities. In consideration for these assets and liabilities, the Company paid a total purchase price of $2,637,000, consisting of: (i) the issuance of 725,252 unregistered shares of Common Stock with a fair value at the time of $1,235,000,
(ii) a cash payment of $301,000, (iii) the issuance of a promissory note to the seller in the amount of $830,000, and (iv) the assumption of $271,000 in liabilities. In addition, the Company was required to issue additional unregistered shares of Common Stock to the seller on each of the first two (and may on the third) anniversaries of the closing of the acquisition. Any such issuances will be dependent upon, and will be calculated based upon, increases in sales of Boulder Potato Company(R) products as compared to previous periods.

In October 2000, the Company launched its T.G.I. Friday's(R) brand salted snacks pursuant to a license agreement with TGI Friday's Inc., which expires in 2014.

On December 27, 2001, the Company completed the sale of 586,855 shares of Common Stock at an offering price of $2.13 per share to BFS US Special Opportunities Trust PLC, a fund managed by Renaissance Capital, in a private placement transaction.

In December 2002, Warner Bros. Consumer Products granted the Company rights to introduce an innovative new brand of salted snacks featuring Looney Tunes(TM) characters. The Company plans to launch the new brand nationwide in the summer of 2003 under a multi-year agreement that grants the Company exclusive salted snack category brand licensing and promotional rights for Looney Tunes(TM) characters.

BUSINESS STRATEGY

The Company's business objective is to be a leading developer, manufacturer, marketer and distributor of innovative branded salted snack foods by providing high quality products at competitive prices that are superior in taste, texture, flavor variety and brand personality to comparable products. A significant element of the Company's growth strategy is to develop, acquire or license innovative salted snack food brands that provide strategic fit and possess strong national brand equity in order to expand, complement or diversify the Company's existing business. The Company also plans to increase sales of its existing products, increase distribution revenues and continue to improve its manufacturing capacity utilization. The primary elements of the Company's business strategy are as follows:

DEVELOP, ACQUIRE OR LICENSE INNOVATIVE SNACK FOOD BRANDS. A significant element of the Company's growth strategy is to develop, acquire or license innovative salted snack food brands that provide strategic fit and possess strong national brand equity in order to expand, complement or diversify the Company's existing business. The acquisitions of the Bob's Texas Style(R), Tato Skins(R) and Boulder Potato Company(R) brands in November 1998, October 1999 and June 2000, respectively, were three such strategic acquisitions. In addition, in October 2000 the Company launched the T.G.I. Friday's(R) brand salted snacks under a license from TGI Friday's Inc. In December 2002, Warner Bros. Consumer Products granted the Company rights to introduce an innovative new brand of salted snacks featuring Looney Tunes (TM) characters. The Company plans to launch the new brand nationwide in the summer of 2003 under a multi-year agreement that grants the Company exclusive salted snack category brand licensing and promotional rights for Looney Tunes(TM) characters. The Company will continue to seek to develop, acquire or license additional brands with strong, differentiated snack food product opportunities.

BUILD BRANDED SNACK FOOD REVENUES. The Company plans to build the market share of its branded products through continued trade advertising and promotional activity in selected markets and channels. Marketing efforts include, among other things, joint advertising with distributors, supermarkets and other manufacturers, in-store advertisements and in-store displays. The Company also participates in selected event sponsorships and marketing relationships with the Arizona Diamondbacks baseball team. The Company believes that these events offer opportunities to conduct mass sampling to motivate consumers to try its branded products. Opportunities to achieve new or expanded distribution in alternate channels, such as airlines and the national vend channel, will continue to be targeted.

IMPROVE MANUFACTURING CAPACITY UTILIZATION. The Company's Arizona and Indiana facilities are currently operating at approximately sixty percent and forty percent of their respective capacities. The Company believes that additional improvements to manufactured products' gross profit margins are possible with the achievement of the business strategies discussed above. Depending on product mix, the Company believes that the existing manufacturing facilities could produce, in the aggregate, up to $150 million in annual revenue volume and thereby further reduce manufacturing product costs.

The Company currently has arrangements with several California and Arizona grocery chains for the manufacture and distribution by the Company of their respective private label potato chips, in various types and flavors as specified by them. The Company believes that contract manufacturing opportunities exist. While they are extremely price competitive and can be short in duration, the Company believes that they provide a profitable opportunity for the Company to improve the capacity utilization of its facilities. The Company intends to seek additional private label customers located near its facilities who demand superior product quality at a reasonable price.

PRODUCTS

MANUFACTURED SNACK FOOD PRODUCTS. The Company produces T.G.I. Friday's(R)brand salted snacks and Tato Skins(R)brand potato crisps utilizing a sheeting and frying process. T.G.I. Friday's(R)brand salted snacks and Tato Skins(R)brand potato crisps are offered in several different flavors and formulations.

Poore Brothers(R), Bob's Texas Style(R), and Boulder Potato Company(R) brand potato chips are marketed by the Company as premium products based on their distinctive combination of cooking method and variety of distinctive flavors. Poore Brothers(R) potato chips are currently offered in 11 flavors, Bob's Texas Style(R) potato chips are currently offered in six flavors, and Boulder Potato Company(R) potato chips are currently offered in seven flavors.

The Company currently has agreements with several California and Arizona grocery chains pursuant to which the Company produces their respective private label potato chips in the styles and flavors specified by such grocery chains.

DISTRIBUTED SNACK FOOD PRODUCTS. The Company purchases and resells throughout Arizona snack food products manufactured by others. Such products include pretzels, popcorn, dips, and meat snacks.

MANUFACTURING

The Company's manufacturing facility in Bluffton, Indiana includes three fryer lines that can produce an aggregate of up to approximately 9,000 pounds per hour of T.G.I. Friday's(R) and Tato Skins(R) brand products. The Indiana

facility is currently operating at approximately forty percent of capacity. The T.G.I. Friday's(R) and Tato Skins(R) brand products are produced utilizing a sheeting and frying process that includes patented technology utilized by the Company. The Company licenses the technology from a third party and has an exclusive right to use the technology within North America until the patents expire between 2004 and 2006. See "PATENTS AND TRADEMARKS."

The Company believes that a key element of the success to date of the Poore Brothers(R), Bob's Texas Style(R) and Boulder Potato Company (R) brand potato chips has been the Company's use of certain cooking techniques and key ingredients in the manufacturing process to produce potato chips with improved flavor. These techniques currently involve two elements: the Company's use of a batch frying process, as opposed to the conventional continuous line cooking method, and the Company's use of distinctive seasonings to produce potato chips in a variety of flavors. The Company believes that although the batch frying process produces less volume, it is superior to conventional continuous line cooking methods because it enhances crispness and flavor through greater control over temperature and other cooking conditions.

In September 1997, the Company consolidated all of its manufacturing operations into its present facility in Goodyear, Arizona, which was newly constructed at the time and, in connection therewith, discontinued manufacturing operations at a facility in LaVergne, Tennessee. In 1999, the Company purchased and installed additional batch frying equipment in the Arizona facility. The Arizona facility has the capacity to produce up to approximately 3,500 pounds of potato chips per hour, including 1,400 pounds of batch fried branded potato chips per hour and 2,100 pounds of continuous fried private label potato chips per hour. The Company owns additional batch frying equipment which, if needed, could be installed without significant time or cost, and which would result in increased capacity to produce the batch fried potato chips. The Arizona facility is currently operating at approximately sixty percent of capacity.

On October 28, 2000, the Company experienced a fire at the Arizona facility, causing a temporary shutdown of manufacturing operations at the facility. There was extensive damage to the roof and equipment utilities in the potato chip processing area. Third party manufacturers agreed to provide the Company with production volume to satisfy nearly all of the Company's anticipated customers' needs during the shutdown. The Company continued to season and package the bulk product received from third party manufacturers. The Company resumed full production in March 2001.

There can be no assurance that the Company will obtain sufficient business to recoup the Company's investments in its manufacturing facilities or to increase the utilization rates of such facilities. See "ITEM 2. DESCRIPTION OF PROPERTY."

MARKETING AND DISTRIBUTION

The Company's T.G.I. Friday's(R), Tato Skins(R), and Poore Brothers(R) brand snack food products have achieved significant market presence in the vending channel nationwide through an independent network of brokers and distributors, particularly in the mid-west and eastern regions. The Company attributes the success of its products in these markets to consumer loyalty. The Company believes this loyalty results from the products' differentiated taste, texture and flavor variety which result from its manufacturing processes.

During 2001, the Company retained Crossmark, Inc., a leading national sales and marketing agency with employees and offices nationwide. Crossmark represents T.G.I. Friday's(R) brand salted snacks on behalf of Poore Brothers in the grocery and convenience store channels. The Company's own sales organization sells T.G.I. Friday's(R) brand salted snacks in the club, mass, drug and vend channels.

The Company's potato chip products are distributed primarily by a select group of independent distributors. Poore Brothers(R) brand potato chip products have achieved significant market presence in Arizona, New Mexico, Southern California, Hawaii, Missouri, Ohio and Michigan. The Company's Bob's Texas Style(R) brand potato chip products have achieved significant market presence in south/central Texas, including Houston, San Antonio and Austin. The Company's Boulder Potato Company(R) brand potato chip products have achieved significant market presence in Colorado and in natural food stores across the country.

The Company's Arizona distribution business operates throughout Arizona, with 50 independently operated service routes. Each route is operated by an independent distributor who merchandises as many as 143 items at major grocery store chains in Arizona, such as Albertson's, Basha's, Fry's, and Safeway stores. In addition to servicing major supermarket chains, the Company's distributors service many independent grocery stores, club stores, and military facilities throughout Arizona. In addition to Poore Brothers(R) brand products, the Company distributes throughout Arizona a wide variety of snack food items manufactured by other companies, including pretzels, popcorn, dips, and meat snacks.

Outside of Arizona, the Company selects brokers and distributors for its branded products primarily on the basis of quality of service, call frequency on customers, financial capability and relationships they have with supermarkets and vending distributors, including access to "shelf space" for snack food.

Successful marketing of the Company's products depends, in part, upon obtaining adequate shelf space for such products, particularly in supermarkets and vending machines. Frequently, the Company incurs additional marketing costs in order to obtain additional shelf space. Whether or not the Company will continue to incur such costs in the future will depend upon a number of factors including, demand for the Company's products, relative availability of shelf space and general competitive conditions. The Company may incur significant shelf space, consumer marketing or other promotional costs as a necessary condition of entering into competition or maintaining market share in particular markets or channels. Any such costs may materially affect the Company's financial performance.

The Company's marketing programs are designed to increase product trial and build brand awareness in core markets. Most of the Company's marketing spending is focused on trade advertising and trade promotions designed to attract new consumers to the products at a reduced retail price. The Company's marketing programs also include selective event sponsorship designed to increase brand awareness and to provide opportunities to mass sample branded products. Sponsorship of the Arizona Diamondbacks typifies the Company's efforts to reach targeted consumers and provide them with a sample of the Company's products to encourage new and repeat purchases.

SUPPLIERS

The principal raw materials used by the Company are potatoes, potato flakes, wheat flour, corn and oil. The Company believes that the raw materials it needs to produce its products are readily available from numerous suppliers on commercially reasonable terms. Potatoes, potato flakes, wheat flour and corn are widely available year-round. The Company uses a variety of oils in the production of its products and the Company believes that alternative sources for such oils, as well as alternative oils, are readily abundant and available. The Company also uses seasonings and packaging materials in its manufacturing process.

The Company chooses its suppliers based primarily on price, availability and quality and does not have any long-term arrangements with any supplier. Although the Company believes that its required products and ingredients are readily available, and that its business success is not dependent on any single supplier, the failure of certain suppliers to meet the Company's performance specifications, quality standards or delivery schedules could have a material adverse effect on the Company's operations. In particular, a sudden scarcity, a substantial price increase, or an unavailability of product ingredients could materially adversely affect the Company's operations. There can be no assurance that alternative ingredients would be available when needed and on commercially attractive terms, if at all.

CUSTOMERS

Two customers of the Company, Vending Services of America ("VSA", a national vending distributor) and Wal*Mart (including its SAM's Clubs) accounted for 13% and 21%, respectively, of the Company's 2002 net revenues. The remainder of the Company's revenues were derived from sales to a limited number of additional customers, either grocery chains, club stores or regional distributors, none of which individually accounted for more than 10% of the Company's sales in 2002. A decision by any of the Company's major customers to cease or substantially reduce their purchases could have a material adverse effect on the Company's business.

All of the Company's revenues are attributable to external customers in the United States and all of its assets are located in the United States.

MARKET OVERVIEW AND COMPETITION

According to the Snack Food Association ("SFA"), the U.S. market for salted snack foods reached $21.8 billion at retail in 2001 (the latest year for which data is available) with potato chips, tortilla chips and potato crisps, accounting for nearly 50% of the market, and corn snacks, popcorn, pretzels, nuts, meat snacks and other products accounting for the balance. Total salted snack sales, in dollar terms, increased in each of the last ten years, ranging from an increase of 8.5% (in 1997) to 0.3% (in 1995), with a 2001 increase of 5.1%. Potato chip, tortilla chips and potato crisps combined sales have similarly increased, with 2001 retail sales of $10.2 billion, a 6.2% increase over 2000 sales of $9.6 billion.

The Company's products compete generally against other salted snack foods, including potato chips and tortilla chips. The salted snack food industry is large and highly competitive and is dominated primarily by Frito-Lay, Inc., a subsidiary of PepsiCo, Inc. Frito-Lay, Inc. possesses substantially greater financial, production, marketing, distribution and other resources than the Company and brands that are more widely recognized than the Company's products. Numerous other companies that are actual or potential competitors of the Company, many with greater financial and other resources (including more employees and more extensive facilities) than the Company, offer products similar to those of the Company. In addition, many of such competitors offer a wider range of products than offered by the Company. Local or regional markets often have significant smaller competitors, many of whom offer products similar to those of the Company. Expansion of the Company's operations into new markets has and will continue to encounter significant competition from national, regional and local competitors that may be greater than that encountered by the Company in its existing markets. In addition, such competitors may challenge the Company's position in its existing markets. While the Company believes that its innovative products and methods of operation will enable it to compete successfully, there can be no assurance of its ability to do so.

The principal competitive factors affecting the market of the Company's products include product quality and taste, brand awareness among consumers, access to shelf space, price, advertising and promotion, variety of snacks offered, nutritional content, product packaging and package design. The Company competes in the market principally on the basis of product quality and taste.

GOVERNMENT REGULATION

The manufacture, labeling and distribution of the Company's products are subject to the rules and regulations of various federal, state and local health agencies, including the FDA. In May 1994, regulations under the NLEA concerning labeling of food products, including permissible use of nutritional claims such as "fat-free" and "low-fat," became effective. The Company believes that it is complying in all material respects with the NLEA regulations and closely monitors the fat content of its products through various testing and quality control procedures. The Company does not believe that compliance with the NLEA regulations materially increases the Company's manufacturing costs. There can be no assurance that new laws or regulations will not be passed that could require the Company to alter the taste or composition of its products or impose other obligations on the Company. Such changes could affect sales of the Company's products and have a material adverse effect on the Company.

In addition to laws relating to food products, the Company's operations are governed by laws relating to environmental matters, workplace safety and worker health, principally the Occupational Safety and Health Act. The Company believes that it presently complies in all material respects with such laws and regulations.

EMPLOYEES

As of December 28, 2002, the Company had 260 full-time employees, including 225 in manufacturing and distribution, 15 in sales and marketing and 20 in administration and finance. The Company's employees are not represented by any collective bargaining organization and the Company has never experienced a work stoppage. The Company believes that its relations with its employees are good.

PATENTS AND TRADEMARKS

The Company produces T.G.I. Friday's(R) brand salted snacks and Tato Skins(R) brand potato crisps utilizing a sheeting and frying process that includes patented technology that the Company licenses from Miles Willard Technologies, LLC, an Idaho limited liability company ("Miles Willard"). Pursuant to the license agreement between the Company and Miles Willard, the Company has an exclusive right to use the patented technology within North America until the patents expire between 2004 and 2006. In consideration for the use of these patents, the Company is required to make royalty payments to Miles Willard on sales of products manufactured utilizing the patented technology.

The Company licenses the T.G.I. Friday's(R) brand salted snacks trademark from TGI Friday's Inc. under a license agreement with a term expiring in 2014. Pursuant to the license agreement, the Company is required to make royalty payments on sales of T.G.I. Friday's(R) brand salted snack products and is required to achieve certain minimum sales levels by certain dates during the contract term.

In December 2002, Warner Bros. Consumer Products granted the Company rights to introduce an innovative new brand of salted snacks (called Crunch Toons(TM)) featuring Looney Tunes(TM) characters, including Bugs Bunny, Tweety and the Tasmanian Devil. The Company plans to launch the new brand nationwide in the

summer of 2003 under a multi-year agreement that grants the Company exclusive salted snack category brand licensing and promotional rights for Looney Tunes(TM) characters.

The Company owns the following trademarks, which are registered in the United States: Poore Brothers(R), An Intensely Different Taste(R), Texas Style(R), Boulder Potato Company(R), Tato Skins(R), O'Boisies(R), Pizzarias(R), Braids(R) and Knots(R). The Company considers its trademarks to be of significant importance in the Company's business. The Company is not aware of any circumstances that would have a material adverse effect on the Company's ability to use its trademarks.

RISK FACTORS

BRIEF OPERATING HISTORY; SIGNIFICANT PRIOR NET LOSSES; ACCUMULATED DEFICIT; SIGNIFICANT FUTURE EXPENSES DUE TO IMPLEMENTATION OF BUSINESS STRATEGY. Although certain of the Company's subsidiaries have operated for several years, the Company as a whole has a relatively brief operating history upon which an evaluation of its prospects can be made. Such prospects are subject to the substantial risks, expenses and difficulties frequently encountered in the establishment and growth of a new business in the snack food industry, which is characterized by a significant number of market entrants and intense competition, as well as risk factors described herein. Although the Company has been profitable since fiscal 1999, the Company experienced significant net losses in prior fiscal years. At December 28, 2002, the Company had an accumulated deficit of $1,849,893 and net working capital of $1,959,971. See "ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION."

Even if the Company is successful in developing, acquiring and/or licensing new brands, and increasing distribution and sales volume of the Company's existing products, it may be expected to incur substantial additional expenses, including advertising and promotional costs, "slotting" expenses (i.e., the cost of obtaining shelf space in certain grocery stores), and integration costs of any future acquisitions. Accordingly, the Company may incur additional losses in the future as a result of the implementation of the Company's business strategy, even if revenues increase significantly. There can be no assurance that the Company's business strategy will prove successful or that the Company will be profitable in the future.

NEED FOR ADDITIONAL FINANCING. A significant element of the Company's business strategy is the development, acquisition and/or licensing of innovative salted snack food brands, for the purpose of expanding, complementing and/or diversifying the Company's business. In connection with each of the Company's previous brand acquisitions (Bob's Texas Style(R) in November 1998, Tato Skins(R) and Pizzarias(R) in October 1999, and Boulder Potato Company(R) in June 2000), the Company borrowed funds or assumed additional indebtedness in order to satisfy a substantial portion of the consideration required to be paid by the Company. See "BUSINESS -- COMPANY HISTORY" and "ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION -- LIQUIDITY AND CAPITAL Resources." The Company may, in the future, require additional third party financing (debt or equity) as a result of any future operating losses, in connection with the expansion of the Company's business through non-acquisition means, in connection with any additional acquisitions completed by the Company, or to provide working capital for general corporate purposes. There can be no assurance that any such required financing will be available or, if available, on terms attractive to the Company. Any third party financing obtained by the Company may result in dilution of the equity interests of the Company's shareholders.

ACQUISITION-RELATED RISKS. In recent years, a significant element of the Company's business strategy has been the pursuit of selected strategic acquisition opportunities for the purpose of expanding, complementing and/or diversifying the Company's business. Strategic acquisitions are likely to continue to comprise an element of the Company's business strategy for the foreseeable future. However, no assurance can be given that the Company will be able to continue to identify, finance and complete additional suitable acquisitions on acceptable terms, or that future acquisitions, if completed, will be successful. Any future acquisitions, could divert management's attention from the daily operations of the Company and otherwise require additional management, operational and financial resources. Moreover, there can be no assurance that the Company will be able to successfully integrate acquired companies or their management teams into the Company's operating structure, retain management teams of acquired companies on a long-term basis, or operate acquired companies profitably. Acquisitions may also involve a number of other risks, including adverse short-term effects on the Company's operating results, dependence on retaining key personnel and customers, and risks associated with unanticipated liabilities or contingencies.

SUBSTANTIAL LEVERAGE; FINANCIAL COVENANTS PURSUANT TO U.S. BANCORP CREDIT AGREEMENT; POSSIBLE ACCELERATION OF INDEBTEDNESS. At December 28, 2002, the Company had outstanding indebtedness under a credit agreement with U.S. Bancorp

(the "U.S. Bancorp Credit Agreement") in the aggregate principal amount of $3,312,455. The indebtedness under the U.S. Bancorp Credit Agreement is secured by substantially all of the Company's assets. The Company is required to comply with certain financial covenants pursuant to the U.S. Bancorp Credit Agreement so long as borrowings from U.S. Bancorp thereunder remain outstanding. Should the Company be in default under any of such covenants, U.S. Bancorp shall have the right, upon written notice and after the expiration of any applicable period during which such default may be cured, to demand immediate payment of all of the then unpaid principal and accrued but unpaid interest under the U.S. Bancorp Credit Agreement. At December 28, 2002, the Company was in compliance with all financial covenants under the U.S. Bancorp Credit Agreement (including minimum annual operating results, minimum fixed charge coverage and minimum tangible capital requirements). There can be no assurance that the Company will be in compliance with the financial covenants in the future. Any acceleration of the borrowings under the U.S. Bancorp Credit Agreement prior to the applicable maturity dates could have a material adverse effect upon the Company. See "ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION--LIQUIDITY AND CAPITAL RESOURCES." In addition to the indebtedness under the US Bancorp Credit Agreement, the Company has significant secured and unsecured indebtedness pursuant to a number of other agreements with other lenders. At December 28, 2002, the aggregate principal amount of such other indebtedness was $1,897,667. The acceleration of the Company's indebtedness under any such agreements could have a material adverse effect upon the Company.

VOLATILITY OF MARKET PRICE OF COMMON STOCK. The market price of the Common Stock has experienced a high level of volatility since the completion of the Company's initial public offering in December 1996. Commencing with an offering price of $3.50 per share in the initial public offering, the market price of the Common Stock experienced a substantial decline, reaching a low of $0.50 per share (based on last reported sale price of the Common Stock on the Nasdaq SmallCap Market) on December 22, 1998. During fiscal 2002, the market price of the Common Stock (based on last reported sale price of the Common Stock on the Nasdaq SmallCap Market) ranged from a high of $3.40 per share to a low of $1.49 per share. The last reported sales price of the Common Stock on the Nasdaq SmallCap Market on March 23, 2003 was $2.00 per share. There can be no assurance as to the future market price of the Common Stock. See "COMPLIANCE WITH NASDAQ LISTING MAINTENANCE REQUIREMENTS."

COMPLIANCE WITH NASDAQ LISTING MAINTENANCE REQUIREMENTS. In order for the Company's Common Stock to continue to be listed on the Nasdaq SmallCap Market, the Company is required to be in compliance with certain continued listing standards. One of such requirements is that the bid price of listed securities be equal to or greater than $1.00. If, in the future, the Company's Common Stock fails to be in compliance with the minimum closing bid price requirement for at least thirty consecutive trading days or the Company fails to be in compliance with any other Nasdaq continued listing requirements, then the Common Stock could be de-listed from the Nasdaq SmallCap Market. Upon any such de-listing, trading, if any, in the Common Stock would thereafter be conducted in the over-the-counter market on the so-called "pink sheets" or the "Electronic Bulletin Board" of the National Association of Securities Dealers, Inc. ("NASD"). As a consequence of any such de-listing, an investor could find it more difficult to dispose of, or to obtain accurate quotations as to the price of, the Company's Common Stock. See "VOLATILITY OF MARKET PRICE OF COMMON STOCK."

COMPETITION. The market for salted snack foods, such as those sold by the Company, including potato chips, tortilla chips, dips, pretzels and meat snacks, is large and intensely competitive. Competitive factors in the salted snack food industry include product quality and taste, brand awareness among consumers, access to supermarket shelf space, price, advertising and promotion, variety of snacks offered, nutritional content, product packaging and package design. The Company competes in that market principally on the basis of product taste and quality.

The snack food industry is primarily dominated by Frito-Lay, Inc., which has substantially greater financial and other resources than the Company and sells brands that are more widely recognized than are the Company's products. Numerous other companies that are actual or potential competitors of the Company, many with greater financial and other resources (including more employees and more extensive facilities) than the Company, offer products similar to those of the Company. In addition, many of such competitors offer a wider range of products than that offered by the Company. Local or regional markets often have significant smaller competitors, many of whom offer batch fried products similar to those of the Company. Expansion of Company operations into new markets has and will continue to encounter significant competition from national, regional and local competitors that may be greater than that encountered by the Company in its existing markets. In addition, such competitors may challenge the Company's position in its existing markets. While the Company believes that its innovative products and methods of operation will enable it to compete successfully, there can be no assurance of its ability to do so.

PROMOTIONAL AND SHELF SPACE COSTS. Successful marketing of food products generally depends upon obtaining adequate retail shelf space for product display, particularly in supermarkets. Frequently, food manufacturers and distributors, such as the Company, incur additional costs in order to obtain

additional shelf space. Whether or not the Company incurs such costs in a particular market is dependent upon a number of factors, including demand for the Company's products, relative availability of shelf space and general competitive conditions. The Company may incur significant shelf space or other promotional costs as a necessary condition of entering into competition or maintaining market share in particular markets or stores. If incurred, such costs may materially affect the Company's financial performance.

NO ASSURANCE OF CONSUMER ACCEPTANCE OF COMPANY'S EXISTING AND FUTURE PRODUCTS. Consumer preferences for snack foods are continually changing and are extremely difficult to predict. The ability of the Company to generate revenues in new markets will depend upon customer acceptance of the Company's products. There can be no assurance that the Company's products will achieve a significant degree of market acceptance, that acceptance, if achieved, will be sustained for any significant period or that product life cycles will be sufficient to permit the Company to recover start-up and other associated costs. In addition, there can be no assurance that the Company will succeed in the development of any new products or that any new products developed by the Company will achieve market acceptance or generate meaningful revenue for the Company.

UNCERTAINTIES AND RISKS OF FOOD PRODUCT INDUSTRY. The food product industry in which the Company is engaged is subject to numerous uncertainties and risks outside of the Company's control. Profitability in the food product industry is subject to adverse changes in general business and economic conditions, oversupply of certain food products at the wholesale and retail levels, seasonality, the risk that a food product may be banned or its use limited or declared unhealthful, the risk that product tampering may occur that may require a recall of one or more of the Company's products, and the risk that sales of a food product may decline due to perceived health concerns, changes in consumer tastes or other reasons beyond the control of the Company.

FLUCTUATIONS IN PRICES OF SUPPLIES; DEPENDENCE UPON AVAILABILITY OF SUPPLIES AND PERFORMANCE OF SUPPLIERS. The Company's manufacturing costs are subject to fluctuations in the prices of potatoes, potato flakes, wheat flour, corn and oil, as well as other ingredients of the Company's products. Potatoes, potato flakes, wheat flour and corn are widely available year-round. The Company uses a variety of oils in the production of its products. The Company is dependent on its suppliers to provide the Company with products and ingredients in adequate supply and on a timely basis. Although the Company believes that its requirements for products and ingredients are readily available, and that its business success is not dependent on any single supplier, the failure of certain suppliers to meet the Company's performance specifications, quality standards or delivery schedules could have a material adverse effect on the Company's operations. In particular, a sudden scarcity, a substantial price increase, or an unavailability of product ingredients could materially adversely affect the Company's operations. There can be no assurance that alternative ingredients would be available when needed and on commercially attractive terms, if at all.

LACK OF PROPRIETARY MANUFACTURING METHODS FOR CERTAIN PRODUCTS; FUTURE EXPIRATION OF PATENTED TECHNOLOGY LICENSED BY THE COMPANY. The Company licenses patented technology from a third party in connection with the manufacture of its T.G.I. Friday's(R) and Tato Skins(R) brand products and has an exclusive right to use such technology within North America until the patents expire between 2004 and 2006. In addition, the Company expects to utilize patented technology from one or more third parties in connection with the manufacture of future products. Upon the expiration of such patents, competitors of the Company, certain of which may have significantly greater resources than the Company, may utilize the patented technology in the manufacture of products that are similar to those currently manufactured, or that may in the future be manufactured, by the Company with such patented technology. The entry of any such products into the marketplace could have a material adverse effect on sales of T.G.I. Friday's(R) and Tato Skins(R) brand products, as well as any such future products, by the Company.

The taste and quality of Poore Brothers(R), Bob's Texas Style(R), and Boulder Potato Company(R) brand potato chips is largely due to two elements of the Company's manufacturing process: its use of batch frying and its use of distinctive seasonings to produce a variety of flavors. The Company does not have exclusive rights to the use of either element; consequently, competitors may incorporate such elements into their own processes.

DEPENDENCE UPON KEY SNACK FOOD BRANDS; DEPENDENCE UPON T.G.I. FRIDAY'S(R) LICENSE AGREEMENT AND FUTURE LICENSE AGREEMENTS. The Company derives a substantial portion of its revenue from a limited number of snack food brands. For the year ended December 28, 2002, approximately 73% of the Company's net revenues were attributable to the T.G.I. Friday's(R) brand products and the Poore Brothers(R) brand products. A decrease in the popularity of a particular snack food brand during any year could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that any of the Company's snack food brands will retain their historical levels of popularity or increase in popularity. Decreased sales from any one of the key snack food brands without a corresponding increase in sales from other existing or newly introduced products would have a material adverse effect on the Company's financial condition and results of operations.

Furthermore, the T.G.I. Friday's(R) brand products are manufactured and sold by the Company pursuant to a license agreement by and between the Company and TGI Friday's Inc. which expires in 2014. Pursuant to the license agreement, the Company is subject to various requirements and conditions (including, without limitation, minimum sales targets). The failure of the Company to comply with certain of such requirements and conditions could result in the early termination of the license agreement by TGI Friday's Inc. Any termination of the license agreement, whether at the expiration of its term or prior thereto, could have a material adverse effect on the Company's financial condition and results of operations.

The Company may introduce one or more new product lines in the future that will be manufactured and sold pursuant to additional license agreements by and between the Company and one or more third parties. Pursuant to any such license agreements, the Company will likely be subject to various requirements and conditions (including minimum sales targets). The failure of the Company to comply with certain of such requirements and conditions could result in the early termination of such additional license agreements. Depending upon the success of any such new product lines, a termination of the applicable license agreements, whether at the expiration of their respective terms or prior thereto, could have a material adverse effect on the Company's financial condition and results of operations.

DEPENDENCE UPON MAJOR CUSTOMERS. Two customers of the Company, Vending Services of America ("VSA", a national vending distributor) and Wal*Mart (including its SAM's Clubs), accounted for 13% and 21%, respectively, of the Company's 2002 net revenues, with the remainder of the Company's net revenues being derived from sales to a limited number of additional customers, either grocery chains or regional distributors, none of which individually accounted for more than 10% of the Company's revenues for 2002. A decision by any major customer to cease or substantially reduce its purchases could have a material adverse effect on the Company's business.

RELIANCE ON KEY EMPLOYEES; NON-COMPETE AGREEMENTS. The Company's success is dependent in large part upon the abilities of its executive officers, including Eric J. Kufel, President and Chief Executive Officer, Glen E. Flook, Senior Vice President-Operations, and Thomas W. Freeze, Senior Vice President and Chief Financial Officer. The inability of the Company's executive officers to perform their duties or the inability of the Company to attract and retain other highly qualified personnel could have a material adverse effect upon the Company's business and prospects. The Company does not maintain, nor does it currently contemplate obtaining, "key man" life insurance with respect to such employees. The employment of the executive officers of the Company is on an "at-will" basis. The Company has non-compete agreements with all of its executive officers. See "ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY."

GOVERNMENTAL REGULATION. The packaged food industry is subject to numerous federal, state and local governmental regulations, including those relating to the preparation, labeling and marketing of food products. The Company is particularly affected by the Nutrition Labeling and Education Act of 1990 ("NLEA"), which requires specified nutritional information to be disclosed on all packaged foods. The Company believes that the labeling on its products currently meets these requirements. The Company does not believe that complying with the NLEA regulations materially increases the Company's manufacturing costs. There can be no assurance, however, that new laws or regulations will not be passed that could require the Company to alter the taste or composition of its products. Such changes could affect sales of the Company's products and have a material adverse effect on the Company.

PRODUCT LIABILITY CLAIMS. As a manufacturer and marketer of food products, the Company may be subjected to various product liability claims. There can be no assurance that the product liability insurance maintained by the Company will be adequate to cover any loss or exposure for product liability, or that such insurance will continue to be available on terms acceptable to the Company. Any product liability claim not fully covered by insurance, as well as any adverse publicity from a product liability claim, could have a material adverse effect on the financial condition or results of operations of the Company.

SIGNIFICANT SHAREHOLDERS; POSSIBLE CHANGE IN CONTROL. As a result of the Wabash Foods acquisition, Capital Foods, LLC ("Capital Foods") (an affiliate of the former owner of Wabash Foods) became the single largest shareholder of the Company, currently holding approximately 27% of the outstanding shares of Common Stock (without giving effect to the possible exercise of warrants to purchase 250,000 shares of Common Stock also held by Capital Foods). Accordingly, Capital Foods is in a position to exercise substantial influence on the business and affairs of the Company. In addition, Renaissance Capital Group, Inc. manages three funds, Renaissance Capital Growth & Income Fund III, Inc., Renaissance U.S. Growth & Income Trust PLC, and BFS US Special Opportunities Trust PLC, which are currently the beneficial owners of approximately 12%, 6% and 7%, respectively, of the outstanding shares of Common Stock of the Company. Capital Foods, Renaissance Capital Growth & Income Fund III, Inc., Renaissance U.S. Growth & Income Trust PLC, and BFS US Special Opportunities Trust PLC are hereinafter referred to collectively as the "Significant Shareholders". Although the Company is not aware of any plans or proposals on the part of any

Significant Shareholder to recommend or undertake any material change in the management or business of the Company, there is no assurance that a Significant Shareholder will not adopt or support any such plans or proposals in the future.

Apart from transfer restrictions arising under applicable provisions of the securities laws, there are no restrictions on the ability of the Significant Shareholders to transfer any or all of their respective shares of Common Stock at any time. One or more of such transfers could have the effect of transferring effective control of the Company, including to one or more parties not currently known to the Company.

POSSIBILITY THE COMPANY WILL BE REQUIRED TO REGISTER SHARES OF CERTAIN STOCKHOLDERS FOR RESALE; SHARES AVAILABLE FOR FUTURE SALE. On December 27, 2001, the Company completed the sale of 586,855 shares of Common Stock, $0.01 par value, to BFS US Special Opportunities Trust PLC ("BFS"), a fund managed by Renaissance Capital Group, Inc., in a private placement transaction. The net proceeds of the transaction were utilized by the Company to reduce the Company's outstanding indebtedness. In connection with such transaction, the Company granted demand and piggyback registration rights to BFS. Pursuant to the demand registration rights, the Company may be required, upon demand of BFS, to file a registration statement (the "BFS Registration Statement") with the Securities and Exchange Commission covering the resale of the shares of Common Stock issued to BFS in the transaction. The Company will be required to pay all expenses relating to any such registration, other than underwriting discounts, selling commissions and stock transfer taxes applicable to the shares, and any other fees and expenses incurred by the holder(s) of the shares (including, without limitation, legal fees and expenses) in connection with the registration.

Approximately 7,374,156 shares of outstanding Common Stock and 956,156 shares of Common Stock issuable upon the exercise of warrants issued by the Company are subject to "piggyback" registration rights granted by the Company, pursuant to which such shares of Common Stock may be registered under the Securities Act and, as a result, become freely tradable in the future. All or a portion of such shares may, at the election of the holders thereof, be included in the BFS Registration Statement and, upon the effectiveness of thereof, may be sold in the public markets.

No prediction can be made as to the effect, if any, that future sales of shares of Common Stock will have on the market price of the Common Stock prevailing from time to time. Sales of substantial amounts of Common Stock, or the perception that these sales could occur, could adversely affect prevailing market prices for the Common Stock and could impair the ability of the Company to raise additional capital through the sale of its equity securities or through debt financing.

CERTAIN ANTI-TAKEOVER PROVISIONS. The Company's Certificate of Incorporation authorizes the issuance of up to 50,000 shares of "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by the Board of Directors of the Company. The Company may issue such shares of preferred stock in the future without shareholder approval. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of discouraging, delaying or preventing a change of control of the Company, and preventing holders of Common Stock from realizing a premium on their shares. In addition, under Section 203 of the Delaware General Corporation Law (the "DGCL"), the Company is prohibited from engaging in any business combination (as defined in the DGCL) with any interested shareholder (as defined in the DGCL) unless certain conditions are met. This statutory provision could also have an anti-takeover effect.

ITEM 2. DESCRIPTION OF PROPERTY

The Company leases a 140,000 square foot facility located on 15 acres of land in Bluffton, Indiana, approximately 20 miles south of Ft. Wayne, Indiana. The Company has entered into a lease expiring in April 2018 with respect to the facility with two five-year renewal options. Current lease payments are $20,000 per month. The lease payments are subject to an annual CPI-based increase. The Company produces its T.G.I. Friday's(R) brand salted snacks and Tato Skins(R) brand potato snacks at the Bluffton, Indiana facility.

The Company owns a 60,000 square foot facility located on 7.7 acres of land in Goodyear, Arizona, approximately 15 miles west of Phoenix, Arizona. Construction of this facility was completed in June 1997. In August 1997, the Company completed the transition of all of its Arizona operations into the facility. The site will enable the Company to expand the facility in the future to a total building size of approximately 120,000 square feet. The facility is financed by a mortgage with Morgan Guaranty Trust Company of New York that

matures in June 2012. The Company produces its Poore Brothers(R), Bob's Texas Style(R) and Boulder Potato Company(R) brand potato chips, as well as its private label potato chips at the Goodyear, Arizona facility.

The Company is responsible for all insurance costs, utilities and real estate taxes in connection with its facilities. The Company believes that its facilities are adequately covered by insurance.

ITEM 3. LEGAL PROCEEDINGS

The Company is periodically a party to various lawsuits arising in the ordinary course of business. Management believes, based on discussions with legal counsel, that the resolution of such lawsuits will not have a material effect on the Company's financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the Nasdaq SmallCap Market tier of the Nasdaq Stock Market under the symbol "SNAK". There were approximately 3,500 shareholders of record on March 23, 2003. The Company has never declared or paid any dividends on the shares of Common Stock. Management intends to retain any future earnings for the operation and expansion of the Company's business and does not anticipate paying any dividends at any time in the foreseeable future. Additionally, certain debt agreements of the Company limit the Company's ability to declare and pay dividends.

The following table sets forth the range of high and low sale prices of the Company's Common Stock as reported on the Nasdaq SmallCap Market for each quarter of the fiscal years ended December 28, 2002 and December 31, 2001.

	SALES PRICES	
PERIOD OF QUOTATION	HIGH	LOW
Fiscal 2001:		
First Quarter	$3.19	$2.31
Second Quarter	$3.34	$2.54
Third Quarter	$3.99	$2.25
Fourth Quarter	$3.12	$2.28
Fiscal 2002:		
First Quarter	$2.72	$2.20
Second Quarter	$3.40	$2.35
Third Quarter	$2.97	$2.20
Fourth Quarter	$3.02	$1.49

ITEM 6. SELECTED FINANCIAL DATA 1998

FIVE YEAR FINANCIAL SUMMARY
(IN MILLIONS EXCEPT SHARE AND PER SHARE DATA)

	2002	2001	2000	1999	1998
STATEMENTS OF EARNINGS DATA					
Net revenues (a)	$ 59.3	$ 53.9	$ 39.1	$ 21.5	$ 12.2
Gross profit (a)	11.3	10.9	7.7	4.0	2.3
Operating income (loss)	2.7	2.1	1.9	0.9	(0.4)
Net income (loss)	2.6	1.0	0.7	0.1	(0.9)
Net income (loss) per share - diluted	$ 0.15	$ 0.06	$ 0.05	$ 0.01	$ (0.12)
Weighted average common shares	17,826,953	17,198,648	15,129,593	9,134,414	7,210,810

BALANCE SHEET DATA					
Net working capital	$ 2.0	$ 2.0	$ 0.8	$ 0.8	$ 0.8
Total assets	31.8	31.7	30.3	26.1	12.9
Long-term debt	4.1	8.7	9.0	10.7	5.7
Shareholders' equity	20.7	16.8	14.3	11.3	5.3

(a) Data for fiscal years 1998 - 2001 has been restated for adoption of Emerging Issues Task Force (EITF) Issue No. 01-9 effective January 1, 2002. See Note 1 "Organization, Business and Summary of Significant Accounting Policies - New Pronouncements" to the financial statements included in Item 8.

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

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and capital resources of the Company. This discussion should be read in conjunction with the financial statements under Item 8 and the "Cautionary Statement on Forward-Looking Statements" on page 4.

Significant changes to the Company's business mix and nonrecurring events that have been recorded over the last three years affect the comparisons of fiscal 2002, 2001, and 2000 operations. Consequently, comparative results are more difficult to analyze and explain. Where practicable, this discussion addresses not only the financial results as reported, but also the key results and factors affecting Poore Brothers' on-going business.

In 2001, the Emerging Issues Task Force (EITF) issued EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products," (EITF Issue No. 01-9). EITF Issue No. 01-9 addresses the accounting for certain consideration given by a vendor to a customer and provides guidance on the recognition, measurement and income statement classification for sales incentives. In general, the guidance requires that consideration from a vendor to a retailer be recorded as a reduction in revenue unless certain criteria are met. The Company adopted the provisions of the EITF Issue No. 01-9 effective in the first quarter of 2002 and as a result, costs previously recorded as expense have been reclassified and reflected as reductions in revenue. The Company was also required to reclassify amounts in prior periods in order to conform to the revised presentation of these costs if practicable. As a result of adopting EITF Issue No. 01-9, the Company reduced both net revenues and selling, general and administrative expenses in 2001 and 2000 by $3,761,072 and $2,687,925 respectively. There was no change to the 2001 and 2000 previously reported net income as a result of this change.

Effective January 1, 2002, the Company changed the fiscal year from the twelve calendar months ending on December 31 each year to the 52-week period ending on the last Saturday occurring in the month of December of each calendar year. Accordingly, fiscal 2002 commenced January 1, 2002 and ended December 28, 2002.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 28, 2002 COMPARED TO THE YEAR ENDED DECEMBER 31, 2001

For fiscal 2002, net revenues reached $59.3 million, up 10% from fiscal 2001 net revenues of $53.9. The Company's revenue increase was attributable to growth from T.G.I Friday's(R) brand salted snacks, which accounted for over 60% of revenues. T.G.I. Friday's(R) growth was partially offset by lower shipments of Tato Skins(R) and Poore Brothers(R) brand snacks in the vending channel due to deliberate cannibalization by T.G.I. Friday's(R) brand salted snacks, and by lower shipments of private label potato chips. Revenues from the Company's other kettle-cooked potato chip brands and distributed products rose modestly. Revenues in fiscal 2001 included approximately $1.2 million from the Company's Texas merchandising operation which was sold in the fourth quarter of 2001.

Net income for the year was $2.6 million, or $0.16 per basic and $0.15 per diluted share, an increase of 152% compared to fiscal 2001 net income of $1.0 million, or $0.07 per basic and $0.06 per diluted share. The Company's improved profitability was principally attributable to increased revenue and improved operating efficiencies, which also allowed the Company to significantly increase promotional spending to support continued growth, particularly for T.G.I. Friday's(R) brand salted snacks. In addition, the Company recorded an income tax credit of $242,837 in fiscal 2002 compared to an income tax provision of $43,000 in fiscal 2001. The change primarily reflects the income tax benefit of a deferred valuation allowance reversal in the third quarter.

Manufacturing efficiencies improved as a result of increased production volumes due to higher revenues, and gross profit increased 3% to $11.3 million, or 19.1% of net revenue, despite the higher promotional spending. Profits were also positively affected by both lower selling, general and administrative expenses and lower interest expense. Selling, general and administrative expenses declined 2% to $8.6 million, or 14.6% of net revenue, despite higher revenues due to tight spending controls and no intangibles amortization expense as a result of the adoption of SFAS No. 142. Interest expense declined 48% to $0.5 million due to reduced indebtedness, improved working capital management and lower interest rates.

YEAR ENDED DECEMBER31, 2001 COMPARED TO THE YEAR ENDED DECEMBER 31, 2000

For fiscal 2001, net revenues reached $53.9 million, up 38% compared to fiscal 2000 net revenues of $39.1 million. Revenue growth for the year was driven by a 45% increase in manufactured products segment revenues and was attributable to the rollout of T.G.I. Friday's(R) brand salted snacks into nearly all distribution channels. The distributed products segment revenues declined 8% to $4.8 million due to lower promotional activity and the sale of the Company's Texas merchandising operation in early November.

Gross profit for the year ended December 31, 2001, was $10.9 million, or 20% of net revenues, as compared to $7.7 million or 19% of net revenues for fiscal 2000. The $3.2 million increase, or 42%, in gross profit resulted from the increased volume in manufactured products.

Selling, general and administrative expenses increased to $8.8 million, or 16.4% of net revenues for the year ended December 31, 2001, from $5.8 million or 14.7% of net revenues for fiscal 2000. This represents a $3.0 million increase, or 51.7%, compared to fiscal 2000, primarily due to an increase of $2.0 million in sales and marketing spending to support the increased sales volume primarily in connection with support of T.G.I. Friday's(R) brand products.

Net interest expense decreased to $1.0 million for the year ended December 31, 2001, from $1.2 million for fiscal 2000. This decrease was principally due to lower interest rates on certain of the Company's indebtedness.

The Company's net income for the year ended December 31, 2001 was $1.0 million, and the net income for the year ended December 31, 2000 was $0.7 million. This increase in net income was attributable primarily to the increased gross profit offset by higher selling, general and administrative expenses.

LIQUIDITY AND CAPITAL RESOURCES

Net working capital was $1,960,000 (a current ratio of 1.3:1), $2,015,000 (a current ratio of 1.3:1) and $771,000 (a current ratio of 1.1:1) at December 28, 2002, December 31, 2001 and December 31, 2000, respectively. For the fiscal year ended December 28, 2002, the Company generated cash flow of $5,842,000 from operating activities, principally from operating income and a decrease in accounts receivable, invested $581,000 in new equipment, and made $5,393,000 in payments on long-term debt.

On October 28, 2000, the Company experienced a fire at the Goodyear, Arizona manufacturing plant, causing a temporary shutdown of manufacturing operations at the facility. There was extensive damage to the roof and equipment utilities in the potato chip processing area. Third party manufacturers provided the Company with production volume to satisfy nearly all of the Company's customers' needs during the shutdown. The Company continued to season and package the bulk product received from third party manufacturers. Full production at the Arizona facility resumed in March 2001.

On October 7, 1999, the Company signed a new $9.15 million Credit Agreement with U.S. Bancorp (the "U.S. Bancorp Credit Agreement") consisting of a $3.0 million working capital line of credit (the "U.S. Bancorp Line of Credit"), a $5.8 million term loan (the "U.S. Bancorp Term Loan A") and a $350,000 term loan (the "U.S. Bancorp Term Loan B"). Borrowings under the U.S. Bancorp Credit

Agreement were used to pay off indebtedness under the Company's previously existing Wells Fargo Credit Agreement, to refinance indebtedness assumed by the Company in connection with the Wabash Foods acquisition, and for future general working capital needs. The U.S. Bancorp Line of Credit bears interest at an annual rate of prime plus 1%. The U.S. Bancorp Term Loan A bears interest at an annual rate of prime and requires monthly principal payments of approximately $74,000 commencing February 1, 2000, plus interest, until maturity on July 1, 2006. The U.S. Bancorp Term Loan B had an annual interest rate of prime plus 2.5%, required monthly principal payments of approximately $29,000, plus interest, and matured in March 2001. Pursuant to the terms of the U.S. Bancorp Credit Agreement, the Company issued to U.S. Bancorp a warrant (the "U.S. Bancorp Warrant") to purchase 50,000 shares of Common Stock for an exercise price of $1.00 per share. The U.S. Bancorp Warrant is exercisable until its termination on October 7, 2004 and provides the holder thereof certain piggyback registration rights.

In June 2000, the U.S Bancorp Credit Agreement was amended to include an additional $300,000 term loan (the "U.S. Bancorp Term Loan C") and to refinance a $715,000 non-interest bearing note due to U.S. Bancorp on June 30, 2000. Proceeds from the U.S. Bancorp Term Loan C were used in connection with the Boulder acquisition. The U.S. Bancorp Term Loan C had an annual rate of prime plus 2% and required monthly principal payments of approximately $12,500, plus interest, until maturity in August 2002. The Company made a payment of $200,000 on the $715,000 non-interest bearing note and refinanced the balance in a term loan (the "U.S. Bancorp Term Loan D"). The U.S. Bancorp Term Loan D had an annual rate of prime plus 2% and required monthly principal payments of approximately $21,500, plus interest, until maturity in June 2002.

In April 2001, the U.S. Bancorp Credit Agreement was amended to increase the U.S. Bancorp Line of Credit from $3.0 million to $5.0 million, establish a $0.5 million capital expenditure line of credit (the "CapEx Term Loan"), extend the U.S. Bancorp Line of Credit maturity date from October 2002 to October 31, 2003, and modify certain financial covenants. In June 2002, the U.S. Bancorp Credit Agreement was amended to extend the U.S. Bancorp Line of Credit maturity date from October 31, 2003 to October 31, 2005 and modify certain financial covenants. The Company borrowed $241,430 under the CapEx Term Loan in December 2001. The CapEx Term Loan bears interest at an annual rate of prime plus 1% and requires monthly principal payments of approximately $10,000, plus interest, until maturity on October 31, 2003 when the balance is due.

The U.S. Bancorp Credit Agreement is secured by accounts receivable, inventories, equipment and general intangibles. Borrowings under the line of credit are limited to 80% of eligible receivables and up to 60% of eligible inventories. At December 28, 2002, the Company had a borrowing base of $3,174,000 under the U.S. Bancorp Line of Credit. The U.S. Bancorp Credit Agreement requires the Company to be in compliance with certain financial performance criteria, including a minimum annual operating results ratio, a minimum tangible capital base and a minimum fixed charge coverage ratio. At December 28, 2002, the Company was in compliance with all of the financial covenants. Management believes that the fulfillment of the Company's plans and objectives will enable the Company to attain a sufficient level of profitability to remain in compliance with these financial covenants. There can be no assurance, however, that the Company will attain any such profitability and remain in compliance. Any acceleration under the U.S. Bancorp Credit Agreement prior to the scheduled maturity of the U.S. Bancorp Line of Credit or the U.S. Bancorp Term Loans could have a material adverse effect upon the Company.

As of December 28, 2002, there was no outstanding balance on the U.S. Bancorp Line of Credit, $3,181,685 on the U.S. Bancorp Term Loan A, and $130,770 on the CapEx Term Loan.

The Company's Goodyear, Arizona manufacturing, distribution and headquarters facility is subject to a $1.9 million mortgage loan from Morgan Guaranty Trust Company of New York, bears interest at 9.03% per annum and is secured by the building and the land on which it is located. The loan matures on July 1, 2012; however monthly principal and interest installments of $18,425 are determined based on a twenty-year amortization period.

The following table outlines the Company's future contractual financial obligations as of December 28, 2002, due by period:

	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS
Long-term debt	$ 5,210,122	$ 1,105,004	$ 1,867,437	$ 603,908	$ 1,633,773
Operating leases	7,114,645	980,270	1,868,336	1,595,148	2,670,891
Total contractual cash obligations	$12,324,767	$ 2,085,274	$ 3,735,773	$ 2,199,056	$ 4,304,664

The Company has entered into a variety of capital and operating leases for the acquisition of equipment and vehicles. The leases generally have three to seven-year terms, bear interest at rates from 8.2% to 11.3%, require monthly payments and expire at various times through 2008 and are collateralized by the related equipment.

Rental expense under operating leases was $956,000 and $506,900 for each of fiscal 2002 and 2001, respectively. Minimum future rental commitments under non-cancelable leases as of December 28, 2002 are as follows:

YEAR	CAPITAL LEASES	OPERATING LEASES	TOTAL
2003	$ 46,484	$ 980,270	$1,026,754
2004	--	952,300	952,300
2005	--	916,036	916,036
2006	--	888,325	888,325
2007	--	706,823	706,823
Thereafter	--	2,670,891	2,670,891
Total	46,484	$7,114,645	$7,161,129
Less amount representing interest	(705)		
Present value	$ 45,779		

At December 31, 2001, the Company had outstanding a 9% Convertible Debenture due July 1, 2002 in the principal amount of $427,656 held by Wells Fargo Small Business Investment Company, Inc. ("Wells Fargo SBIC"). The 9% Convertible Debenture was secured by land, building, equipment and intangibles. Interest on the 9% Convertible Debenture was paid by the Company on a monthly basis. Monthly principal payments of approximately $5,000 were required to be made by the Company on the Wells Fargo SBIC 9% Convertible Debenture through June 2002 and the remaining balance was due on July 1, 2002. In June 2002, Wells Fargo SBIC converted its 9% Convertible Debenture holdings into 401,497 shares of Common Stock. In November 1999, Renaissance Capital converted 50% ($859,047) of its 9% Convertible Debenture holdings into 859,047 shares of Common Stock and agreed unconditionally to convert into Common Stock the remaining $859,047 not later than December 31, 2000. In December 2000, Renaissance Capital converted the remaining 859,047 shares of its 9% Convertible Debentures into Common Stock.

On December 27, 2001, the Company completed the sale of 586,855 shares of Common Stock at an offering price of $2.13 per share to BFS US Special Opportunities Trust PLC, a fund managed by Renaissance Capital, in a private placement transaction. The net proceeds of the transaction were utilized by the Company for general corporate purposes and to reduce the Company's outstanding indebtedness. The Company has granted BFS US Special Opportunities Trust PLC both demand and piggyback registration rights with respect to the shares of Common Stock purchased in the offering.

The Company plans to support its introduction of Crunch Toons(TM) with the most comprehensive advertising, consumer promotion and public relations campaign in the Company's history. In the second half of 2003, the Company will launch a multi-million dollar national television advertising campaign, newspaper coupon program, and public relations activities, as well as feature on-pack promotions such as free Looney Tunes(TM) tattoos. Due to approximately $4 million in planned spending during the year for the aforementioned activities and other costs associated with the launch, the Company expects to be marginally profitable for 2003.

At December 28, 2002, the Company had net operating loss carryforwards available for federal income taxes of approximately $2.6 million. The Company's accumulated net operating loss carryforwards will begin to expire in varying amounts between 2010 and 2018.

MANAGEMENT'S PLANS

In connection with the implementation of the Company's business strategy, the Company may incur additional operating losses in the future and is likely to require future debt or equity financings (particularly in connection with future strategic acquisitions). Expenditures relating to acquisition-related integration costs, trade and consumer marketing programs and new product development may adversely affect operating expenses and consequently may adversely affect operating and net income. These types of expenditures are expensed for accounting purposes as incurred, while revenue generated from the result of such investments may benefit future periods. Management believes that cash flow from operations, during the next twelve months, along with available working capital and borrowing facilities, should enable the Company to meet its

operating cash requirements through 2003. The belief is based on current operating plans and certain assumptions, including those relating to the Company's future revenue levels and expenditures, industry and general economic conditions and other conditions. If any of these factors change, the Company may require future debt or equity financings to meet its business requirements. There can be no assurance that any required financings will be available or, if available, on terms attractive to the Company.

INFLATION AND SEASONALITY

While inflation has not had a significant effect on operations in the last year, management recognizes that inflationary pressures may have an adverse effect on the Company as a result of higher asset replacement costs and related depreciation and higher material costs. Additionally, the Company may be subject to seasonal price increases for raw materials. The Company attempts to minimize the fluctuation in seasonal costs by entering into purchase commitments in advance, which have the effect of smoothing out price volatility. The Company will attempt to minimize overall price inflation, if any, through increased sales prices and productivity improvements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In December 2001, the Securities and Exchange Commission issued an advisory requesting that all registrants describe their three to five most "critical accounting policies". The Securities and Exchange Commission indicated that a "critical accounting policy" is one which is both important to the portrayal of the Company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company believes that the following accounting policies fit this definition:

ALLOWANCE FOR DOUBTFUL ACCOUNTS. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The allowance for doubtful accounts was $409,000 and $219,000 at December 28, 2002 and December 31, 2001, respectively.

INVENTORIES. The Company's inventories are stated at the lower of cost (first-in, first-out) or market. The Company identifies slow moving or obsolete inventories and estimates appropriate loss provisions related thereto. Historically, these loss provisions have not been significant; however, if actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

GOODWILL AND TRADEMARKS. Goodwill and trademarks are reviewed for impairment annually, or more frequently if impairment indicators arise. Goodwill is required to be tested for impairment between the annual tests if an event occurs or circumstances change that more-likely-than-not reduce the fair value of a reporting unit below its carrying value. Intangible assets with indefinite lives are required to be tested for impairment between the annual tests if an event occurs or circumstances change indicating that the asset might be impaired. The Company believes at this time that the carrying values and useful lives continue to be appropriate.

ADVERTISING AND PROMOTIONAL EXPENSES. The Company expenses production costs of advertising the first time the advertising takes place, except for cooperative advertising costs which are expensed when the related sales are recognized. Costs associated with obtaining shelf space (i.e. "slotting fees") are expensed in the period in which such costs are incurred by the Company. Anytime the Company offers consideration (cash or credit) as a trade advertising or promotion allowance to a purchaser of products at any point along the distribution chain, the amount is accrued and recorded as a reduction in revenue. Any marketing programs that deal directly with the consumer are recorded in selling, general and administrative expenses.

INCOME TAXES. The Company has been profitable since 1999; however, it experienced significant net losses in prior fiscal years resulting in a net operating loss ("NOL") carryforward for federal income tax purposes of approximately $4.7 million at December 31, 2001. Generally accepted accounting principles require that the Company record a valuation allowance against the deferred tax asset associated with this NOL if it is "more likely than not" that the Company will not be able to utilize it to offset future taxes. During the third quarter of 2002, the Company concluded that it is more likely than not that its deferred tax asset at that time would be realized and also began providing for income taxes at a rate equal to the combined federal and state effective rates, which approximates 39.2% under current tax rates, rather than the 7.5% rate previously being used to record a tax provision for only certain state income taxes. Subsequent revisions to the estimated net realizable value of the deferred tax asset could cause the provision for income taxes to vary significantly from period to period, although the cash tax payments will remain unaffected until the benefit of the NOL is utilized.

The above listing is not intended to be a comprehensive list of all of the Company's accounting policies. In many cases the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. See the Company's audited financial statements and notes thereto which begin on page 34 of this Annual Report on Form 10-K which contain accounting policies and other disclosures required by auditing standards generally accepted in the United States.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 141, "BUSINESS COMBINATIONS" and SFAS No. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS". SFAS No. 141 requires companies to apply the purchase method of accounting for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method. SFAS No. 142 changes the method by which companies recognize intangible assets in purchase business combinations and generally requires identifiable intangible assets to be recognized separately from goodwill. In addition, it eliminates the amortization of all existing and newly acquired goodwill on a prospective basis and requires companies to assess goodwill for impairment, at least annually, based on the fair value of the reporting unit. Upon adoption on January 1, 2002, the Company ceased the amortization of goodwill and other intangible assets with indefinite lives in accordance with SFAS No. 142. Goodwill and trademark amortization expense was approximately $652,000 and $603,000 for 2001 and 2000 respectively.

In August 2001, the FASB issued SFAS No. 144, "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS". SFAS No. 144 supersedes SFAS No. 121, "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF" and the accounting and reporting provisions of APB Opinion No. 30, "REPORTING THE RESULTS OF OPERATIONS - REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS". SFAS No. 144 modifies the method by which companies account for certain asset impairment losses. There was no effect from adopting SFAS No. 144 on January 1, 2002.

In 2001, the Emerging Issues Task Force (EITF) issued EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products," (EITF Issue No. 01-9). EITF Issue No. 01-9 addresses the accounting for certain consideration given by a vendor to a customer and provides guidance on the recognition, measurement and income statement classification for sales incentives. In general, the guidance requires that consideration from a vendor to a retailer be recorded as a reduction in revenue unless certain criteria are met. The Company adopted the provisions of the EITF Issue No. 01-9 effective in the first quarter of 2002 and as a result, costs previously recorded as expense have been reclassified and reflected as reductions in revenue. The Company was also required to reclassify amounts in prior periods in order to conform to the revised presentation of these costs if practicable. As a result of adopting EITF Issue No. 01-9, the Company reduced both net revenues and selling, general and administrative expenses in 2001 and 2000 by $3,761,072 and $2,687,925 respectively. There was no change to the 2001 and 2000 previously reported net income as a result of this change.

See Note 1 to the financial statements in Item 8 for a discussion regarding recently issued accounting standards, including Statement of Financial Accounting Standards (SFAS) Nos. 141-148 and EITF Issue No. 01-9.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risks to which the Company is exposed that may adversely impact the Company's results of operations and financial position are changes in certain raw material prices and interest rates. The Company has no market risk sensitive instruments held for trading purposes.

Raw materials used by the Company are exposed to the impact of changing commodity prices. The Company's most significant raw material requirements include potatoes, potato flakes, wheat flour, corn and oil. The Company attempts to minimize the effect of future price fluctuations related to the purchase of raw materials primarily through forward purchasing to cover future manufacturing requirements, generally for periods from one to 18 months. Futures contracts are not used in combination with the forward purchasing of these raw materials. The Company's procurement practices are intended to reduce the risk of future price increases, but also may potentially limit the ability to benefit from possible price decreases.

The Company also has interest rate risk with respect to interest expense on variable rate debt, with rates based upon changes in the prime rate. Therefore, the Company has an exposure to changes in those rates. At December 28, 2002 and December 31, 2001, the Company had $3.0 million and $8.0 million of variable rate debt outstanding. A hypothetical 10% adverse change in weighted average interest rates during fiscal 2002 and 2001 would have had an unfavorable impact of $0.03 million and $0.08 million respectively, on both the Company's net earnings and cash flows.

The Company's primary concentration of credit risk is related to certain trade accounts receivable. In the normal course of business, the Company extends unsecured credit to its customers. In 2002 and 2001, substantially all of the Company's customers were distributors or retailers whose sales were concentrated in the grocery industry, throughout the United States. The Company investigates a customer's credit worthiness before extending credit. At December 28, 2002, two customers accounted for approximately 27% of the Company's accounts receivable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Independent Auditors Reports with respect to financial statements for the years ended December 28, 2002, December 31, 2001 and December 31, 2000 30

FINANCIAL STATEMENTS

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

Information with respect to this Item 9 is hereby incorporated by reference from the Company's "Current Report on Form 8-K" filed by the Company with the Securities and Exchange Commission on May 14, 2002.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers and Directors of the Company and their ages, are as follows:

Name	Age	Position
Eric J. Kufel	36	President, Chief Executive Officer, Director
Glen E. Flook	44	Senior Vice President-Operations
Thomas W. Freeze	51	Senior Vice President, Chief Financial Officer, Treasurer, Secretary, and Director
Mark S. Howells	49	Chairman, Director
Thomas E. Cain	48	Director
James W. Myers	68	Director
Robert C. Pearson	67	Director
Aaron M. Shenkman	62	Director

ERIC J. KUFEL. Mr. Kufel has served as President, Chief Executive Officer and a Director of the Company since February 1997. From November 1995 to January 1997, Mr. Kufel was Senior Brand Manager at The Dial Corporation and was responsible for the operating results of Purex Laundry Detergent. From June 1995 to November 1995, Mr. Kufel was Senior Brand Manager for The Coca-Cola Company where he was responsible for the marketing and development of Minute Maid products. From November 1994 to June 1995 Mr. Kufel was Brand Manager for The Coca-Cola Company, and from June 1994 to November 1994, Mr. Kufel was Assistant Brand Manager for The Coca-Cola Company. From January 1993 to June 1994, Mr. Kufel was employed by The Kellogg Company in various capacities including being responsible for introducing the Healthy Choice line of cereal and executing the marketing plan for Kellogg's Frosted Flakes cereal. Mr. Kufel earned a Masters of International Management from the American Graduate School of International Management in December 1992.

GLEN E. FLOOK. Mr. Flook has served as Senior Vice President-Operations since May 2000 and as Vice President-Manufacturing from March 1997 to May 2000. From January 1994 to February 1997, Mr. Flook was employed by The Dial Corporation as a Plant Manager. From January 1983 to January 1994, Mr. Flook served in various capacities with Frito-Lay, Inc., including Plant Manager and Production Manager.

THOMAS W. FREEZE. Mr. Freeze has served as Senior Vice President since May 2000, as Chief Financial Officer, Secretary and Treasurer since April 1997, and as a Director since October 1999. From April 1997 to May 2000, Mr. Freeze served as a Vice President of the Company. From April 1994 to April 1997, Mr. Freeze served as Vice President, Finance and Administration - Retail of New England Business Service, Inc. From October 1989 to April 1994, Mr. Freeze served as Vice President, Treasurer and Secretary of New England Business Service, Inc.

MARK S. HOWELLS. Mr. Howells has served as Chairman of the Board of the Company since March 1995. For the period from March 1995 to August 1995, Mr. Howells also served as President and Chief Executive Officer of the Company. He served as the Chairman of the Board of Poore Brothers Southeast, Inc., a former subsidiary of the Company, from its inception in May 1993 until it was dissolved in 1999 and served as its President and Chief Executive Officer from May 1993 to August 1994. From 1988 to May 2000, Mr. Howells served as the President and Chairman of Arizona Securities Group, Inc., a registered securities broker-dealer. Since May 2000, Mr. Howells has devoted a majority of his time to serving as the President and Chairman of MS.Howells & Co., a registered securities broker-dealer.

THOMAS E. CAIN. Mr. Cain has served as a Director since September 2000. Mr. Cain has been Chief Executive Officer of Focus Capital Group LLC since December 2001. From 1999 to 2001, Mr. Cain was Chairman of Frontstep distribution.com and from 1991 to 1999, Mr. Cain was President and Chief Executive Officer of Distribution Architects International, Inc., a distribution and logistics software developer and marketer. Mr. Cain has extensive experience in software development, e-commerce and supply chain management.

JAMES W. MYERS. Mr. Myers has served as a Director since January 1999. Mr. Myers has been President of Myers Management & Capital Group, Inc., a consulting firm specializing in strategic, organizational and financial advisory services to CEO's, since January 1996. From December 1989 to December 1995, Mr. Myers served as President of Myers, Craig, Vallone & Francois, Inc., a management and corporate finance consulting firm. Previously, Mr. Myers was an executive with a variety of consumer goods companies.

ROBERT C. PEARSON. Mr. Pearson has served as a Director of the Company since March 1996. Mr. Pearson has been Senior Vice President-Corporate Finance for Renaissance Capital Group, Inc. since April 1997. Previously, Mr. Pearson had been an independent financial and management consultant specializing in investments with emerging growth companies. Renaissance Capital Group is the investment manager of Renaissance Capital Growth & Income Fund III, Inc., the former owner of a 9% Convertible Debenture and currently a shareholder of the Company. See "ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION - LIQUIDITY AND CAPITAL Resources". From 1990 to 1994, Mr. Pearson served as Executive Vice President and Chief Financial Officer of Thomas Group, Inc., a publicly traded consulting firm. Prior to 1990, Mr. Pearson was Vice President-Finance of Texas Instruments, Incorporated. Mr. Pearson is currently a director of Advance Power Technology, Inc. (a publicly traded semiconductor manufacturer), and CaminoSoft Corp. (a distributor of consumables for laser printers).

AARON M. SHENKMAN. Mr. Shenkman has served as a Director of the Company since June 1997. He has served as the General Partner of Managed Funds LLC since October 1997. He served as the Vice-Chairman of Helen of Troy Corp., a distributor of personal care products, from March 1997 to October 1997. From February 1984 to February 1997, Mr. Shenkman was the President of Helen of Troy Corp. From 1993 to 1996, Mr. Shenkman also served as a Director of Craftmade International, a distributor of ceiling fans.

ITEMS 10-13. DOCUMENTS INCORPORATED BY REFERENCE

Information with respect to a portion of Item 10 and Items 11, 12 and 13 of Form 10-K is hereby incorporated by reference into this Part III of the Annual Report of Form 10-K from the Company's Proxy Statement relating to the Company's 2003 Annual Meeting of Shareholders to be filed by the Company with the Securities and Exchange Commission on or about April 15, 2003.

PART IV

ITEM 14. CONTROLS AND PROCEDURES

As required by Securities and Exchange Commission Rule 13a-15 promulgated under the Securities Exchange Act of 1934, as amended, within 90 days prior to the filing date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and the Company's Chief Financial Officer. Based upon that evaluation, the Company's President and Chief Executive Officer and

the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. Subsequent to the date the Company carried out its evaluation, there have been no significant changes in the Company's internal controls or in other factors which could significantly affect internal controls.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

ITEM 15. EXHIBITS AND REPORTS OF FORM 8-K

The following documents are filed as part of this Annual Report on Form 10-K:

(a) 1. FINANCIAL STATEMENTS

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Report of independent auditors with respect to financial statements for the years ended December 28, 2002, December 31, 2001 and December 31, 2000

FINANCIAL STATEMENTS

Consolidated balance sheets as of December 28, 2002 and December 31, 2001
Consolidated statements of income for the years ended December 28, 2002, December 31, 2001 and December 31, 2000 Consolidated statements of shareholders' equity for the years ended December 28, 2002, December 31, 2001 and December 31, 2000 Consolidated statements of cash flows for the years ended December 28, 2002, December 31, 2001 and December 31, 2000 Notes to consolidated financial statements

(b) 2. FINANCIAL SCHEDULES

Schedules have been omitted because of the absence of conditions under which they are required or because information required is included in the Company's financial statements or notes thereto.

(c) 3. EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-K:

EXHIBIT NUMBER	DESCRIPTION
3.1 --	Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on February 23, 1995. (1)
3.2 --	Certificate of Amendment to the Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on March 3, 1995. (1)
3.3 --	Certificate of Amendment to the Certificate of Incorporation of the Company filed with the Secretary of State of the State of Delaware on October 7, 1999. (Incorporated by reference to the Company's definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on September 15, 1999.)
3.4 --	By-Laws of the Company. (1)
4.1 --	Specimen Certificate for shares of Common Stock. (1)
4.2 --	Convertible Debenture Loan Agreement dated May 31, 1995 by and among the Company (and certain of its subsidiaries), Renaissance Capital and Wells Fargo. (1)
4.3 --	9.00% Convertible Debenture dated May 31, 1995, issued by the Company to Renaissance Capital. (1)
4.4 --	9.00% Convertible Debenture dated May 31, 1995, issued by the Company to Wells Fargo. (1)
4.5 --	Form of Warrant issued as of February 1998 to Renaissance Capital and Wells Fargo. (3)
4.6 --	Warrant dated November 4, 1998, issued by the Company to Norwest Business Credit, Inc. (4)

4.7 -- Warrant to purchase 400,000 shares of Common Stock, issued by the

Company to Wabash Foods on October 7, 1999. (Incorporated by reference to the Company's definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on September 15, 1999.)

4.8 -- Form of Revolving Note, Term Note A and Term Note B issued by the Company to U.S. Bancorp Republic Commercial Finance, Inc. on October 7, 1999. (5)

4.9 -- Warrant to purchase 50,000 shares of Common Stock, issued by the Company to U.S. Bancorp Republic Commercial Finance, Inc. on October 7, 1999. (5)

4.10 -- Form of Term Note C and Term Note D issued by the Company to U.S.

Bancorp as of June 30, 2000. (6)

10.1 -- Non-Qualified Stock Option Agreements dated August 1, 1995, August 31, 1995 and February 29, 1996, by and between the Company and Mark S. Howells. (1)
10.2 -- Non-Qualified Stock Option Agreements dated August 1, 1995, August 31, 1995 and February 29, 1996, by and between the Company and Jeffrey J. Puglisi. (1)
10.3 -- Agreement dated August 29, 1996, by and between the Company and Westminster Capital, Inc. ("Westminster"), as amended. (1)
10.4 -- Amendment No. 1 dated October 14, 1996, to Warrant dated September 11, 1996, issued by the Company to Westminster. (1)
10.5 -- Letter Agreement dated November 5, 1996, amending the Non-Qualified Stock Option Agreement dated February 29, 1996, by and between the Company and Mark S. Howells. (1)
10.6 -- Letter Agreement dated November 5, 1996, amending the Non-Qualified Stock Option Agreement dated February 29, 1996, by and between the Company and Jeffrey J. Puglisi. (1)
10.7 -- Non-Qualified Stock Option Agreement dated as of October 22, 1996, by and between the Company and Mark S. Howells. (1)
10.8 -- Letter Agreement dated as of November 5, 1996, by and between the Company and Jeffrey J. Puglisi. (1)
10.9 -- Letter Agreement dated November 1, 1996, by and among the Company, Mark S. Howells, Jeffrey J. Puglisi, David J. Brennan and Parris H. Holmes, Jr. (1)
10.10 -- Letter Agreement dated December 4, 1996, by and between the Company and Jeffrey J. Puglisi, relating to stock options. (1)
10.11 -- Letter Agreement dated December 4, 1996, by and between the Company and Mark S. Howells, relating to stock options. (1)
10.12 -- Employment Agreement dated January 24, 1997, by and between the Company and Eric J. Kufel. (2)
10.13 -- Employment Agreement dated February 14, 1997, by and between the Company and Glen E. Flook. (2)
10.14 -- Employment Agreement dated April 10, 1997, by and between the Company and Thomas W. Freeze. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the three-month period ended March 31, 1997.)
10.15 -- Fixed Rate Note dated June 4, 1997, by and between La Cometa Properties, Inc. and Morgan Guaranty Trust Company of New York. (3)
10.16 -- Deed of Trust and Security Agreement dated June 4, 1997, by and between La Cometa Properties, Inc. and Morgan Guaranty Trust Company of New York. (3)
10.17 -- Guaranty Agreement dated June 4, 1997, by and between the Company and Morgan Guaranty Trust Company of New York. (3)
10.18 -- Agreement for Purchase and Sale of Limited Liability Company Membership Interests dated as of August 16, 1999, by and between Pate Foods Corporation, Wabash Foods and the Company. (Incorporated by reference to the Company's definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on September 15, 1999.)
10.19 -- Letter Agreement dated July 30, 1999 by and between the Company and Stifel, Nicolaus & Company, Incorporated. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the three-month period ended September 30, 1999.)
10.20 -- Poore Brothers, Inc. 1995 Stock Option Plan, as amended. (5)
10.21 -- Credit Agreement, dated as of October 3, 1999, by and between the Company and U.S. Bancorp Republic Commercial Finance, Inc. (5)
10.22 -- Security Agreement, dated as of October 3, 1999, by and between the Company and U.S. Bancorp Republic Commercial Finance, Inc. (5)
10.23 -- Commercial Lease, dated May 1, 1998, by and between Wabash Foods, LLC and American Pacific Financial Corporation. (5)
10.24 -- Agreement for the Purchase and Sale of Assets of Boulder Potato Company dated as of June 8, 2000, by and among the Company, the shareholders of Boulder Potato Company, and Boulder Potato Company.

(6)

10.25 -- Registration Rights Agreement dated as of June 8, 2000, by and between Boulder Potato Company and the Company. (6)

10.26 -- First Amendment, dated as of June 30, 2000, to Credit Agreement, dated as of October 3, 1999, by and between the Company and U.S. Bancorp.

(6)

10.27 -- Second Amendment to Credit Agreement (dated March 2, 2001), by and between the Company and U.S. Bank National Association. (7)
10.28 -- License Agreement, dated April 3, 2000, by and between the Company and TGI Friday's Inc. (Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.) (7)
10.29 -- Third Amendment to Credit Agreement (dated March 30, 2001), by and between the Company and U.S. Bank National Association. (8)
10.30 -- First Amendment to License Agreement, dated as of July 11, 2001, by and between the Company and TGI Friday's Inc. (certain portions of this exhibit have been omitted pursuant to a confidentiality treatment request filed with the Securities and Exchange Commission). (9)
10.31 -- Share Purchase Agreement, dated December 27, 2001, by and between the Company and BFS US Special Opportunities Trust PLC. (Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 10, 2002.)
10.32 -- Fourth Amendment to Credit Agreement (dated as of June 29, 2002), by and between the Company and U.S. Bank National Association. (10)
10.33 -- License Agreement, dated November 20, 2002, by and between the Company and Warner Bros., a division of Time Warner Entertainment Company, L.P. (Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.) (11)
10.34 -- License Agreement, dated November 20, 2002, by and between the Company and Warner Bros., a division of Time Warner Entertainment Company, L.P. (Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.) (11)
10.35 -- License Agreement, dated July 19, 2000, by and between the Company and M.J. Quinlan & Associates Pty. Limited (Certain portions of this exhibit have been omitted pursuant to a confidential treatment request filed with the Securities and Exchange Commission.) (11)
21.1 -- List of Subsidiaries of the Company. (11)
23.1 -- Consent of Deloitte & Touche, LLP. (11)
23.2 -- Notice Regarding Consent of Arthur Andersen LLP (11)
99.1 -- Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (11)

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(1) Incorporated by reference to the Company's Registration Statement on Form SB-2, Registration No. 333-5594-LA.
(2) Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1996.
(3) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the three-month period ended June 30, 1997.
(4) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the three-month period ended September 30, 1998.
(5) Incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999.
(6) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the three-month period ended June 30, 2000.
(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the three-month period ended March 31, 2001.
(8) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the three-month period ended June 30, 2001.
(9) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the three-month period ended September 30, 2001.
(10) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 28, 2002.
(11) Filed herewith.

(b) Reports on Form 8-K.

None.

SIGNATURES

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

Dated: March 28, 2003

POORE BROTHERS, INC.

By: /s/ Eric J. Kufel
Eric J. Kufel
President and Chief Executive Officer

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

SIGNATURE	*TITLE*	*DATE*
/s/ Eric J. Kufel	*President, Chief Executive Officer,*	*March 28, 2003*

---------- and Director (Principal Executive Eric J. Kufel Officer)

/s/ Thomas W. Freeze *Thomas W. Freeze*	*Senior Vice President, Chief Financial Officer, Treasurer, Secretary, and Director (Principal Financial Officer and Principal Accounting Officer)*	*March 28, 2003*
/s/ Mark S. Howells *Mark S. Howells*	*Chairman, Director*	*March 28, 2003*
/s/ Thomas E. Cain *Thomas E. Cain*	*Director*	*March 28, 2003*
/s/ James W. Myers *James W. Myers*	*Director*	*March 28, 2003*
/s/ Robert C. Pearson *Robert C. Pearson*	*Director*	*March 28, 2003*
/s/ Aaron M. Shenkman *Aaron M. Shenkman*	*Director*	*March 28, 2003*

CERTIFICATIONS

I, Eric J. Kufel, certify that:

1. I have reviewed this Annual Report on Form 10-K of Poore Brothers, Inc.;

2. Based on my knowledge, this Annual on Form 10-K 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report on Form 10-K, 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 report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities and Exchange Commission Rules 13a-14 and 15d-14 promulgated under the Securities and Exchange Act of 1934, as amended) 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 Annual Report on Form 10-K (the "Evaluation Date"); and

c) Presented in this Annual Report on Form 10-K 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; and

6. The registrant's other certifying officers and I have indicated in this Annual Report on Form 10-K 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: March 28, 2003

/s/ Eric J. Kufel

Eric J. Kufel
President and Chief Executive Officer
(principal executive officer)

CERTIFICATIONS

I, Thomas W. Freeze, certify that:

1. I have reviewed this Annual Report on Form 10-K of Poore Brothers, Inc.;

2. Based on my knowledge, this Annual on Form 10-K 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report on Form 10-K, 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 report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Securities and Exchange Commission Rules 13a-14 and 15d-14 promulgated under the Securities and Exchange Act of 1934, as amended) 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 Annual Report on Form 10-K (the "Evaluation Date"); and

c) Presented in this Annual Report on Form 10-K 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; and

6. The registrant's other certifying officers and I have indicated in this Annual Report on Form 10-K 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: March 28, 2003

/s/ Thomas W. Freeze

Thomas W. Freeze
Senior Vice President, Chief Financial
Officer, Treasurer and Secretary
(principal financial and accounting officer)

INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Directors of Poore Brothers, Inc. and Subsidiaries Goodyear, Arizona

We have audited the accompanying consolidated balance sheet of Poore Brothers, Inc. and subsidiaries (the "Company") as of December 28, 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Company's consolidated financial statements as of December 31, 2001 and for the years ended December 31, 2001 and 2000, before the reclassifications described in Note 1 and before the inclusion of the disclosures discussed in Note 2 to the consolidated financial statements, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated February 11, 2002.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Poore Brothers, Inc. and subsidiaries as of December 28, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed above, the financial statements of the Company for the years ended December 31, 2001 and 2000 were audited by other auditors who have ceased operations. As described in Note 1, those financial statements have been reclassified to give effect to Emerging Issues Task Force (EITF) Issue No. 01-9, Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products, which was adopted by the Company on January 1, 2002. We audited the reclassifications described in Note 1 that were applied to conform the 2001 and 2000 financial statements to the comparative presentation required by EITF Issue 01-9. Our audit procedures with respect to the 2001 and 2000 disclosures in Note 1 included (i) comparing the amounts shown as customer incentive costs in Note 1 to underlying accounting analysis obtained from management, and (2) on a test basis, comparing the amounts comprising the customer incentive costs obtained from management to independent supporting documentation, and (3) testing the mathematical accuracy of the underlying analysis. In our opinion, such reclassifications have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of the Company other than with respect to such reclassifications and, accordingly, we do not express an opinion or any form of assurance on the 2001 and 2000 financial statements taken as a whole.

As described in Note 2, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), which was adopted by the Company as of January 1, 2002. Our audit procedures with respect to the disclosures in Note 2 with respect to 2001 and 2000 included (1) comparing the previously reported net income to the previously issued financial statements and the adjustments to reported net income representing amortization expense (including any related tax effects) recognized in those periods related to goodwill and intangible assets that are no longer being amortized, as a result of initially applying SFAS 142 (including any related tax effects) to the Company's underlying analysis obtained from management, and (2) testing the mathematical accuracy of the reconciliation of adjusted net income to reported net income and the related earnings-per-share amounts. In our opinion, the disclosures for 2001 and 2000 in Note 2 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

DELOITTE & TOUCHE LLP

February 12, 2003
Phoenix, Arizona

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

NOTE: The report of Arthur Andersen LLP presented below is a copy of a previously issued Arthur Andersen LLP report. This report has not been reissued by Arthur Andersen LLP nor has Arthur Andersen LLP provided a consent to the inclusion of its report in this Form 10-K.

To Poore Brothers, Inc.

We have audited the accompanying consolidated balance sheets of POORE BROTHERS, INC. (a Delaware corporation) and SUBSIDIARIES as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Poore Brothers, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Phoenix, Arizona,
February 11, 2002

POORE BROTHERS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DECEMBER 28, 2002	DECEMBER 31, 2001
ASSETS		
Current assets:		
Cash	$ 1,395,187	$ 894,198
Accounts receivable, net of allowance of $409,000 in 2002 and $219,000 in 2001	4,427,531	4,982,793
Inventories	1,760,401	1,887,872
Deferred income tax asset	421,942	--
Other current assets	803,665	430,914
Total current assets	8,808,726	8,195,777
Property and equipment, net	13,009,948	13,730,273
Goodwill	5,565,687	5,354,901
Intangible assets, net	4,207,032	4,207,032
Other assets, net	165,233	200,077
Total assets	$ 31,756,626	$ 31,688,060
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,937,602	$ 2,430,857
Accrued liabilities	2,806,149	1,406,845
Current portion of long-term debt	1,105,004	2,343,472
Total current liabilities	6,848,755	6,181,174
Long-term debt, less current portion	4,105,118	8,661,255
Deferred income tax liability	80,512	--
Total liabilities	11,034,385	14,842,429
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $100 par value; 50,000 shares authorized; no shares issued or outstanding at December 28, 2002 and 2001, respectively	--	--
Common stock, $.01 par value; 50,000,000 shares authorized; 16,729,911 and 15,687,518 shares issued and outstanding at December 28, 2002 and December 31, 2001, respectively	167,299	156,875
Additional paid-in capital	22,404,835	21,175,485
Accumulated deficit	(1,849,893)	(4,486,729)
Total shareholders' equity	20,722,241	16,845,631
Total liabilities and shareholders' equity	$ 31,756,626	$ 31,688,060

The accompanying notes are an integral part of these consolidated financial statements.

POORE BROTHERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	DECEMBER 28, 2002	DECEMBER 31, 2001	2000
Net revenues	$ 59,348,471	$ 53,904,816	$ 39,055,082
Cost of revenues	48,036,462	42,958,822	31,350,941
Gross profit	11,312,009	10,945,994	7,704,141
Selling, general and administrative expenses	8,637,652	8,816,627	5,758,883
Operating income	2,674,357	2,129,367	1,945,258
Fire related income, net	259,376	4,014	--
Interest expense, net	(539,733)	(1,045,117)	(1,177,467)
Total interest expense and other	(280,357)	(1,041,103)	(1,177,467)
Income before income tax provision	2,394,000	1,088,264	767,791
Income tax benefit (provision)	242,837	(43,000)	(38,000)
Net income	$ 2,636,837	$ 1,045,264	$ 729,791
Earnings per common share:			
Basic	$ 0.16	$ 0.07	$ 0.05
Diluted	$ 0.15	$ 0.06	$ 0.05
Weighted average number of common shares:			
Basic	16,146,081	15,050,509	13,769,614
Diluted	17,826,953	17,198,648	15,129,593

The accompanying notes are an integral part of these consolidated financial statements.

POORE BROTHERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN	ACCUMULATED	
	SHARES	AMOUNT	CAPITAL	DEFICIT	TOTAL
Balance, December 31, 1999	13,222,044	$ 132,220	$17,386,827	$(6,261,784)	$11,257,263
Exercise of common stock options	153,334	1,533	173,705	--	175,238
Issuance of common stock	1,619,387	16,194	2,117,010	--	2,133,204
Net income	--	--	--	729,791	729,791
Balance, December 31, 2000	14,994,765	149,947	19,677,542	(5,531,993)	14,295,496
Exercise of common stock options	76,000	760	97,810	--	98,570
Issuance of warrants	--	--	16,800	--	16,800
Issuance of common stock	616,753	6,168	1,383,333	--	1,389,501
Net income	--	--	--	1,045,264	1,045,264
Balance, December 31, 2001	15,687,518	156,875	21,175,485	(4,486,729)	16,845,631
Exercise of common stock options	349,016	3,490	508,304	--	511,794
Issuance of common stock	693,377	6,934	721,044	--	727,978
Net income	--	--	--	2,636,837	2,636,837
Balance, December 28, 2002	16,729,911	$ 167,299	$22,404,835	$(1,849,893)	$20,722,241

The accompanying notes are an integral part of these consolidated financial statements.

POORE BROTHERS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	2002	2001	2000
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Net income	$ 2,636,837	$ 1,045,264	$ 729,791
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	1,288,333	1,237,260	1,089,004
Amortization	33,939	694,067	648,938
Accounts receivable and inventory provisions	329,996	53,558	102,325
Other asset amortization	423,088	349,723	252,148
Deferred income taxes	(341,430)	--	--
(Gain) loss on disposition of fixed assets	7,073	(167,450)	--
Change in operating assets and liabilities, net of effect of business acquired:			
Accounts receivable	365,782	240,981	(1,974,013)
Inventories	(13,045)	(186,238)	(481,401)
Other assets and liabilities	(794,934)	(396,916)	(252,812)
Accounts payable and accrued liabilities	1,906,049	(776,807)	2,503,632
Net cash provided by operating activities	5,841,688	2,093,442	2,617,612
CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES:			
Purchase of equipment	(581,087)	(2,655,535)	(635,415)
Proceeds from disposition of fixed assets	6,006	700,000	--
Acquisition related expenses	--	--	(365,542)
Net cash used in investing activities	(575,081)	(1,955,535)	(1,000,957)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	627,494	1,313,571	175,238
Stock and debt issuance costs	--	(10,774)	(11,164)
Proceeds from issuance of debt	--	--	610,329
Payments made on long-term debt	(1,954,844)	(2,404,470)	(2,053,149)
Net increase (decrease) in working capital line of credit	(3,438,268)	1,530,410	(114,720)
Net cash provided by (used in) financing activities	(4,765,618)	428,738	(1,393,466)
Net increase in cash	500,989	566,645	223,189
Cash and cash equivalents at beginning of year	894,198	327,553	104,364
Cash and cash equivalents at end of year	$ 1,395,187	$ 894,198	$ 327,553
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for interest	$ 521,420	$ 1,055,248	$ 1,047,380
Summary of noncash investing and financing activities:			
Common Stock issued for acquisitions and related earnouts	210,786	185,274	1,235,321
Common Stock or warrant issued for sales commissions	--	16,800	50,000
Conversion of Convertible Debenture into Common Stock	401,497	--	859,047
Note payable issued for purchase of equipment	--	538,308	--
Note payable issued for acquisition	--	--	830,000

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION, BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Company, a Delaware corporation, was formed in 1995 as a holding company to acquire a potato chip manufacturing and distribution business which had been founded by Donald and James Poore in 1986.

In December 1996, the Company completed an initial public offering of its Common Stock, pursuant to which 2,250,000 shares of Common Stock were offered and sold to the public at an offering price of $3.50 per share. Of such shares, 1,882,652 shares were sold by the Company. The initial public offering was underwritten by Paradise Valley Securities, Inc. (the "Underwriter"). The net proceeds to the Company from the sale of the 1,882,652 shares of Common Stock, after deducting underwriting discounts and commissions and the expenses of the offering payable by the Company, were approximately $5,300,000. On January 6, 1997, 337,500 additional shares of Common Stock were sold by the Company upon the exercise by the Underwriter of an over-allotment option granted to it in connection with the initial public offering. After deducting applicable underwriting discounts and expenses, the Company received net proceeds of approximately $1,000,000 from the sale of such additional shares.

On November 4, 1998, the Company acquired the business and certain assets of Tejas Snacks, L.P., a Texas-based potato chip manufacturer, including Bob's Texas Style(R) potato chips brand, inventories and certain capital equipment. In consideration for these assets, the Company issued 523,077 unregistered shares of Common Stock with a fair value at the time of $450,000 and paid approximately $1,250,000 in cash.

On October 7, 1999, the Company acquired Wabash Foods, including the Tato Skins(R), O'Boisies(R), and Pizzarias(R) trademarks for a total purchase price of $12,763,000. The Company acquired all of the membership interests of Wabash Foods from Pate Foods Corporation in exchange for (i) the issuance of 4,400,000 unregistered shares of Common Stock, (ii) the issuance of a five-year warrant to purchase 400,000 unregistered shares of Common Stock at an exercise price of $1.00 per share, and (iii) the effective assumption of $8,073,000 in liabilities.

On June 8, 2000, the Company acquired Boulder Natural Foods, Inc. and the business and certain related assets and liabilities of Boulder Potato Company, a Colorado-based potato chip marketer and distributor. The assets included the Boulder Potato Company(R) and Boulder Chips(TM) brand, accounts receivable, inventories, certain other intangible assets and specified liabilities. In consideration for these assets and liabilities, the Company paid a total purchase price of $2,637,000, consisting of: (i) the issuance of 725,252 unregistered shares of Common Stock with a fair value at the time of $1,235,000,
(ii) a cash payment of $301,000, (iii) the issuance of a promissory note to the seller in the amount of $830,000, and (iv) the assumption of $271,000 in liabilities. In addition, the Company was required to issue additional unregistered shares of Common Stock to the seller on each of the first two (and may be required on the third) anniversaries of the closing of the acquisition. Any such issuances will be dependent upon, and will be calculated based upon, increases in sales of Boulder Potato Company(R) products as compared to previous periods.

In October 2000, the Company launched its T.G.I. Friday's(R) brand salted snacks pursuant to a license agreement with TGI Friday's Inc., which expires in 2014.

On December 27, 2001, the Company completed the sale of 586,855 shares of Common Stock at an offering price of $2.13 per share to BFS US Special Opportunities Trust PLC, a fund managed by Renaissance Capital, in a private placement transaction.

In December 2002, Warner Bros. Consumer Products granted the Company rights to introduce a new brand of salted snacks featuring Looney Tunes(TM) characters. The Company plans to launch the new brand nationwide in the summer of 2003 under a multi-year agreement that grants the Company exclusive salted snack category brand licensing and promotional rights for Looney Tunes(TM) characters.

Effective January 1, 2002, the Company changed its fiscal year from the twelve calendar months ending on December 31 each year to the 52-week period ending on the last Saturday occurring in the month of December of each calendar year. Accordingly, fiscal 2002 commenced January 1, 2002 and ended December 28, 2002.

1. ORGANIZATION, BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(CONTINUED)

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

BUSINESS

The Company is engaged in the development, production, marketing and distribution of innovative salted snack food products that are sold through grocery retail chains, mass merchandisers, club stores and through vend distributors across the United States. Although certain of the Company's subsidiaries have operated for several years, the Company as a whole has a relatively brief operating history. The Company had significant operating losses prior to fiscal 1999. Successful future operations are subject to certain risks, uncertainties, expenses and difficulties frequently encountered in the establishment and growth of a new business in the snack food industry. The market for salted snack foods, such as potato chips, tortilla chips, popcorn and pretzels, is large and intensely competitive. The industry is dominated by one significant competitor and includes many other competitors with greater financial and other resources than the Company.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Poore Brothers, Inc. and all of its wholly owned subsidiaries. All significant intercompany amounts and transactions have been eliminated.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We routinely evaluate our estimates, including those related to customer programs and incentives, product returns, bad debts, income taxes, long-lived assets, inventories and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 28, 2002, December 31, 2001 and 2000, the carrying value of cash, accounts receivable, accounts payable, and accrued liabilities approximate fair values since they are short-term in nature. The carrying value of the long-term debt approximates fair-value based on the borrowing rates currently available to the Company for long-term borrowings with similar terms, except for the mortgage loan with interest at 9.03%, which has a fair value of approximately $1.4 million at December 28, 2002. The Company estimates fair values of financial instruments by using available market information. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates may not be indicative of the amounts that the Company could realize in a current market exchange. The use of different market assumptions or valuation methodologies could have a material effect on the estimated fair value amounts.

INVENTORIES

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

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Cost includes expenditures for major improvements and replacements. Maintenance and repairs are charged to operations when incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the appropriate accounts, and the resulting gain or loss is recognized. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, ranging from 2 to 30 years.

1. ORGANIZATION, BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(CONTINUED)

In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", we evaluate the recoverability of property and equipment not held for sale by comparing the carrying amount of the asset or group of assets against the estimated undiscounted future cash flows expected to result from the use of the asset or group of assets and their eventual disposition. If the undiscounted future cash flows are less than the carrying value of the asset or group of assets being evaluated, an impairment loss is recorded. The loss is measured as the difference between the fair value and carrying value of the asset or group of assets being evaluated. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less cost to sell. The estimated fair value would be based on the best information available under the circumstances, including prices for similar assets or the results of valuation techniques, including the present value of expected future cash flows using a discount rate commensurate with the risks involved.

INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". SFAS No. 142 changes the method by which companies recognize intangible assets in purchase business combinations and generally requires identifiable intangible assets to be recognized separately from goodwill. In addition, it eliminates the amortization of all existing and newly acquired goodwill on a prospective basis and requires companies to assess goodwill for impairment, at least annually, based on the fair value of the reporting unit. Upon adoption on January 1, 2002, the Company ceased the amortization of goodwill and other intangible assets with indefinite lives in accordance with SFAS No. 142.

Goodwill is recorded at cost and reviewed for impairment annually, or more frequently if impairment indicators arise. Goodwill amortization expense was approximately $321,000 and $299,000 for 2001 and 2000, respectively. See Note 2.

Trademarks are recorded at cost and are reviewed for impairment annually, or more frequently if impairment indicators arise. Amortization expense on these trademarks was approximately $331,000 and $304,000 for 2001 and 2000, respectively. See Note 2.

REVENUE RECOGNITION

Net revenues are recorded when the risk of loss and title to the product transfers to the purchaser. Revenues are recorded net of allowances for cash discounts, estimated sales returns, trade promotions and other sales incentives.

ADVERTISING AND PROMOTION

The Company expenses production costs of advertising the first time the advertising takes place, except for cooperative advertising costs which are expensed when the related sales are recognized. Costs associated with obtaining shelf space (i.e., "slotting fees") are expensed in the period in which such costs are incurred by the Company. Accrued advertising and promotion, which is included in the current liabilities section of the accompanying consolidated balance sheet, was $946,000 and $388,000 in 2002 and 2001, respectively.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or income tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted rates expected to apply to

1. ORGANIZATION, BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(CONTINUED)

taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

STOCK OPTIONS

The Company's stock-based compensation plan, described in Note 8, is accounted for under the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". Accordingly, no compensation cost has been recognized for the stock option plan. Awards under the plan vest over periods ranging from one to three years, depending on the type of award. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period presented, using the Black-Scholes valuation model.

(in thousands)	2002	2001	2000
Net income as reported	$ 2,636,837	$ 1,045,264	$ 729,791
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(1,010,139)	(850,301)	(701,300)
Pro forma net income	$ 1,626,698	$ 194,963	$ 28,491
Net income per share - basic - as reported	$ 0.16	$ 0.07	$ 0.05
Pro forma net income per share - basic	0.10	0.01	0.00
Net income per share - diluted - as reported	0.15	0.06	0.05
Pro forma net income per share - diluted	0.09	0.01	0.00

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield of 0%; expected volatility of 44%, 58% and 110%; risk-free interest rate of 3.8%, 3.4% and 6.1%; and expected lives of 3 years for 2002, 2001 and 2000, respectively. Under this method, the weighted average fair value of the options granted was $1.27, $1.59 and $1.23 per share in 2002, 2001 and 2000, respectively.

EARNINGS PER COMMON SHARE

Basic earnings per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Exercises of outstanding stock options or warrants and conversion of convertible debentures are assumed to occur for purposes of calculating diluted earnings per share for periods in which their effect would not be anti-dilutive.

DECEMBER 28, DECEMBER 31,

	2002	2001	2000
BASIC EARNINGS PER COMMON SHARE:			
Net income	$ 2,636,837	$ 1,045,264	$ 729,791
Weighted average number of common shares	16,146,081	15,050,509	13,769,614
Earnings per common share	$ 0.16	$ 0.07	$ 0.05

1. ORGANIZATION, BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(CONTINUED)

DILUTED EARNINGS PER COMMON SHARE:

Net income	$ 2,636,837	$ 1,045,264	$ 729,791
Weighted average number of common shares	16,146,081	15,050,509	13,769,614
Incremental shares from assumed conversions -			
Debentures	120,279	--	--
Warrants	476,019	690,428	475,943
Stock options	1,084,574	1,457,711	884,036
Adjusted weighted average number of common shares	17,826,953	17,198,648	15,129,593
Earnings per common share	$ 0.15	$ 0.06	$ 0.05

Options and warrants to purchase 950,577, 653,077 and 985,527 shares of Common Stock were outstanding at December 28, 2002, December 31, 2001 and December 31, 2000, respectively, but were not included in the computation of diluted earnings per share because the option and warrant exercise prices were greater than the average market price per share of the Common Stock. For the years ended December 31, 2001 and 2000 conversion of the convertible debentures was not assumed, as the effect of the conversion would be anti-dilutive.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 141, "BUSINESS COMBINATIONS" and SFAS No. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS". SFAS No. 141 requires companies to apply the purchase method of accounting for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method. SFAS No. 142 changes the method by which companies recognize intangible assets in purchase business combinations and generally requires identifiable intangible assets to be recognized separately from goodwill. In addition, it eliminates the amortization of all existing and newly acquired goodwill on a prospective basis and requires companies to assess goodwill for impairment, at least annually, based on the fair value of the reporting unit. Upon adoption on January 1, 2002, the Company ceased the amortization of goodwill and trademarks in accordance with SFAS No. 142. Goodwill and trademark amortization expense was approximately $652,000 and $603,000 for 2001 and 2000 respectively.

In August 2001, the FASB issued SFAS No. 144, "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS". SFAS No. 144 supersedes SFAS No. 121, "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF" and the accounting and reporting provisions of APB Opinion No. 30, "REPORTING THE RESULTS OF OPERATIONS - REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS". SFAS No. 144 modifies the method by which companies account for certain asset impairment losses. There was no effect from adopting SFAS No. 144 on January 1, 2002.

In 2001, the Emerging Issues Task Force (EITF) issued EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products," (EITF Issue No. 01-9). EITF Issue No. 01-9 addresses the accounting for certain consideration given by a vendor to a customer and provides guidance on the recognition, measurement and income statement classification for sales incentives. In general, the guidance requires that consideration from a vendor to a retailer be recorded as a reduction in revenue unless certain criteria are met. The Company adopted the provisions of the EITF Issue No. 01-9 effective in the first quarter of 2002 and as a result, costs previously recorded as expense have been reclassified and reflected as reductions in revenue. The Company was also required to reclassify amounts in prior periods in order to conform to the revised presentation of these costs if practicable. As a result of adopting EITF Issue No. 01-9, the Company reduced both net revenues and selling, general and administrative expenses in 2001 and 2000 by $3,761,072 and $2,687,925 respectively. There was no change to the 2001 and 2000 previously reported net income as a result of this change.

1. ORGANIZATION, BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(CONTINUED)

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN 45 expands the disclosure requirements to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. The Interpretation also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company does not have and does not anticipate issuing any guarantees which would be required to be recognized as a liability under the provisions of FIN 45 and thus does not expect the adoption of this Interpretation to have a material impact on its results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation--Transition and Disclosure". This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. Specifically, SFAS No. 148 prohibits companies from utilizing the prospective method of transition, the only method offered under the original SFAS No. 123, in fiscal years beginning after December 15, 2003. However, the statement permits two additional transition methods for companies that adopt the fair value method of accounting for stock-based compensation, which include the modified prospective and retroactive restatement methods. Under the prospective method, expense is recognized for all employee awards granted, modified, or settled after the beginning of the fiscal year in which the recognition provisions are first applied. The modified prospective method recognizes stock-based employee compensation cost from the beginning of the fiscal year in which the provisions are first applied, as if the fair value method had been used to account for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. Under the retroactive restatement method, all periods presented are restated to reflect stock-based employee compensation cost under the fair value method for all employee awards granted, modified, or settled in fiscal years beginning after December 15, 1994. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results with a prescribed specific tabular format and requiring disclosure in the "Summary of Significant Accounting Policies" or its equivalent. The Company has adopted the new disclosure requirements for 2002, and is evaluating the impact if it were to adopt the fair value method of accounting for stock-based employee compensation under all three methods.

2. ACQUISITIONS:

On June 8, 2000, the Company acquired Boulder Natural Foods, Inc. (a Colorado corporation) and the business and certain related assets and liabilities of Boulder Potato Company, a totally natural potato chip marketer based in Boulder Colorado. The assets, which were acquired through a newly formed wholly owned subsidiary of the Company, Boulder Natural Foods, Inc., an Arizona corporation, included the Boulder Potato Company(R) and Boulder Chips(TM) brands, other intangible assets, receivables, inventories and specified liabilities. In consideration for these assets and liabilities, the Company paid a total purchase price of $2,637,000, consisting of: (i) the issuance of 725,252 unregistered shares of Common Stock with a fair value at the time of $1,235,000, (ii) a cash payment of $301,000, (iii) the issuance of a note to the seller in the amount of $830,000 with interest at 6.4%, was secured by the Boulder assets acquired, and required monthly principal and interest payments of approximately $37,000 until maturity on June 15, 2002, and (iv) the assumption by the Company of $271,000 in liabilities, including a note to the seller in the amount of $130,000 with interest at 6.0% and requires monthly principal and interest payments of approximately $6,000 until maturity on June 15, 2002. The initial $301,000 cash payment was subsequently financed with the U.S. Bank Term Loan D. In addition, the Company may be required to issue additional unregistered shares of Common Stock to the seller on each of the first, second and third anniversaries of the closing of the acquisition. Any such issuances will be dependent upon, and will be calculated based upon, increases in sales of Boulder Potato Company(R) products as compared to previous periods. In 2002, the Company was required to issue 88,864 shares pursuant to this provision, which were valued at $210,786 and increased the goodwill recorded from this acquisition. In 2001, the Company was required to issue 57,898 shares pursuant to this provision, which were valued at $185,274 and increased the goodwill recorded from this acquisition. The acquisition was accounted for using the purchase method of accounting in accordance with APB Opinion No. 16. Accordingly, only the results of operations subsequent to the acquisition date have been included in the Company's results. In connection with the acquisition, the Company has recorded trademarks of $1,000,000 and goodwill of $1,690,539, which were previously amortized on a straight-line basis over 15 and 20-year

2. ACQUISITIONS: (CONTINUED)

periods, respectively. Amortization of these intangible assets ceased on January 1, 2002 in accordance with the adoption of SFAS No. 142. Boulder had sales of approximately $0.9 million for the five months ended May 31, 2000.

On October 7, 1999, the Company acquired all of the membership interests of Wabash from Pate Foods Corporation in exchange for (i) 4,400,000 unregistered shares of Common Stock with a fair value at the time of $4,400,000, (ii) a warrant to purchase 400,000 unregistered shares of Common Stock at an exercise price of $1.00 per share with a fair value at the time of $290,000, and (iii) the assumption of $8,073,000 in liabilities, or a total purchase price of $12,763,000. The warrant has a five-year term and became exercisable upon issuance. As a result, the Company acquired all the assets of Wabash, including the Tato Skins(R), O'Boisies(R), and Pizzarias(R) trademarks. The acquisition was accounted for using the purchase method of accounting in accordance with APB Opinion No. 16. Accordingly, only the results of operations subsequent to the acquisition date have been included in the Company's results. In connection with the acquisition, the Company recorded goodwill of $1,327,227, which was previously amortized on a straight-line basis over a 20-year period. Amortization of this goodwill ceased on January 1, 2002 in accordance with the adoption of SFAS No. 142.

On November 4, 1998, the Company acquired the business and certain assets of Tejas, a Texas-based potato chip manufacturer. The assets, which were acquired through a newly formed wholly owned subsidiary of the Company, Tejas PB Distributing, Inc., included the Bob's Texas Style(R) potato chips trademark, inventories and certain capital equipment. In exchange for these assets, the Company issued 523,077 unregistered shares of Common Stock with a fair value of $450,000 and paid $1.25 million in cash, or a total purchase price of $1.7 million. The Company utilized available cash as well as funds available pursuant to the Wells Fargo Line of Credit Agreement to satisfy the cash portion of the consideration. Tejas had sales of approximately $2.8 million for the nine months ended September 30, 1998. In connection with the acquisition, the Company transferred production of the Bob's Texas Style(R) brand potato chips to its Arizona facility. The acquisition was accounted for using the purchase method of accounting in accordance with APB Opinion No. 16. Accordingly, only the results of operations subsequent to the acquisition date have been included in the Company's results. In connection with the acquisition, the Company recorded goodwill of $126,702, which was previously amortized on a straight-line basis over a 20-year period. Amortization of this intangible asset ceased on January 1, 2002 in accordance with the adoption of SFAS No. 142. In 2001, the Company cancelled and retired 28,000 shares of Common Stock issued in connection with the Tejas acquisition. The cancellation was made pursuant to the terms of the escrow agreement in settlement of post acquisition liabilities.

Intangibles not subject to amortization consisted of the following:

	2002	2001
Goodwill (1)	$5,565,687	$5,354,901
Trademarks	4,207,032	4,207,032
	$9,772,719	$9,561,933

(1) Additions to goodwill are related to the earnout payment to the previous owners of Boulder Natural Foods, Inc.

In connection with the implementation of SFAS No. 142, effective January 1, 2002, the Company ceased amortizing goodwill and other intangible assets with indefinite lives. The following table shows the pro forma impact of the adoption of SFAS No. 142 for the years ended December 31, 2001 and December 31, 2000.

	DECEMBER 31, 2001	DECEMBER 31, 2000
NET INCOME		
As reported	$1,045,264	$ 729,791
Add back: Goodwill and trademark amortization	652,104	603,017
Adjusted	$1,697,368	$1,332,808

2. ACQUISITIONS: (CONTINUED)

BASIC EARNINGS PER COMMON SHARE:

As reported	$0.07	$0.05
Add back: Goodwill and trademark amortization	0.04	0.04
Adjusted	$0.11	$0.09
DILUTED EARNINGS PER COMMON SHARE:		
As reported	$0.06	$0.05
Add back: Goodwill and trademark amortization	0.04	0.04
Adjusted	$0.10	$0.09

3. CONCENTRATIONS OF CREDIT RISK:

The Company's cash is placed with major banks. The Company, in the normal course of business, maintains balances in excess of Federal insurance limits.

The Company's primary concentration of credit risk is related to certain trade accounts receivable. In the normal course of business, the Company extends unsecured credit to its customers. In 2002 and 2001, substantially all of the Company's customers were distributors or retailers whose sales were concentrated in the grocery industry, throughout the United States. The Company investigates a customer's credit worthiness before extending credit. At December 28, 2002, two customers accounted for approximately 27% of accounts receivable in the accompanying Consolidated Balance Sheets.

4. INVENTORIES:

Inventories consisted of the following:

	DECEMBER 28, 2002	DECEMBER 31, 2001
Finished goods	$ 713,616	$ 588,376
Raw materials	1,046,785	1,299,496
	$ 1,760,401	$ 1,887,872

5. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following:

	USEFUL LIVES	DECEMBER 28, 2002	DECEMBER 31, 2001
Buildings and improvements	20-30 years	$ 5,226,016	$ 5,137,005
Equipment	7-15 years	11,464,258	11,085,794
Land	--	272,006	272,006
Vehicles	5 years	11,393	40,178
Furniture and office equipment ..	5 years	1,207,291	1,109,325
		18,180,964	17,644,308
Less accumulated depreciation and amortization		(5,171,016)	(3,914,035)
		$13,009,948	$13,730,273

Depreciation expense was $1,288,333, $1,237,260 and $1,089,004 in 2002, 2001 and 2000, respectively.

Included in equipment are assets held under capital leases with an original cost of $330,149 at December 28, 2002 and $1,193,110 at December 31, 2001, and accumulated amortization of $106,694 and $993,106 at December 28, 2002, December 31, 2001, respectively.

5. PROPERTY AND EQUIPMENT: (CONTINUED)

On October 28, 2000, the Company experienced a fire at the Goodyear, Arizona manufacturing plant, causing a temporary shutdown of manufacturing operations at the facility. There was extensive damage to the roof and equipment utilities in the potato chip processing area. Third party manufacturers agreed to provide the Company with production volume to assist the Company in meeting anticipated customers' needs during the shutdown. The Company continued to season and package the bulk product received from third party manufacturers. In fiscal 2000, the Company identified and recorded approximately $1.4 million of incremental expenses incurred as a result of the fire, primarily associated with outsourcing production. These extra expenses were charged to "cost of revenues" and offset by a $1.4 million credit representing estimated future insurance proceeds. As of December 31, 2000, the Company had been advanced $0.5 million of the $1.4 million by its insurance company as partial reimbursement.

The Company resumed full production of private label potato chips in early January of 2001 and resumed full production of batch-fried potato chips in late March of 2001. During fiscal 2001, the Company recorded approximately $1.4 million of incremental expenses incurred as a result of the fire, primarily associated with outsourcing production. These extra expenses were charged to "cost of revenues" and offset by a $1.4 million credit representing insurance proceeds. The Company also incurred approximately $2.3 million in building and equipment reconstruction costs in connection with the fire. During fiscal 2001, the Company was advanced a total of $3.2 million by the insurance company. "Fire related income, net" on the accompanying Consolidated Statement of Operations for fiscal 2001 includes (i) a gain of $167,000, representing the excess of insurance proceeds over the book value for the building and equipment of $533,000 damaged by the fire, and (ii) expenses not reimbursed by the insurance company of approximately $163,000.

In December 2002, the Company received $261,000 from its insurance company in partial settlement of outstanding claims, which is shown in "Fire related income, net" on the accompanying Consolidated Statement of Operations for fiscal 2002. This includes (i) a gain of $121,000, representing additional insurance proceeds over the book value of equipment previously written off, and (ii) reimbursement of $140,000 for expenses previously denied by the insurance company. The Company does not have any receivables from the insurance company reflected in the accompanying Consolidated Balance Sheets as of December 28, 2002.

6. LONG-TERM DEBT:

Long-term debt consisted of the following:

	DECEMBER 28, 2002	DECEMBER 31, 2001
Convertible Debentures due in monthly installments through July 1, 2002; interest at 9%; collateralized by land, buildings, equipment and intangibles	$ --	$ 427,656
Working capital line of credit expiring October 31, 2005; interest at prime rate plus 1% (5.75% at December 31, 2001); collateralized by accounts receivable, inventories, equipment and general intangibles	--	3,438,269
Term loan due in monthly installments through July 1, 2006; interest at prime rate (4.25% at December 28, 2002); collateralized by accounts receivable, inventories, equipment and general intangibles	3,181,685	4,089,743
Mortgage loan due in monthly installments through July 2012; interest at 9.03%; collateralized by land and building	1,851,888	1,882,282
Term loan due in monthly installments through June 30, 2002; interest at prime plus 2% (6.75% at December 31, 2001); collateralized by accounts receivable, inventories, equipment and general intangibles	--	128,751
Term loan due in monthly installments through June 15, 2002; interest at 6.4%; collateralized by certain assets of Boulder	--	217,499
Term loan due in monthly installments through June 15, 2002; interest at 6%	--	33,968
Term loan due in monthly installments through August 31, 2002; interest at prime plus 2% (6.75% at December 31, 2001); collateralized by accounts receivable, inventory, equipment and intangibles	--	87,500

6. LONG-TERM DEBT: (CONTINUED)

Capital lease obligations due in monthly installments through 2003; interest rates ranging from 8.2% to 11.3%; collateralized by equipment	45,779	457,629
Capital Expenditures Term loan due in monthly installments through October 31, 2003; interest at prime plus 1% (5.25% at December 28, 2002); collateralized by equipment	130,770	241,430
	5,210,122	11,004,727
Less current portion	(1,105,004)	(2,343,472)
	$ 4,105,118	$ 8,661,255

Annual maturities of long-term debt at December 28, 2002 are as follows:

YEAR	
2003	$ 1,105,004
2004	931,857
2005	935,580
2006	552,106
2007	51,802
Thereafter	1,633,773
	$ 5,210,122

The Company's Goodyear, Arizona manufacturing, distribution and headquarters facility is subject to a $1.9 million mortgage loan from Morgan Guaranty Trust Company of New York, bears interest at 9.03% per annum and is secured by the building and the land on which it is located. The loan matures on July 1, 2012; however monthly principal and interest installments of $18,425 are determined based on a twenty-year amortization period.

The Company has entered into a variety of capital and operating leases for the acquisition of equipment and vehicles. The leases generally have three to seven year terms, bear interest at rates from 8.2% to 11.3%, require monthly payments and expire at various times through 2008 and are collateralized by the related equipment.

During 2002, the Company's remaining outstanding 9% Convertible Debenture due July 1, 2002 in the principal amount of $427,656 held by Wells Fargo Small Business Investment Company, Inc. ("Wells Fargo SBIC") was converted into 401,497 shares of the Company's common stock. In November 1999, Renaissance Capital converted 50% ($859,047) of its 9% Convertible Debenture holdings into 859,047 shares of Common Stock and agreed unconditionally to convert into Common Stock the remaining $859,047 not later than December 31, 2000. In December 2000, Renaissance Capital converted the remaining 859,047 shares of its 9% Convertible Debentures into Common Stock. For the period November 1, 1999 through December 31, 2000, Renaissance Capital agreed to waive all mandatory principal redemption payments and to accept 30,000 unregistered shares of the Company's Common Stock and a warrant to purchase 60,000 shares of common stock at $1.50 per share in lieu of cash interest payments.

On October 7, 1999, the Company signed a new $9.15 million Credit Agreement with U.S. Bancorp (the "U.S. Bancorp Credit Agreement"). In April 2001, the U.S. Bancorp Credit Agreement was amended to increase the U.S. Bancorp Line of Credit from $3.0 million to $5.0 million, establish a $0.5 million capital expenditure line of credit (the "CapEx Term Loan"), extend the U.S. Bancorp Line of Credit maturity date from October 2002 to October 31, 2003, and modify certain financial covenants. In June 2002, the U.S. Bancorp Credit Agreement was amended to extend the U.S. Bancorp Line of Credit maturity date from October 31, 2003 to October 31, 2005, and modify certain financial covenants.

The U.S. Bancorp Credit Agreement is secured by accounts receivable, inventories, equipment and general intangibles. Borrowings under the line of credit are limited to 80% of eligible receivables and up to 60% of eligible inventories. At December 28, 2002, the Company had a borrowing base of $3,174,000 under the U.S. Bancorp Line of Credit. There were no amounts outstanding on the U.S. Bancorp line of credit at December 28, 2002. The U.S. Bancorp Credit Agreement requires the Company to be in compliance with certain

6. LONG-TERM DEBT: (CONTINUED)

financial performance criteria, including a minimum cash flow coverage ratio, a minimum debt service coverage ratio, minimum annual operating results, a minimum tangible capital base and a minimum fixed charge coverage ratio. At December 28, 2002, the Company was in compliance with all of the financial covenants. Management believes that the fulfillment of the Company's plans and objectives will enable the Company to attain a sufficient level of profitability to remain in compliance with these financial covenants. There can be no assurance, however, that the Company will attain any such profitability and remain in compliance. Any acceleration under the U.S. Bancorp Credit Agreement prior to the scheduled maturity of the U.S. Bancorp Line of Credit or the U.S. Bancorp Term Loans could have a material adverse effect upon the Company.

7. COMMITMENTS AND CONTINGENCIES:

Rental expense under operating leases was $956,000, $506,900 and $309,000 for each of fiscal 2002, 2001 and 2000, respectively. Minimum future rental commitments under non-cancelable leases as of December 28, 2002 are as follows:

YEAR	CAPITAL LEASES	OPERATING LEASES	TOTAL
2003	$ 46,484	$ 980,270	$ 1,026,754
2004	--	952,300	952,300
2005	--	916,036	916,036
2006	--	888,325	888,325
2007	--	706,823	706,823
Thereafter	--	2,670,891	2,670,891
Total	46,484	$ 7,114,645	$ 7,161,129
Less amount representing interest	(705)		
Present value	$ 45,779		

The Company produces T.G.I. Friday's(R) brand salted snacks and Tato Skins(R) brand potato crisps utilizing a sheeting and frying process that includes patented technology that the Company licenses from Miles Willard Technologies, LLC, an Idaho limited liability company ("Miles Willard"). Pursuant to the license agreement between the Company and Miles Willard, the Company has an exclusive right to use the patented technology within North America until the patents expire between 2004 and 2006. In consideration for the use of these patents, the Company is required to make royalty payments to Miles Willard on sales of products manufactured utilizing the patented technology.

The Company licenses the T.G.I. Friday's(R) brand salted snacks trademark from TGI Friday's Inc. under a license agreement with a term expiring in 2014. Pursuant to the license agreement, the Company is required to make royalty payments on sales of T.G.I. Friday's(R) brand salted snack products and is required to achieve certain minimum sales levels by certain dates during the contract term.

In December 2002, Warner Bros. Consumer Products granted the Company rights to introduce an innovative new brand of salted snacks featuring Looney Tunes(TM) characters. The Company plans to launch the new brand nationwide in the summer of 2003 under a multi-year agreement that grants the Company exclusive salted snack category brand licensing and promotional rights for Looney Tunes(TM) characters. A prepaid royalty of $500,000 is included in other current assets as a result of this agreement.

8. SHAREHOLDERS' EQUITY:

COMMON STOCK

On December 27, 2001, the Company completed the sale of 586,855 shares of Common Stock at an offering price of $2.13 per share to BFS US Special Opportunities Trust PLC, a fund managed by Renaissance Capital Group, Inc., in a private placement transaction. The net proceeds of the transaction were utilized by the Company to reduce the Company's

8. SHAREHOLDERS' EQUITY: (CONTINUED)

outstanding indebtedness. The Company has granted BFS US Special Opportunities Trust PLC both demand and piggyback registration rights with respect to the shares of Common Stock purchased in the offering.

PREFERRED STOCK

The Company has authorized 50,000 shares of $100 par value Preferred Stock, none of which was outstanding at December 28, 2002 or December 31, 2001. The Company may issue such shares of Preferred Stock in the future without shareholder approval.

WARRANTS

During 2000, 2001 and 2002 warrant activity was as follows:

	WARRANTS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance, December 31, 1999.....	1,413,298	$ 1.62
Issued.....	85,000	1.09
Balance, December 31, 2000.....	1,498,298	1.59
Issued.....	10,000	3.62
Cancelled.....	(225,000)	4.38
Balance, December 31, 2001.....	1,283,298	1.11
Exercised.....	(269,505)	1.00
Balance, December 28, 2002.....	1,013,793	1.11

Warrants have been issued in connection with prior financings and the acquisition of Wabash. At December 28, 2002, outstanding warrants had exercise prices ranging from $0.88 to $3.62 and a weighted average remaining term of 2.9 years. Warrants that were exercisable at December 28, 2002 totaled 865,716 with a weighted average exercise price per share of $1.15.

As of July 30, 1999, the Company agreed to the assignment of a warrant from Everen Securities, Inc. to Stifel, Nicolaus & Company Incorporated (the Company's acquisitions and financial advisor) representing the right to purchase 296,155 unregistered shares of Common Stock at an exercise price of $.875 per share and expiring in August 2003. The warrant provides the holder thereof certain anti-dilution and piggyback registration rights. The warrant was exercisable as to 50% of the shares when the Company's pro forma annual sales reached $30 million, which it did when the Company completed the Wabash acquisition in October 1999. The remaining 50% of the warrant is exercisable when the Company's pro forma annual sales reach $100 million.

STOCK OPTIONS

The Company's 1995 Stock Option Plan (the "Plan"), as amended in May 2001, provides for the issuance of options to purchase 2,500,000 shares of Common Stock. The options granted pursuant to the Plan expire over a five-year period and generally vest over three years. In addition to options granted under the Plan, the Company also issued non-qualified options to purchase Common Stock to certain Directors and officers which are exercisable and expire either five or ten years from date of grant. All options are issued at an exercise price of fair market value and are noncompensatory. Fair market value is determined based on the price of sales of Common Stock occurring at time of the option award. At December 28, 2002, outstanding options had exercise prices ranging from $.59 to $3.50 per share.

8. SHAREHOLDERS' EQUITY: (CONTINUED)

During 2001 and 2002, stock option activity was as follows:

	PLAN OPTIONS		NON-PLAN OPTIONS	
	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance, December 31, 1999	1,483,650	$ 1.54	720,000	$ 1.17
Granted	336,000	2.13	1,050,000	1.64
Canceled	(91,666)	1.84	--	--
Exercised	(28,334)	1.41	(125,000)	1.08
Balance, December 31, 2000	1,699,650	1.64	1,645,000	1.48
Granted	480,000	3.03	50,000	3.02
Canceled	(143,333)	1.63	--	--
Exercised	(26,000)	1.71	(50,000)	1.08
Balance, December 31, 2001	2,010,317	1.97	1,645,000	1.54
Granted	367,500	2.86	--	--
Canceled	(324,334)	2.78	(66,667)	2.61
Exercised	(315,683)	1.19	(33,333)	2.61
Balance, December 28, 2002	1,737,800	2.15	1,545,000	1.47

At December 28, 2002, outstanding Plan options had exercise prices ranging from $0.59 to $3.10 and a weighted average remaining term of 2.4 years. Plan options that were exercisable at December 28, 2002, December 31, 2001 and December 31, 2000 totaled 1,034,793, 1,299,982 and 975,415 with weighted average exercise prices per share of $1.60, $1.56 and $1.60 respectively. Outstanding Non-Plan options had exercise prices ranging from $1.18 to $3.50 and a weighted average remaining term of 2.4 years. Non-Plan options that were exercisable at December 28, 2002 totaled 1,019,999 with a weighted average exercise price per share of $1.37.

9. INCOME TAXES:

The Company accounts for income taxes using a balance sheet approach whereby deferred tax assets and liabilities are determined based on the differences in financial reporting and income tax basis of assets and liabilities. The differences are measured using the income tax rate in effect during the year of measurement.

The provision for income taxes consisted of the following:

	2002	2001	2000
Current:			
Federal	$ --	$ --	$ --
State	98,593	43,000	38,000
	$ 98,593	$ 43,000	$ 38,000
Deferred:			
Federal	$(413,430)	$ --	$ --
State	72,000	--	--
	$(341,430)	$ --	$ --
Total (benefit) provision for income taxes	$(242,837)	$ 43,000	$ 38,000

9. INCOME TAXES: (CONTINUED)

The following table provides a reconciliation between the amount determined by applying the statutory federal income tax rate to the pretax income amount for the years ended December 28, 2002, December 31, 2001 and December 31, 2000:

	2002	2001	2000
Provision at statutory rate	$ 813,960	$ 370,010	$ 261,049
State income tax, net	170,593	56,742	38,390
Nondeductible expenses	11,983	18,722	15,600
Net operating loss utilized and reversal of valuation allowance	(1,239,373)	(402,474)	(277,039)
Income tax (benefit) provision	$ (242,837)	$ 43,000	$ 38,000

The income tax effects of loss carryforwards and temporary differences between financial and income tax reporting that give rise to the deferred income tax assets and liabilities are as follows:

	DECEMBER 28, 2002	DECEMBER 31, 2001
Net operating loss carryforward.....	$ 1,022,000	$ 1,855,000
Bad debt expense.....	160,000	86,000
Accrued liabilities.....	121,000	73,000
Other.....	141,000	254,000
	1,444,000	2,268,000
Depreciation and amortization.....	(966,570)	(865,000)
Deferred tax asset valuation allowance.....	(136,000)	(1,403,000)
Net deferred tax assets.....	$ 341,430	$ --

The Company experienced significant net losses in prior fiscal years resulting in a net operating loss carryforward ("NOLC") for federal income tax purposes of approximately $2.6 million at December 28, 2002. The Company's NOLC will begin to expire in varying amounts between 2010 and 2018.

Generally accepted accounting principles require that a valuation allowance be established when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in the tax provision in the period of change. In determining whether a valuation allowance is required, we take into account all positive and negative evidence with regard to the utilization of a deferred tax asset including our past earnings history, expected future earnings, the character and jurisdiction of such earnings, unsettled circumstances that, if unfavorably resolved, would adversely affect utilization of a deferred tax asset, carryback and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. During the third quarter of 2002, the Company concluded that it was more likely than not that its deferred tax asset at the time would be realized, and also began providing for income taxes at a rate equal to the combined federal and state effective rates, which approximates 39.2% under current tax rates, rather than the 7.5% rate previously being used to record a tax provision for only certain state income taxes. The $136,000 deferred tax valuation allowance at December 28, 2002 relates to certain state NOL carryforwards.

10. BUSINESS SEGMENTS AND SIGNIFICANT CUSTOMERS:

For the year ended December 28, 2002, one national mass and warehouse club customer and one national vending distributor accounted for $12,414,000 or 21% and $7,784,000 or 13%, respectively, of the Company's consolidated net revenues. For the year ended December 31, 2001, one national warehouse club customer and one national vending distributor accounted for $9,353,000 or 16% and $6,886,000 or 12%, respectively, of the Company's consolidated net revenues. For the year ended December 31, 2000, one Arizona grocery chain customer accounted for $4,673,000, or 11%, and one national vending distributor accounted for $6,376,000, or 15%, respectively, of consolidated net revenues.

10. BUSINESS SEGMENTS AND SIGNIFICANT CUSTOMERS: (CONTINUED)

The Company's operations consist of two segments: manufactured products and distributed products. The manufactured products segment produces potato chips, potato crisps, and tortilla chips for sale primarily to snack food distributors and retailers. The distributed products segment sells snack food products manufactured by other companies to the Company's Arizona snack food distributors. The Company's reportable segments offer different products and services. All of the Company's revenues are attributable to external customers in the United States and all of its assets are located in the United States. The Company does not allocate assets based on its reportable segments.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies (Note 1). The Company does not allocate selling, general and administrative expenses, income taxes or unusual items to segments and has no significant non-cash items other than depreciation and amortization.

	MANUFACTURED PRODUCTS	DISTRIBUTED PRODUCTS	CONSOLIDATED
2002			
Revenues from external customers	$55,321,985	$ 4,026,486	$59,348,471
Depreciation and amortization included in segment gross profit	936,499	--	936,499
Segment gross profit	10,797,357	514,652	11,312,009
2001			
Revenues from external customers	$49,116,667	$ 4,788,149	$53,904,816
Depreciation and amortization included in segment gross profit	859,776	--	859,776
Segment gross profit	10,711,869	234,125	10,945,994
2000			
Revenues from external customers	$33,855,177	$ 5,199,905	$39,055,082
Depreciation and amortization included in segment gross profit	953,010	--	953,010
Segment gross profit	7,395,832	308,309	7,704,141

The following table reconciles reportable segment gross profit to the Company's consolidated income before income tax provision:

	2002	2001	2000
Segment gross profit	$11,312,009	$10,945,994	$ 7,704,141
Unallocated amounts:			
Selling, general and administrative expenses	8,637,652	8,816,627	5,758,883
Fire related income, net	259,376	4,014	--
Interest expense, net	539,733	1,045,117	1,177,467
Income before income taxes	$ 2,394,000	$ 1,088,264	$ 767,791

11. LITIGATION:

The Company is periodically a party to various lawsuits arising in the ordinary course of business. Management believes, based on discussions with legal counsel, that the resolution of any such lawsuits will not have a material effect on the financial statements taken as a whole.

12. RELATED PARTY TRANSACTIONS:

The land and building (140,000 square feet) occupied by the Company in Bluffton, Indiana is leased pursuant to a twenty year lease dated May 1, 1998 with American Pacific Financial Corporation, an affiliate of Pate Foods Corporation from whom the Company purchased Wabash in October 1999. The lease extends through April 2018 and contains two additional five-year lease renewal periods at the option of the Company. Lease payments are approximately $20,000 per month, plus CPI adjustments, and the Company is responsible for all real estate taxes, utilities and insurance.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

The results for any single quarter are not necessarily indicative of the Company's results for any other quarter or the full year. The quarterly net sales and gross profit amounts presented below reflect the reclassifications required by EITF 01-9 discussed in Note 1.

(in 000's except for share data)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FULL YEAR
FISCAL 2002					
Net revenues	$ 14,278	$ 15,358	$ 15,209	$ 14,503	$ 59,348
Gross profit	2,517	3,188	2,564	3,043	11,312
Operating income	552	819	550	753	2,674
Net income	$ 380	$ 640	$ 1,051	$ 565	$ 2,637
Earnings per common share:					
Basic	$ 0.02	$ 0.04	$ 0.06	$ 0.03	$ 0.16
Diluted	$ 0.02	$ 0.04	$ 0.06	$ 0.03	$ 0.15
Weighted average number of common shares:					
Basic	15,692,387	15,833,473	16,362,344	16,686,148	16,146,081
Diluted	17,439,210	18,079,446	17,961,882	18,049,958	17,826,953
FISCAL 2001					
Net revenues	$ 13,267	$ 14,482	$ 13,871	$ 12,285	$ 53,905
Gross profit	2,872	3,121	2,778	2,175	10,946
Operating income	668	703	422	336	2,129
Net income	$ 369	$ 404	$ 161	$ 111	$ 1,045
Earnings per common share:					
Basic	$ 0.02	$ 0.03	$ 0.01	$ 0.01	$ 0.07
Diluted	$ 0.02	$ 0.02	$ 0.01	$ 0.01	$ 0.06
Weighted average number of common shares:					
Basic	14,999,765	15,046,655	15,042,765	15,111,704	15,050,509
Diluted	16,965,390	17,708,387	17,920,140	17,107,814	17,198,648

The sum of quarterly earnings per share information may not agree to the annual amount due to the use of the treasury stock method of calculating earnings per share.

14. ACCOUNTS RECEIVABLE ALLOWANCE

Changes to the allowance for doubtful accounts during the three years ended December 28, 2002 are summarized below:

	Balance at beginning of period	Charges to Expense	Deductions	Balance at end of period
Allowance for Doubtful Accounts				
Fiscal 2000	$206,000	124,000	84,000	$246,000
Fiscal 2001	$246,000	332,000	359,000	$219,000
Fiscal 2002	$219,000	379,000	189,000	$409,000

EXHIBIT INDEX

10.33 -- License Agreement, dated November 20, 2002, by and between the Company and Warner Bros., a division of Time Warner Entertainment Company, L.P.

10.34 -- License Agreement, dated November 20, 2002, by and between the Company and Warner Bros., a division of Time Warner Entertainment Company, L.P.

10.35 -- License Agreement, dated July 19, 2000, by and between the Company and M.J. Quinlan & Associates Pty. Limited

21.1 -- List of subsidiaries of Poore Brothers, Inc.

23.1 -- Consent of Deloitte & Touche LLP.

23.2 -- Notice Regarding Consent of Arthur Andersen LLP

99.1 -- Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 10.33

RETAIL AND PROMOTIONAL LICENSE
WARNER BROS. CONSUMER PRODUCTS
#13770-WBLT

PROMOTIONAL LICENSE AGREEMENT made November 20, 2002 by and between WARNER BROS., A DIVISION OF TIME WARNER ENTERTAINMENT COMPANY, L.P., c/o Warner Bros. Consumer Products, a division of Time Warner Entertainment Company L.P., whose address is 4000 Warner Blvd., Burbank, CA 91522 (hereinafter referred to as "LICENSOR") and POORE BROTHERS, INC., whose address is 3500 S. La Cometa Drive, Goodyear, AZ 85338, Attention: Eric Kufel (hereinafter referred to as "LICENSEE").

W I T N E S S E T H:

The parties hereto mutually agree as follows:

1. DEFINITIONS: As used in this Agreement, the following terms shall have the following respective meanings:

(a) "CHANNELS OF DISTRIBUTION": Licensee may conduct the Licensed Promotion and shall sell and distribute the Licensed Products and/or the Licensed Premiums through the following Channels of Distribution only (as such channels are defined and numbered in Exhibit 1 attached hereto and incorporated herein by reference):

CHANNEL EXHIBIT 1 NUMBER

[*]

All other Channels of Distribution defined in Exhibit 1 which are not specified above in this Paragraph l(a) are specifically excluded from this Agreement.

[*]

(b) "GUARANTEED CONSIDERATION": [*]

(c) "LICENSED PREMIUM(S)": Licensee shall have the right to include premiums incorporating the Licensed Property in association with the Licensed Promotion.

Any and all such premiums shall be determined by the parties at a later date and shall be added to this License Agreement pursuant to a written amendment, provided, however, that Licensor shall have the absolute right to approve in writing all the elements (i.e. all premiums as well as all product packaging, advertising, etc.) prior to manufacture of said premiums.

For purposes of this subparagraph, the term "premium" shall be defined as including, but not necessarily limited to, combination sales, free or self-liquidating items offered to the public in conjunction with the sale or promotion of a product or service, including traffic building or continuity visits by the consumer/customer, or any similar scheme or device, the prime intent of which is to use the premiums in such a way as to promote, publicize and or sell the products, services or business image of the user of such item.

(d) "LICENSED PRODUCTS": Salted Snacks Category defined as: Potato Chips, Potato Crisps, 2-D Potato or Corn Snacks, 3-D Potato or Corn Snacks, Pretzels, Cheese Puffs, Tortilla Chips, Pellet Fried Snacks, Extruded Fried Snacks.

It is understood and agreed that for the purposes of this Agreement, Salted Snacks Category shall exclude the following: pre-popped popcorn, nuts, crackers, and cookies.

(e) "LICENSED PROMOTION": The right to utilize the Licensed Property in connection with the advertising and promotion of the Licensed Products and with the manufacture, distribution and advertisement of Licensed Premiums as set forth below:

Licensee shall invest [*] of its annual Net Sales (as defined in Paragraph 4(b) below) of the Licensed Products towards trade and consumer marketing support which shall include a minimum of one (1) FSI per calendar year (the "Annual FSI Requirement"). [*] of such marketing investment shall be allocated towards television media commitments (the "TV Commitment") on AOL TW networks each calendar year to support the Licensed Products. In the event, Licensor is no longer affiliated with television media outlets during the Term, Licensee may utilize other television networks to fulfill the TV Commitment.

It is understood and agreed that the Annual FSI Requirement shall be fulfilled for the calendar year 2003 with the FSI for the Looney Tunes: Back in Action property as provided for in separate license agreement #13771-WBLT/BIA.

(f) "LICENSED PROPERTY": The fictional cartoon characters BUGS BUNNY, DAFFY DUCK, SYLVESTER, TWEETY, ROAD RUNNER, WILE E. COYOTE, TASMANIAN DEVIL, ELMER FUDD, PORKY PIG, MARVIN THE MARTIAN, GOSSAMER and MISS WITCH HAZEL, YOSEMITE SAM, PEPE LE PEW, FOGHORN LEGHORN which constitute "LOONEY TUNES", including the names of said characters and all trademarks, copyrights, environmental settings and artwork associated therewith. Licensee specifically understands and agrees that no rights are granted herein with respect to the Warner Bros.
"BABY LOONEY TUNES" or "BABY LOONEY TUNES CLASSIC COLLECTION" properties, it being understood that all rights in and to said properties are reserved exclusively to Licensor for use and/or licensing as it deems appropriate to third parties of its choice. Licensee further understands and agrees that the rights granted herein are limited only to the cartoon characters set forth above as depicted in Licensor's Style Guide, as such Style Guide may be revised from time to time, and that any and all rights in, to or associated with any theatrical motion picture, including without limitation the motion picture presently entitled LOONEY TUNES: BACK IN ACTION, any television motion picture, movie of the week, television special, television pilot, television series, direct to video or any other audiovisual work of any type now known or hereafter devised intended for exploitation in any medium now known or hereafter devised containing "LOONEY TUNES", whether live action, animation or both, as well as with any sequels, spin-offs and all other types of derivative works based thereon, are specifically excluded herefrom, it being understood that all rights in and to such properties are reserved exclusively to Licensor for use and/or licensing as it deems appropriate to third parties of its choice. Any and all rights in any film clips, stills, sound bites, voices, music or other audio clips are specifically excluded herefrom. If Licensee wishes to use any such elements, Licensee must separately procure the necessary rights and any rights clearance or related fees arising from same shall be at Licensee's sole expense.

(g) "MARKETING DATE": Date Licensed Products first shipped to customer, but not later than September 15, 2003.

(h) "ROYALTY RATE": Licensee shall pay to Licensor the following sums:

(i) [*] of Net Sales of all Licensed Products; and

(ii) [*] of Net Purchase Price of all Licensed Premiums distributed by Licensee hereunder. The term "Net Purchase Price" herein shall mean the price actually paid by Licensee for any Licensed Premium(s) authorized and distributed hereunder. It is understood and agreed that any Royalties paid to Licensor on Net Purchase Price of Premiums shall be in addition to and shall not offset the Guaranteed Consideration hereunder.

(g) "STYLE GUIDE": Any materials provided by Licensor to Licensee which sets forth the style, format, characterization and any artwork depicting the Licensed Property which has been approved by Licensor in writing

(i) "TERM": [*]

(j) "TERRITORY": United States (fifty states), Puerto Rico, United States Virgin Islands, and United States Military Bases.

2. GRANT OF LICENSE:

(a) Subject to the restrictions, limitations, reservations and conditions and Licensor's approval rights set forth in this Agreement, Licensor hereby grants to Licensee and Licensee hereby accepts for the Term of this Agreement, a license to utilize the Licensed Property solely on or in connection with the Licensed Promotion and the Licensed Products and/or Licensed Premiums throughout the Territory on an exclusive basis in the Salted Snack Category as defined in Paragraph 1(d), except that sales of Licensed Products and Licensed Premiums sold through Airport Gift and Other Airport Stores shall be on a non-exclusive basis.

(b) [*]

(c) Without limiting any other approval rights of Licensor as contained herein, no television commercials (animated or live action) may be utilized under this Agreement without the specific prior written approval of Licensor.

3. RESERVATION OF RIGHTS; PREMIUMS:

(a) Licensor reserves all rights not expressly conveyed to Licensee hereunder, and Licensor may grant licenses to others to use the Licensed Property, artwork and textual matter in connection with other uses, services and products without limitation.

(b) Notwithstanding anything to the contrary stated herein, Licensor, for itself and its affiliates, specifically reserves the right, without limitation throughout the world, to itself use, or license any third party(s) of its choice to use the Licensed Property for the marketing, manufacture, distribution and sale of products and/or the promotion of services similar or identical to those licensed herein in Paragraphs l(c) and l(d) above for sale through any catalogue(s) or online website produced or distributed by or on behalf of Licensor or its affiliated companies, or for sale or distribution in any theaters, arenas or restaurants or for sale or distribution in connection with any home video product, including DVD or other formats, or for sale or distribution in the retail stores known as "Warner Bros. Studio Stores" and any other retail stores operated by or on behalf of Licensor or its affiliated companies, or for sale or distribution in any theme/amusement parks operated by or on behalf of Licensor and its affiliated companies, including without limitation, the Six Flags and Movie World parks or its licensees, Six Flags, Movie World, or their affiliated companies. In addition, Licensor reserves the right to allow Six Flags and Movie World to manufacture (or have manufactured by a third party) products similar or identical to those licensed herein for distribution or sale in theme and/or amusement parks owned or operated by Six Flags and/or Movie World. Further, Licensor reserves the right to use, or license others to use, and/or manufacture products similar or identical to those licensed herein for use as premiums. Nothing contained herein shall be construed to mean that Licensee is granting a license to Licensor to utilize Licensee's proprietary and/or patented technology.

(c) Licensee specifically understands and agrees that no rights are granted herein with respect to the Warner Bros. "shield" logo or trademark, or any other trademark(s), logo(s) or copyrights owned by Licensor other than those specifically set forth above in the Licensed Property, it being understood that all rights in and to said properties are reserved exclusively to Licensor for use and/or licensing as it deems appropriate to third party(s) of its choice. Notwithstanding the foregoing Licensee may use the Warner Bros. shield logo in connection with the legal line referenced in Paragraph 8(d) below as instructed by Licensor's Brand Assurance Department.

(d) Licensee agrees that it will not use, or knowingly permit the use of, and will exercise due care that its customers likewise will refrain from the use of, the Licensed Products as premiums or the Licensed Premiums as products for retail sale, except with the prior written consent of Licensor.

(e) Licensee specifically understands and agrees that no rights are granted hereunder with respect to the Warner Bros. "BABY LOONEY TUNES" infant property, it being understood that all rights in and to said property are reserved exclusively to Licensor for use and/or licensing as it deems appropriate to third parties of its choice.

(f) Licensee further understands and agrees that the rights granted herein are limited only to the cartoon characters set forth above and that any and all rights in, to or associated with the theatrical motion picture entitled "SPACE JAM", as well as with any sequels thereto, are specifically excluded herefrom, it being understood that all rights in and to said property are reserved exclusively to Licensor for use and/or licensing as it deems appropriate to third parties of its choice.

4. CONSIDERATION:

(a) The Guaranteed Consideration paid by Licensee as set forth above shall be applied against such royalties as are, or have become, due to Licensor. No part of such Guaranteed Consideration shall be repayable to Licensee. Royalties earned in excess of the Guaranteed Consideration applicable to the Term hereof shall not offset any Guaranteed Consideration required in respect of the succeeding renewal term (if any); likewise, royalties earned in excess of the Guaranteed Consideration applicable to the renewal term (if any) shall not offset any Guaranteed Consideration applicable to any prior term.

(b) Royalty Payments: Licensee shall pay to Licensor a sum equal to the Royalty Rate as set forth above of (i) all Net Sales by Licensee of the Licensed Products and/or (ii) Net Purchase Price of the Licensed Premiums covered by this Agreement. The term "net sales" herein shall mean [*]. No costs incurred in the manufacture, sale, distribution, advertisement, or exploitation of the Licensed Products shall be deducted from any royalties payable by Licensee.

(c) Royalties shall be payable concurrently with the periodic statements required in Paragraph 5(a) hereof, except to the extent offset by the Guaranteed Consideration theretofore remitted.

5. PERIODIC STATEMENTS:

(a) Within thirty (30) days after the end of the first fiscal quarter after the date of execution of the License Agreement and promptly on the 25th day after the end of each fiscal quarter thereafter, Licensee shall furnish to Licensor complete and accurate statements certified to be accurate by Licensee, or if a corporation, by an officer of Licensee, showing the (i) number of units; (ii) country in which manufactured, sold, distributed and/or to which shipped; (iii) Description (as such term is defined below) of the Licensed Products and/or Licensed Premiums; (iv) gross sales price or Net Purchase Price (if applicable); and (v) itemized deductions from gross sales price and net sales price (if applicable) together with any returns made during the preceding fiscal quarter. Such statements shall be in such formats as Licensor shall reasonably require (which formats may be amended by Licensor from time to time) and shall be furnished to Licensor whether or not any of the Licensed Products and/or Licensed Premiums have been distributed during fiscal quarters to which such statements refer. Receipt or acceptance by Licensor of any of the statements furnished pursuant to this Agreement or of any sums paid hereunder shall not preclude Licensor from questioning the correctness thereof at any time, and in the event that any inconsistencies or mistakes are discovered in such statements or payments, they shall immediately be rectified and the appropriate payments made by Licensee. Upon demand of Licensor, Licensee shall at its own expense, but not more than once in any twelve (12) month period, furnish to Licensor a detailed statement by an officer of Licensee showing the
(i) number of units; (ii) country in which manufactured, sold, distributed and/or to which shipped; (iii) Description of the Licensed Products and/or Licensed Premiums; (iv) gross sales price or Net Purchase Price (if applicable); and (v) itemized deductions from gross sales price and net sales price (if applicable) of the Licensed Products and/or Licensed Premiums covered by this Agreement distributed and/or sold by Licensee up to and including the date upon which Licensor has made such demand. For purposes of this Paragraph
5(a), the term "Description" shall mean a detailed description of the Licensed Products and/or Licensed Premiums including the nature of each of the Licensed Products and/or Licensed Premiums, any and all names and likenesses, whether live actors or animated characters, from

the Licensed Property utilized on the Licensed Products and/or Licensed Premiums and/or any related packaging and/or wrapping material, and any other components of the Licensed Property utilized on the Licensed Products and/or Licensed Premiums and/or any related packaging and/or wrapping material. In the event Licensor is responsible for the payment of any additional third party participations based on Licensee not reporting by character name and likeness as provided above, Licensee shall be responsible for reimbursing Licensor for the full amount of all such third party claims, including without limitation the participation itself, interest, audit and reasonable attorneys' fees. Licensee understands and agrees that it is a material term and condition of this Agreement that Licensee include the Description on all statements. In the event Licensee fails to do so, Licensor shall have the right to terminate this Agreement, in accordance with the provisions of Paragraph 14 herein.

(b) For the statements and payments required hereunder, Licensee shall reference the contract number(s) on all statements and payments. If the United States Postal Service is used deliver to the following:

WARNER BROS. CONSUMER PRODUCTS
21477 Network Place
Chicago, IL 60673-1214

If sent by Federal Express or any other Courier Service deliver to the following:

BANK ONE
Attention WBCP lockbox #21477

525 West Monroe
8th Floor Mail Room
Chicago, IL 60661
Telephone Number 312-732-5500

(c) Any payments which are made to Licensor hereunder after the due date required therefor, shall bear interest at the then current prime rate, as published in The Wall Street Journal (New York edition), plus three (3%) percent (or the maximum rate permissible by law, if less) from the date such payments are due to the date of payment. Licensor's right hereunder to interest on late payments shall not preclude Licensor from exercising any of its other rights or remedies pursuant to this Agreement or otherwise with regard to Licensee's failure to make timely remittances.

6. BOOKS AND RECORDS:

(a) Licensee shall keep, maintain and preserve (in Licensee's principal place of business) for at least two (2) years following expiration or termination of the Term of this Agreement or any renewal(s) hereof (if applicable), complete and accurate records of accounts including, without limitation, purchase orders, inventory records, invoices, correspondence, banking and financial and other records pertaining to the various items required to be submitted by Licensee as well as to ensure Licensee's compliance with local laws as required pursuant to Paragraph 13(k) hereof. Such records and accounts shall be available for inspection and audit up to two (2) times per year during or after the Term of this Agreement or any renewal(s) hereof (if applicable) during reasonable business hours and upon reasonable notice by Licensor or its nominees. Licensee agrees not to cause any interference with Licensor or nominees of Licensor in the performance of their duties. During such inspections and audits, Licensor shall have the right to take extracts and/or make copies of Licensee's relevant records as it deems reasonably necessary. Licensor agrees to keep confidential all information and copies obtained by Licensor pursuant to this Paragraph other than with respect to required disclosures in connection with disputes between the parties or as otherwise required by law, court order or governmental process.

(b) The exercise by Licensor in whole or in part, at any time of the right to audit records and accounts or of any other right herein granted, or the acceptance by Licensor of any statement or statements or the receipt and/or deposit by Licensor, of any payment tendered by or on behalf of Licensee shall be without prejudice to any rights or remedies of Licensor and such acceptance, receipt and/or deposit shall

not preclude or prevent Licensor from thereafter disputing the accuracy of any such statement or payment.

(c) If pursuant to its right hereunder Licensor causes an audit and inspection to be instituted which thereafter discloses a deficiency between the amount found to be due to Licensor and the amount actually received or credited to Licensor, then Licensee shall, upon Licensor's demand, promptly pay the deficiency, together with interest thereon at the then current prime rate from the date such amount became due until the date of payment, and, if the deficiency is more than five percent (5%) of all payments made by Licensee during the period covered by the audit, then Licensee shall pay the reasonable costs and expenses of such audit and inspection.

7. INDEMNIFICATIONS:

(a) During the Term, and continuing after the expiration or termination of this Agreement, Licensor shall indemnify Licensee and its affiliates and shall hold them harmless from any loss, liability, damage, cost or expense, including reasonable attorneys' fees, arising out of any claims or suits which may be brought or made against Licensee and its affiliates by reason of the breach by Licensor of the warranties or representations as set forth in Paragraph 12 hereof, provided that Licensee shall give prompt written notice, and full cooperation and assistance to Licensor relative to any such claim or suit and provided, further, that Licensor shall have the option to undertake and conduct the defense of any suit so brought. Licensee shall not, however, be entitled to recover for lost profits. Licensee shall cooperate fully in all respects with Licensor in the conduct and defense of said suit and/or proceedings related thereto.

(b) During the Term, and continuing after the expiration or termination of this Agreement, Licensee shall indemnify Licensor, Time Warner Entertainment Company, L.P. ("TWE") and each of its affiliates, and shall hold them harmless from any loss, liability, damage, cost or expense, including reasonable attorneys' fees, arising out of any claims or suits which may be brought or made against Licensor, TWE or any of its affiliates, by reason of: (i) any breach of Licensee's covenants and undertakings hereunder; (ii) any unauthorized use by Licensee of the Licensed Property; (iii) any use of any trademark or copyright on or in connection with the Licensed Products, the Licensed Premiums or the Licensed Promotion (except trademarks or copyrights in the Licensed Property used in accordance with the terms of this Agreement), design, patent, process, method or device on or in connection with the Licensed Products, Licensed Premiums or Licensed Promotion; (iv) Licensee's non-compliance with any applicable federal, state or local laws or with any other applicable regulations; and (v) any alleged defects and/or inherent dangers (whether obvious or hidden) in the Licensed Products and/or Licensed Premiums, or the use thereof. Provided, however, that Licensor shall give prompt written notice, and full cooperation and assistance to Licensee relative to any claim or suit and provided, further, that Licensee shall have the option to undertake and conduct the defense of any suit so brought. Licensor shall cooperate fully in all respects with Licensee in the conduct and defense of said suit and/or proceedings related thereto. Provided, however, that Licensor shall give prompt written notice, and full cooperation and assistance to Licensee relative to any such claim or suit and provided, further, that Licensee shall have the option to undertake and conduct the defense of any suit so brought. Licensor shall cooperate fully in all respects with Licensee in the conduct and defense of said suit and/or proceedings related thereto.

(c) With regard to Paragraph 7(b) above, Licensee agrees to obtain, at its own expense, Commercial General Liability Insurance, including product liability and contractual liability coverage providing adequate protection for Licensor and Licensee against any such claims or suits in amounts no less than three million dollars ($3,000,000) per occurrence, combined single limits. Simultaneously with the execution of this Agreement, Licensee undertakes to submit to Licensor a fully paid policy or certificate of insurance naming Licensor, TWE and each of its affiliates as additional insured parties and, requiring that the insurer shall not terminate or materially modify such policy or certificate of insurance without written notice to Licensor at least

thirty (30) days in advance thereof. Such insurance shall at all times be primary and not contributory with any insurance carried by Licensor, TWE or any of their affiliates. Further the delivery of the policy or certificate, as provided in this Paragraph 7(c) are material obligations of Licensee.

8. ARTWORK; COPYRIGHT AND TRADEMARK NOTICES:

(a) The Licensed Property shall be displayed or used only in such form and in such manner as has been specifically approved in writing by Licensor in advance and Licensee undertakes to assure usage of the trademark(s) and character(s) solely as approved hereunder. Licensee further agrees and acknowledges that any and all Artwork (defined below) created, utilized, approved and/or authorized for use hereunder by Licensor which features or includes the Licensed Property shall be owned exclusively by Licensor excluding intellectual property rights in and to any elements that are owned by Licensee or licensed by Licensee from a third party and do not include the Licensed Property. "Artwork" as used herein shall include, without limitation, all pictorial, graphic, visual, audio, audio-visual, digital, literary, animated, artistic, dramatic, sculptural, musical or any other type of creations and applications, whether finished or not, including, but not limited to, animation, drawings, designs, sketches, images, tooling and tooling aids, illustrations, film, video, electronic, digitized or computerized information, software, object code, source code, on-line elements, music, text, dialogue, stories, visuals, effects, scripts, voiceovers, logos, one-sheets, promotional pieces, packaging, display materials, printed materials, photographs, interstitials, notes, shot logs, character profiles and translations, produced by Licensee or for Licensee, pursuant to this Agreement. Licensor reserves for itself or its designees all rights to use any and all Artwork created, utilized and/or approved hereunder without limitation excluding intellectual property rights in and to any elements that are owned by Licensee or licensed by Licensee from a third party and do not include the Licensed Property. Nothing contained herein shall be construed to mean that Licensee is granting a license to Licensor to utilize Licensee's proprietary, patented technology, and/or intellectual property rights whether alone or in combination with the Licensed Property.

(b) Licensee acknowledges that, as between Licensor and Licensee, the Licensed Property and Artwork and all derivative works thereof, and all copyrights, trademarks and other proprietary rights therein are owned exclusively by Licensor and Licensee shall have no interest in or claim thereto, except for the limited right to use the same pursuant to this Agreement and subject to its terms and conditions.

Licensor acknowledges that, as between Licensor and Licensee, the Licensee's intellectual property and all derivative works thereof, and all copyrights, trademarks and other proprietary rights therein are owned exclusively by Licensee and Licensor shall have not interest in or claim thereto.

Licensee agrees and acknowledges that any Artwork created by Licensee or for Licensee hereunder is a "work made for hire" for Licensor under the U.S. Copyright Act, and any and all similar provisions of law under other jurisdictions, and that Licensor is the author of such works for all purposes, and that Licensor is the exclusive owner of all the rights comprised in the undivided copyright and all renewals, extensions and reversions therein, in and to such works in perpetuity and throughout the universe. Licensee hereby waives and releases in favor of Licensor all rights (if any) of "droit moral," rental rights and similar rights in and to the Artwork (the "Intangible Rights") and agrees that Licensor shall have the right to revise, condense, abridge, expand, adapt, change, modify, add to, subtract from, re-title, re-draw, re-color, or otherwise modify the Artwork, without the consent of Licensee. Licensee hereby irrevocably grants, transfers and assigns to Licensor all right, title and interest, including copyrights, trademark rights, patent rights and other proprietary rights, it may have in and to the Artwork and all derivative works, in perpetuity and throughout the universe. Licensee acknowledges that Licensor shall have the right to terminate this Agreement in the event Licensee asserts any rights (other than those specifically granted pursuant to this Agreement) in or to the Licensed Property or Artwork.

Licensee hereby warrants that any and all work created by Licensee under this Agreement apart from the materials provided to Licensee by Licensor is and shall be wholly original with or fully cleared by Licensee and shall not copy or otherwise infringe the rights of any third parties, and Licensee hereby indemnifies Licensor and will hold Licensor harmless from any such claim of infringement or otherwise

involving Licensee's performance hereunder, under the terms of Paragraph 7(b). At the request of Licensor, Licensee shall execute such form(s) of assignment of copyright or other papers as Licensor may reasonably request in order to confirm and vest in Licensor the rights in the properties as provided for herein. In addition, Licensee hereby appoints Licensor as Licensee's Attorney-in-Fact to take such actions and to make, sign, execute, acknowledge and deliver all such documents as may from time to time be necessary to confirm in Licensor, its successors and assigns, all rights granted herein. If any third party makes or has made any contribution to the creation of Artwork authorized for use hereunder, Licensee agrees to obtain from such party a full confirmation and assignment of rights so that the foregoing rights shall vest fully in Licensor, in the form of the Contributor's Agreement attached hereto as Exhibit 2 and by this reference made a part hereof, prior to commencing work, and subject to the prior written approval of Licensor, ensuring that all rights in the Artwork and Licensed Property arise in and are assigned to Licensor. Promptly upon entering into each such Contributor's Agreement, Licensee shall give Licensor a copy of such Contributor's Agreement. Licensee assumes all responsibility for such parties and agrees that Licensee shall bear any and all risks arising out of or relating to the performance of services by them and to the fulfillment of their obligations under the Contributor's Agreement.

(c) Upon expiration or termination of this Agreement for any reason, or upon demand by Licensor at any time, Licensee shall promptly deliver to Licensor all Artwork or Licensed Property, whether finished or not, including drawings, drafts, sketches, illustrations, screens, data, digital files and information, copies or other items, information or things created in the course of preparing the Licensed Property, excluding any elements that are owned by Licensee or licensed by Licensee from a third party and all materials provided to Licensee by Licensor hereunder, or, at Licensor's option and instruction, shall destroy some or all of the foregoing and shall confirm to Licensor in writing that Licensee has done so. Licensee shall not use such Artwork or Licensed Property, items, information or things, material, for any purpose other than is permitted under this Agreement. For any Licensee elements and/or intellectual property that utilize Licensed Property or Artwork in whole or in part, Licensee shall destroy such elements and/or intellectual property upon expiration or termination of this Agreement for any reason and shall confirm to Licensor in writing that Licensee has done so.

(d) Licensee shall, within thirty (30) days of receiving an invoice, pay Licensor for Artwork executed for Licensee by Licensor (or by third parties under contract to Licensor) for use in the development of the Licensed Products and/or Licensed Premiums and any related packaging, display and promotional materials at Licensor's prevailing commercial art rates. The foregoing shall include any Artwork that, in Licensor's opinion, and subject to Licensee's written approval, is necessary to modify Artwork initially prepared by Licensee and submitted for approval. Estimates of Artwork charges are available upon request. Licensor shall submit to Licensee, for Licensee's prior approval, any increases of ten percent (10%) or more above the estimate originally approved by Licensee, and Licensee shall not be obligated to pay for such increased cost if Licensee has not provided its approval thereof.

(e) Licensee shall cause to be imprinted, irremovably and legibly on the packaging of each Licensed Product and/or Licensed Premium manufactured, distributed or sold under this Agreement, and all printed and/or televised advertising, promotional, packaging and wrapping material wherein the Licensed Property appears, the following copyright and/or trademark notice(s) or such other notice as may be approved by Licensor:

LOONEY TUNES, CHARACTERS, NAMES AND ALL RELATED INDICIA ARE TRADEMARKS OF AND (C) WARNER BROS.

(S02)

(The year date shall be as instructed by Licensor.)

(f) In no event shall Licensee use, in respect to the Licensed Products and/or Licensed Premiums and/or in relation to any advertising, promotional, packaging or wrapping material, any copyright or trademark notices which shall conflict with, be confusing with, or negate, any notices required hereunder by Licensor in respect to the Licensed Property.

(g) Licensee agrees to deliver to Licensor free of cost six (6) of each of the Licensed Premiums together with their packaging and wrapping material for trademark registration purposes in compliance with applicable laws, simultaneously upon distribution to the public. Any copyrights or trademarks with respect to the Licensed Promotion or Licensed Products and/or Licensed Premiums shall be procured by and for the benefit of Licensor and at Licensor's expense. Licensee further agrees to provide Licensor with the date of the first use of the Licensed Products and/or Licensed Premiums in interstate and intrastate commerce.

(h) Licensee shall assist Licensor, at Licensor's expense, in the procurement, protection, and maintenance of Licensor's rights to the Licensed Property. Licensor may, in its sole discretion, commence or prosecute and effect the disposition of any claims or suits relative to the imitation, infringement and/or unauthorized use of the Licensed Property either in its own name, or in the name of Licensee, or join Licensee as a party in the prosecution of such claims or suits. Licensee agrees to cooperate fully with Licensor in connection with any such claims or suits and undertakes to furnish full assistance to Licensor in the conduct of all proceedings in regard thereto. Licensee shall promptly notify Licensor in writing of any known infringements or imitations or unauthorized uses by others of the Licensed Property, on or in relation to promotions similar to the Licensed Promotion or products identical to similar to or related to the Licensed Products and/or Licensed Premiums. Licensor shall in its sole discretion have the right to settle or effect compromises in respect thereof. Licensee shall not institute any suit or take any action on account of such infringements, imitations or unauthorized uses.

(i) Licensee acknowledges receipt of Licensor's Style Guide and undertakes to utilize the depictions of the Licensed Property (and, if authorized by Licensor, any emblems and/or devices associated therewith) in the form as set forth therein on all Licensed Products as well as advertising, promotional, packaging or wrapping materials. In the event that Licensee desires to utilize renditions which vary from those as set forth in the Style Guide, Licensee shall make a request to Licensor in that connection, and if the request is approved, Licensor shall prepare appropriate Artwork and deliver same to Licensee. Licensee shall utilize such Artwork solely in the form furnished by Licensor, if Licensee decides to use such Artwork in Licensee's sole discretion, shall pay a reasonable fee to Licensor in respect thereof not later than one month after delivery thereof by Licensor to Licensee, and such fee shall be additional to and not offset by any Guaranteed Consideration referred to in Paragraph 1(b) hereinabove.

(j) If Licensee is unable or unwilling to use artwork from the Licensor's Style Guide and if Licensor is unable or unwilling to provide Licensee with Artwork as described in subparagraph (h) above and if Licensor expressly consents in writing, which consent shall not be unreasonably withheld, but may be subject to such conditions as Licensor may elect in its sole discretion, then and only then may the Licensee create or procure the creation of Artwork. In any event, Licensee shall assign or procure the assignment in writing of all rights, copyright and otherwise, in and to any Artwork, and it is intended that this provision shall take effect as an assignment of prospective copyrights in Artwork yet to be created by or for. The Licensee further undertakes to take all and any steps necessary for the recordal or registration of the assignment(s) referred to hereinabove.

9. APPROVALS AND QUALITY CONTROLS:

(a) Licensee agrees to strictly comply and maintain compliance with the quality standards, specifications and rights of approval of Licensor in respect to any and all usage of the Licensed Property on or in relation to the Licensed Products and/or Licensed Premiums throughout the Term of this Agreement and any renewals or extensions thereof (if applicable). Licensee agrees to furnish to Licensor free of cost for its written approval as to quality and style, samples of each of the Licensed Products and/or Licensed Premiums, together with their packaging, hangtags, and wrapping material, as follows in the successive stages indicated: (i) rough sketches/layout concepts; (ii) finished artwork or final proofs; (iii) pre-production samples or strike-offs; and (iv) finished products, including packaged samples.

(b) No Licensed Products and/or Licensed Premiums and no material utilizing the Licensed Property shall be manufactured, sold, distributed or promoted by Licensee without prior written approval. In

addition to the foregoing, Licensee understands that it shall furnish to Licensor, scripts and storyboards of any proposed media use of the Licensed Property as may be authorized hereunder, in sufficient time for Licensee to make all revisions which Licensor in its sole discretion may request. Licensee may, subject to Licensor's prior written approval, use textual and/or pictorial matter pertaining to the Licensed Property on promotional, display and advertising material as may, in its reasonable judgment, promote the sale of the Licensed Products and/or Licensed Premiums. All advertising and promotional materials relating to the Licensed Promotion and Licensed Products and/or Licensed Premiums must be submitted to the Licensor for its written approval at the following stages appropriate to the medium used. For print materials, submissions are to be made at the following stages: (a) rough sketches or layout concepts; (b) finished artwork or final proofs; and (c) finished materials. For television commercials, if approved by Licensor, submissions are to be made at the following stages: (a) initial concept; (b) storyboard, including written text;
(c) pencil tests and voice-overs for animation and/or selection of performers for live action; and (d) a cassette of the finished commercial prior to air date. For radio or other audio materials, if approved by Licensor, submissions are to be made at the following stages: (a) initial concept; (b) script; (c) voice-overs; and (d) a cassette of the finished commercial prior to the air date.

(c) Approval or disapproval shall lie in Licensor's sole discretion. Licensor shall use its best efforts to approve, disapprove or otherwise comment upon any items submitted to it for approval as may be required hereunder within ten (10) business days after receipt by it of such item (s). In the event that Licensor fails to approve, disapprove or otherwise comment upon the item(s) so submitted within said ten (10) business days, then Licensee shall have the right to notify Licensor of such failure by facsimile (evidenced by written confirmation of facsimile transmittal) and Licensor shall thereafter be required to approve, disapprove or otherwise comment upon the item(s) so submitted within seven (7) business days after receipt by it of said facsimile and failure to do so shall be deemed approval of any item(s) so submitted. Any Licensed Products and/or Licensed Premiums not so approved in writing shall be deemed unlicensed and shall not be manufactured, distributed or sold. If any unapproved Licensed Products and/or Licensed Premiums are being distributed or sold, Licensor may, together with other remedies available to it including, but not limited to, immediate termination of this Agreement, require such Licensed Products and/or Licensed Premiums to be immediately withdrawn from the market and to be destroyed, such destruction to be attested to in a certificate signed by an officer of Licensee.

(d) Any material modification of a Licensed Product and/or Licensed Premium must be submitted in advance for Licensor's written approval as if it were a new Licensed Product and/or Licensed Premium. Any change involving the Artwork appearing on a Licensed Product shall constitute a material modification of such Licensed Product. Approval of a Licensed Product and/or Licensed Premium which uses particular artwork does not imply approval of such artwork for use with a different Licensed Product and/or Licensed Premium.

(e) Licensed Products and/or Licensed Premiums must conform in all material respects to the final production samples approved by Licensor. If in Licensor's reasonable judgement, the quality of a Licensed Product and/or Licensed Premium originally approved has deteriorated in later production runs, or if a Licensed Product and/or Licensed Premium has otherwise been altered, Licensor may, in addition to other remedies available to it, require that such Licensed Product and/or Licensed Premium be immediately withdrawn from the market.

(f) Licensee shall permit Licensor to inspect Licensee's manufacturing operations, testing and manufacturing payroll records (including those operations and relevant records of any supplier or manufacturer approved pursuant to Paragraph 10(b) below) with respect to the Licensed Products and/or Licensed Premiums.

(g) If any changes or modifications are required to be made to any material submitted to Licensor for its written approval in order to ensure compliance with Licensor's specifications or standards of quality, Licensee agrees promptly to make such changes or modifications.

(h) Subsequent to final approval, no fewer than twenty-four (24) production samples of Licensed Products and/or Licensed Premiums will be sent to Licensor, to ensure quality control simultaneously upon distribution to the public. In addition, Licensor shall have the right to purchase any and all Licensed Products and/or Licensed Premiums in any quantity at the maximum discount price Licensee charges its best customer, assuming similar quantities and shipment terms.

(i) To avoid confusion of the public, Licensee agrees not to associate other characters or properties with the Licensed Property on the Licensed Products and/or Licensed Premiums or in any packaging, promotional or display materials unless Licensee receives Licensor's prior written approval. Furthermore, Licensee agrees not to use the Licensed Property (or any component thereof) on any business sign, business cards, stationery or forms, nor as part of the name of Licensee's business or any division thereof.

(j) Pursuant to this Agreement, Licensee shall use its reasonable commercial efforts to notify its customers of the requirement that Licensor has the right to approve all promotional, display and advertising materials that incorporate the Licensed Property. It is understood and agreed that the use of images featuring the Licensed Product and its approved packaging in promotional, display and advertising materials is excluded from this requirement, provided, however, none of the Licensed Property is utilized separately from the Licensed Product and its packaging.

(k) It is understood and agreed that any animation used in electronic media, including but not limited to animation for television commercials and character voices for radio commercials, shall be produced by Warner Bros. pursuant to a separate agreement between Licensee and Warner Bros. Animation, subject to Warner Bros. Animation's customary rates. Any payment made to Warner Bros. Animation for such animation shall be in addition to and shall not offset the Guaranteed Consideration set forth in Paragraph 1(b).

(l) Licensor's approval of Licensed Products and/or Licensed Premiums (including, without limitation, the Licensed Products and/or Licensed Premiums themselves as well as promotional, display and advertising materials) shall in no way constitute or be construed as an approval by Licensor of Licensee's use of any trademark, copyright and/or other proprietary materials not owned by Licensor.

10. DISTRIBUTION; SUBLICENSE MANUFACTURE:

(a) Within the Channels of Distribution set forth in Paragraph l(a) hereof, Licensee shall sell the Licensed Products/Licensed Premiums to wholesalers, distributors or retailers for sale or resale and distribution directly to the public. If Licensee sells or distributes the Licensed Products/Licensed Premiums at a special price, directly or indirectly, to itself, including without limitation, any subsidiary of Licensee or to any other person, firm, or corporation affiliated with Licensee (including any affiliated distributors) or its officers, directors or major stockholders, for ultimate sale to unrelated third parties, Licensee shall pay royalties with respect to such sales or distribution, based upon the price generally charged the trade by Licensee.

(b) Licensee shall not be entitled to sublicense any of its rights under this Agreement. In the event Licensee is not the manufacturer of the Licensed Products and/or Licensed Premiums, Licensee shall, subject to the prior written approval of Licensor, which approval shall not be unreasonably withheld, be entitled to utilize a third party manufacturer in connection with the manufacture and production of the Licensed Products and/or Licensed Premiums, provided that such manufacturer shall execute a letter in the form of Exhibit 3 attached hereto and by this reference made a part hereof. In such event, Licensee shall remain primarily obligated under all of the provisions of this Agreement and any default of this Agreement by such manufacturer shall be deemed a default by Licensee hereunder. In no event shall any such third party manufacturer agreement include the right to grant any rights to subcontractors.

11. GOODWILL: Licensee recognizes the great value of the publicity and goodwill associated with the Licensed Property and acknowledges: (i) such goodwill is exclusively that of Licensor; and (ii) that the Licensed Property has acquired a secondary meaning as Licensor's trademarks and/or identifications in the mind of the purchasing public. Licensee further

recognizes and acknowledges that a breach by Licensee of any of its covenants, agreements or undertakings hereunder will cause Licensor irreparable damage, which cannot be readily remedied in damages in an action at law, and may, in addition thereto, constitute an infringement of Licensor's copyrights, trademarks and/other proprietary rights in, and to the Licensed Property, thereby entitling Licensor to equitable remedies, and costs.

12. LICENSOR'S WARRANTIES AND REPRESENTATIONS: Licensor represents and warrants to Licensee that:

(a) It has, and will have throughout the Term of this Agreement, the right to license the Licensed Property to Licensee in accordance with the terms and provisions of this Agreement; and

(b) The making of this Agreement by Licensor and use by Licensor of the Licensed Property pursuant to this Agreement does not violate any agreements, rights or obligations of any person, firm or corporation.

13. LICENSEE'S WARRANTIES AND REPRESENTATIONS: Licensee represents and warrants to Licensor that, during the Term and thereafter:

(a) It will not attack the title of Licensor (or third parties that have granted rights to Licensor) in and to the Licensed Property or any copyright or trademarks pertaining thereto, nor will it attack the validity of the license granted hereunder;

(b) It will not harm, misuse or bring into disrepute the Licensed Property;

(c) It will conduct the Licensed Promotion as well as manufacture, promote and distribute the Licensed Products and/or Licensed Premiums in accordance with the terms of this Agreement, and in compliance with all applicable government regulations and industry standards;

(d) It will not create any expenses chargeable to Licensor without the prior written approval of Licensor in each and every instance. It will not cause or allow any liens or encumbrances to be placed against, or grant any security interest (except to U.S. Bank National Association, a National banking association) in, the Licensed Property, and/or it will not intentionally cause or allow any liens or encumbrances to be placed against, or grant any security interest (except to U.S. Bank National Association, a National banking association) in Licensee's inventory, contract rights and/or accounts receivables, and/or proceeds thereof, with respect to the Licensed Products without Licensor's prior written consent;

(e) It will use reasonable commercial efforts to protect its right to manufacture, promote and distribute the Licensed Products and/or Licensed Premiums hereunder;

(f) It will at all times comply with all government laws and regulations, including but not limited to product safety, food, health, drug, cosmetic, sanitary or other similar laws relating or pertaining to the conduct of the Licensed Promotion as well as the manufacture, distribution, advertising or use of the Licensed Products and/or Licensed Premiums, and shall maintain its appropriate customary high quality standards during the Term hereof. It shall comply with any regulatory agencies which shall have jurisdiction over the Licensed Promotion or Licensed Products and/or Licensed Premiums and shall procure and maintain in force any and all permissions, certifications and/or other authorizations from governmental and/or other official authorities that may be required in response thereto. Each Licensed Product and/or Licensed Premium and component thereof distributed hereunder shall comply with all applicable laws and regulations. Licensee shall follow reasonable and proper procedures for testing that all Licensed Products and/or Licensed Premiums comply with such laws, regulations and standards. Licensee shall permit Licensor or its designees to inspect testing records and procedures with respect to the Licensed Products and/or Licensed Premiums for compliance. Licensed Products and/or Licensed Premiums that do not comply with all applicable laws, regulations and standards shall automatically be deemed unapproved and immediately taken off the market;

(g) It shall, upon Licensor's request, provide credit information to Licensor including, but not limited to, fiscal year-end financial statements (profit-and-loss statement and balance sheet) and operating statements;

(h) It will provide Licensor with the date(s) of first use of the Licensed Products and/or Licensed Premiums in interstate and intrastate commerce, where appropriate;

(i) It will, pursuant to Licensor's instructions, duly take any and all necessary steps to secure execution of all necessary documentation for the recordation of itself as user of the Licensed Property in any jurisdiction where this is required or where Licensor reasonably requests that such recordation shall be effected. Licensee further agrees that it will at its own expense cooperate with Licensor in cancellation of any such recordation at the expiration of this Agreement or upon termination of Licensee's right to use the Licensed Property. Licensee hereby appoints Licensor its Attorney-in-Fact for such purpose;

(j) It will not deliver or sell Licensed Products and/or Licensed Premiums outside the Territory or knowingly deliver or sell Licensed Products and/or Licensed Premiums to a third party for delivery outside the Territory;

(k) It will not use any labor that violates any local labor laws, including all wage and hour laws, laws against discrimination and that it will not use prison, slave or child labor in connection with the manufacture of the Licensed Products and/or Licensed Premiums;

(l) It shall not send, share with or otherwise disclose any Artwork to any third party, including licensees of Licensor, but with the exception of approved third party manufacturers hereunder, without the prior written consent of Licensor;

(m) It shall at all times comply with all commercially reasonable manufacturing, sales, distribution, retail and marketing policies and strategies promulgated in writing by Licensor from time-to-time, and provided the same shall not materially increase the costs of manufacturing, sales, distribution, retail and marketing the Licensed Products; and

(n) If requested by Licensor to do so, it will use reasonable efforts to utilize specific design elements of the Licensed Property provided to Licensee by Licensor on any promotional or advertising materials and/or hangtags, labels or other materials with respect to the Licensed Products and/or Licensed Premiums.

14. TERMINATION BY LICENSOR:

(a) Licensor shall have the right to terminate this Agreement without prejudice to any rights which it may have, whether pursuant to the provisions of this Agreement, or otherwise in law, or in equity, or otherwise, upon the occurrence of anyone or more of the following events (herein called "defaults"):

(i) Licensee materially defaults in the performance of any of its obligations provided for in this Agreement; or

(ii) Licensee shall have failed to deliver to Licensor or to maintain in full force and effect the insurance referred to in Paragraph 7(c) hereof; or

(iii) Licensee shall fail to make any payments due hereunder on the date due; or

(iv) Licensee shall fail to deliver any of the statements required herein or to give access to the premises and/or license records pursuant to the provisions hereof to Licensor's authorized representatives for the purposes permitted hereunder; or

(v) Licensee shall fail to comply in all material respects with any laws, or regulations as provided in Paragraph 13(f) or any governmental agency or other body, office or official vested with appropriate authority finds that the Licensed Products and/or Licensed Premiums are harmful or defective in any way,

manner or form, or are being manufactured, sold or distributed in contravention of applicable laws, regulations or standards, or in a manner likely to cause harm; or

(vi) Licensee shall be unable to pay its debts when due, or shall make any assignment for the benefit of creditors, or shall file any petition under the bankruptcy or insolvency laws of any jurisdiction, county or place, or shall have or suffer a receiver or trustee to be appointed for its business or property, or be adjudicated a bankrupt or an insolvent; or

(vii) Licensee does not commence in good faith to execute the Licensed Promotion (i.e. manufacture, distribute and sell the Licensed Products and/or Licensed Premiums) on or before the Marketing Date or thereafter fails to diligently and continuously execute the Licensed Promotion; or

(viii) Licensee shall execute the Licensed Promotion and/or manufacture, sell or distribute (whichever first occurs) any of the Licensed Products and/or Licensed Premiums without the prior written approval of Licensor as provided in Paragraph 9 hereof; or

(ix) Licensee undergoes a change of control as defined in Attachment A, attached hereto and incorporated herein by reference, provided that Licensor must give written notice of termination, if at all, within thirty (30) days after written notice of the change in control is given to Licensor by Licensee; or

(x) Licensee uses Artwork which has not been approved by Licensor in compliance with the provisions of Paragraph 8(h), (i) or (j) hereof; or

(xi) A manufacturer approved pursuant to Paragraph 10(b) hereof shall sell Licensed Products and/or Licensed Premiums to parties other than Licensee or engage in conduct, which conduct if engaged in by Licensee would entitle Licensor to terminate this Agreement; or

(xii) Licensee delivers or sells Licensed Products and/or Licensed Premiums outside the Territory or knowingly sells Licensed Products and/or Licensed Premiums(s) to a third party who Licensee knows intends to, or who Licensee reasonably should suspect intends to, sell or deliver such Licensed Products and/or Licensed Premiums outside the Territory; or

(xiii) Licensee uses any labor that violates any local labor laws and/or it uses prison, slave or child labor in connection with the manufacture of the Licensed Products and/or Licensed Premiums; or

(xiv) Licensee has made a material misrepresentation or has omitted to state a material fact necessary to make the statements not misleading as they pertain to this Agreement; or

(xv) Licensee shall materially breach any other agreement in effect between Licensee on the one hand and Licensor on the other.

(b) In the event any of these defaults occur, Licensor shall give notice of termination in writing to Licensee in the manner prescribed in Paragraph 16 below. Licensee shall have ten (10) business days from the date of giving notice in which to correct any of these defaults (except subdivisions (vii), (viii), (x) and (xii) above which are not curable), and failing such, this Agreement shall thereupon immediately terminate, and any and all payments then or later due from Licensee hereunder (including Guaranteed Consideration) shall then be immediately due and payable in full and no portion of those prior payments shall be repayable to Licensee.

(c) Licensee shall have the right to terminate this Agreement without prejudice to any other rights which it may have, whether pursuant to the provisions of this Agreement, or otherwise at law or in equity, if Licensor defaults in the performance of any of its obligations provided for in this Agreement or in the event of a material breach by Licensor of its warranties or representations set forth in this Agreement. In the event any such default occurs, Licensee shall give

notice of termination in writing to Licensor by certified mail. Licensor shall have thirty (30) days from the date of giving notice in which to correct any default or, if the correction would reasonably take more than thirty (30) days, such additional time as is needed so long as Licensor diligently pursues such correction, and failing such correction, this Agreement shall thereupon immediately terminate, and any and all Guaranteed Consideration later due from Licensee hereunder shall no longer be due; provided, however, that no portion of prior payments hereunder shall be repayable to Licensee.

15. FINAL STATEMENT UPON EXPIRATION OR TERMINATION: Licensee shall deliver, as soon as practicable, but not later than forty-five (45) days following expiration or termination of this Agreement, a statement indicating the number and description of Licensed Products and/or Licensed Premiums on hand together with a description of all advertising and promotional materials relating thereto. Following expiration or termination of this Agreement, Licensee shall immediately cease any and all manufacturing of the Licensed Products and/or Licensed Premium. However, if Licensee has complied with all the terms of this Agreement, including, but not limited to, complete and timely payment of the Guaranteed Consideration and Royalty Payments, then Licensee may continue to distribute its remaining inventory, on a non-exclusive basis only, for a period not to exceed ninety (90) days following such expiration (the "Sell-Off Period"), subject to payment of applicable royalties thereto. In no event, however, may Licensee distribute during the Sell-Off Period an amount of Licensed Products and/or Licensed Premiums that exceeds the average amount of Licensed Products and/or Licensed Premiums distributed during any consecutive ninety (90) day period during the Term. In the event this Agreement is terminated by Licensor for any reason under this Agreement, Licensee shall be deemed to have forfeited its Sell-Off Period. If Licensee has any remaining inventory of the Licensed Products and/or Licensed Premiums following the Sell-Off Period,

Licensee shall, at Licensor's option, make available such inventory to Licensor for purchase at or below cost, deliver up to Licensor for destruction said remaining inventory or furnish to Licensor an affidavit attesting to the destruction of said remaining inventory. Licensee shall, at Licensor's option, deliver to Licensor at no charge all Artwork (except tooling and tooling aids) related to the Licensed Products, deliver up to Licensor for destruction Artwork or furnish to Licensor an affidavit attesting to the destruction of said Artwork. Licensee shall furnish to Licensor an affidavit attesting to the destruction or removal of the Licensed Property from all tooling and tooling aids. Licensor shall have the right to conduct a physical inventory in order to ascertain or verify such inventory and/or statement. In the event that Licensee refuses to permit Licensor to conduct such physical inventory, Licensee shall forfeit its right to the Sell-Off Period hereunder or any other rights to dispose of such inventory. In addition to the forfeiture, Licensor shall have recourse to all other legal remedies available to it.

16. NOTICES: Except as otherwise specifically provided herein, all notices which either party hereto are required or may desire to give to the other shall be given by addressing the same to the other at the address set forth above, or at such other address as may be designated in writing by any such party in a notice to the other given in the manner prescribed in this paragraph. All such notices shall be sufficiently given when the same shall be deposited so addressed, postage prepaid, in the United States mail and/or when the same shall have been delivered, so addressed, by facsimile or by overnight delivery service and the date of transmission by facsimile, receipt of overnight delivery service or two business days after mailing shall for the purposes of this Agreement be deemed the date of the giving of such notice.

17. NO PARTNERSHIP, ETC.: This Agreement does not constitute and shall not be construed as constitution of a partnership or joint venture between Licensor and Licensee. Neither party shall have any right to obligate or bind the other party in any manner whatsoever, and nothing herein contained shall give, or is intended to give, any rights of any kind to any third persons.

18. NO SUBLICENSING/NON-ASSIGNABILITY: This Agreement shall bind and inure to the benefit of Licensor, its successors and assigns. This Agreement is personal to Licensee. Licensee shall not sublicense, franchise or delegate to third parties its rights hereunder (except as set forth in Paragraph 10(b) hereof) without the prior written consent of Licensor. Neither this Agreement nor any of the rights of Licensee hereunder shall be sold, transferred or assigned by Licensee and no rights hereunder shall devolve by operation of law or otherwise upon any receiver, liquidator, trustee or other party. Notwithstanding the foregoing, Licensor shall not seek

injunctive relief to prevent Licensee from consummating a "change of control" as defined in Attachment A, and any termination of this Agreement as a result of a "change of control" shall be in accordance with Paragraph 14(a)(ix) above.

19. BANKRUPTCY RELATED PROVISIONS:

(a) The parties hereby agree and intend that this Agreement is an executory contract governed by Section 365 of the U.S. Bankruptcy Code ("Bankruptcy Code").

(b) In the event of Licensee's bankruptcy, the parties intend that any royalties payable under this Agreement during the bankruptcy period be deemed administrative claims under the Bankruptcy Code because the parties recognize and agree that the bankruptcy estate's enjoyment of this Agreement will (i) provide a material benefit to the bankruptcy estate during its reorganization and (ii) deny Licensor the benefit of the exploitation of the rights through alternate means during the bankruptcy reorganization.

(c) The parties acknowledge and agree that any delay in the decision of trustee of the bankruptcy estate to assume or reject the Agreement (the "Decision Period") materially harms Licensor by interfering with Licensor's ability to alternatively exploit the rights granted under this Agreement during a Decision Period of uncertain duration. The parties recognize that arranging appropriate alternative exploitation would be a time consuming and expensive process and that it is unreasonable for Licensor to endure a Decision Period of extended uncertainty. Therefore, the parties agree that the Decision Period shall not exceed sixty (60) days.

(d) Licensor, in its interest to safeguard its valuable interests (including, without limitation, its intellectual property rights in the Licensed Property), has relied on the particular skill and knowledge base of Licensee. Therefore, the parties acknowledge and agree that in a bankruptcy context this Agreement is a license of the type described by Section 365(c)(1) of the Bankruptcy Code and may not be assigned without the prior written consent of the Licensor.

20. CONSTRUCTION AND DISPUTE RESOLUTION: This Agreement shall be construed in accordance with the laws of the State of California of the United States of America without regard to its conflicts of laws provisions. Any and all controversies, claims or disputes arising out of or related to this Agreement or the interpretation, performance or breach thereof, including, but not limited to, alleged violations of state or federal statutory or common law rights or duties, and the determination of the scope or applicability of this agreement to arbitrate ("Dispute"), except as set forth in subparagraphs (b) and (c), below, shall be resolved according to the procedures set forth in subparagraph (a), below, which shall constitute the sole dispute resolution mechanism hereunder:

(a) ARBITRATION: In the event that the parties are unable to resolve any Dispute informally, then such Dispute shall be submitted to final and binding arbitration. The arbitration shall be initiated and conducted according to either the JAMS Streamlined (for claims under $250,000) or the JAMS Comprehensive (for claims over $250,000) Arbitration Rules and Procedures, except as modified herein, including the Optional Appeal Procedure, at the Los Angeles office of JAMS, or its successor ("JAMS") in effect at the time the request for arbitration is made (the "Arbitration Rules"). The arbitration shall be conducted in Los Angeles County before a single neutral arbitrator appointed in accordance with the Arbitration Rules. The arbitrator shall follow California law and the Federal Rules of Evidence in adjudicating the Dispute. The parties waive the right to seek punitive damages and the arbitrator shall have no authority to award such damages. The arbitrator will provide a detailed written statement of decision, which will be part of the arbitration award and admissible in any judicial proceeding to confirm, correct or vacate the award. Unless the parties agree otherwise, the neutral arbitrator and the members of any appeal panel shall be former or retired judges or justices of any California state or federal court with experience in matters involving the entertainment industry. If either party refuses to perform any or all of its obligations under the final arbitration award (following appeal, if applicable) within thirty (30) days of such award being rendered, then the other party may enforce the final award in any court of competent jurisdiction in Los Angeles County. The party

seeking enforcement shall be entitled to an award of all costs, fees and expenses, including attorneys' fees, incurred in enforcing the award, to be paid by the party against whom enforcement is ordered.

(b) INJUNCTIVE RELIEF: Notwithstanding the foregoing, either party shall be entitled to seek injunctive relief (unless otherwise precluded by any other provision of this Agreement) in the state and federal courts of Los Angeles County.

(c) OTHER MATTERS: Any Dispute or portion thereof, or any claim for a particular form of relief (not otherwise precluded by any other provision of this Agreement), that may not be arbitrated pursuant to applicable state or federal law may be heard only in a court of competent jurisdiction in Los Angeles County.

21. WAIVER, MODIFICATION ETC.: No waiver, modification or cancellation of any term or condition of this Agreement shall be effective unless executed in writing by the party charged therewith. No written waiver shall excuse the performance of any acts other than those specifically referred to therein. The fact that the Licensor has not previously insisted upon Licensee expressly complying with any provision of this Agreement shall not be deemed to be a waiver of Licensor's future right to require compliance in respect thereof and Licensee specifically acknowledges and agrees that the prior forbearance in respect of any act, term or condition shall not prevent Licensor from subsequently requiring full and complete compliance thereafter. If any term or provision of this Agreement is held to be invalid or unenforceable by any court of competent jurisdiction or any other authority vested with jurisdiction, such holding shall not affect the validity or enforceability of any other term or provision hereto and this Agreement shall be interpreted and construed as if such term or provision, to the extent the same shall have been held to be invalid, illegal or unenforceable, had never been contained herein. Headings of paragraphs herein are for convenience only and are without substantive significance.

22. CONFIDENTIALITY: The Artwork and the materials and information supplied to one party by the other hereunder constitute, relate to, contain and form a part of confidential and proprietary information of the disclosing party, including, but not limited to, Style Guides, design elements, character profiles, unpublished copyrighted material, release dates, marketing and promotional strategies, information about new products, properties and characters, the terms and conditions of this Agreement, and other information which is proprietary in nature or is a trade secret (collectively, the "Proprietary Information"). The parties acknowledge and agree that the Proprietary Information is highly confidential and that disclosure of the Proprietary Information will result in serious harm to the owner thereof. Among other damage, unauthorized disclosure of the Proprietary Information will (i) damage carefully planned marketing strategies, (ii) reduce interest in the Licensed Property, (iii) make unique or novel elements of the Licensed Property susceptible to imitation or copying by competitors, infringers or third parties prior to Licensor's release of the information or materials, (iv) damage proprietary protection in undisclosed or unpublished information or materials, and (v) provide unauthorized third parties with materials capable of being used to create counterfeit and unauthorized merchandise, audio-visual products or other products, all of which will seriously damage the parties' rights and business. Except as expressly approved in writing by the owner of the Proprietary Information, the other party shall not reproduce or use the Proprietary Information of the other party and shall not discuss, distribute, disseminate or otherwise disclose the Proprietary Information or the substance or contents thereof, in whole or in part, in its original form or in any other form, with or to any other person or entity other than employees of the parties and, in the case of Licensee, third parties who have executed a Contributor's Agreement (as provided in Paragraph 8(b)) or third party manufacturer's agreement (as provided in paragraph 10(b)) and been approved by Licensor as provided hereunder, and such employees and third parties shall be given access to the Proprietary Information only on a "need-to-know" basis. The foregoing restrictions shall not apply to any information which, (i) at the time of disclosure, is in the public domain or which, after disclosure, becomes part of the public domain by publication or otherwise through no action or fault of the receiving party;
(ii) information which the receiving party can show was in its possession at the time of disclosure and was not acquired, directly or indirectly, from the other party; (iii) information which was received from a third party having the legal right to transmit the same; (iv) information which is independently developed, conceived, or created without use of or reference to any Proprietary Information of the other party; or (v) information which is disclosed pursuant to valid court order, other legal process, or disclosure laws.

23. ENTIRE AGREEMENT: This Agreement constitutes the entire Agreement between the parties concerning the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, terms, conditions, undertakings or collateral agreements, expressed, implied or statutory, between the parties other than as expressly set forth in this Agreement.

24. ACCEPTANCE BY LICENSOR: This instrument, when signed by Licensee shall be deemed an application for license and not a binding agreement unless and until accepted by Warner Bros. Consumer Products by signature of a duly authorized officer and the delivery of such a signed copy to Licensee. The receipt and/or deposit by Warner Bros. Consumer Products of any check or other consideration given by Licensee and/or delivery of any material by Warner Bros. Consumer Products to Licensee shall not be deemed an acceptance by Warner Bros. Consumer Products of this application. The foregoing shall apply to any documents relating to renewals or modifications hereof.

This Agreement shall be of no force or effect unless and until it is signed by all of the parties listed below:

AGREED and ACCEPTED:	AGREED and ACCEPTED:
WARNER BROS. CONSUMER PRODUCTS a division of Time Warner Entertainment Company, L.P.	POORE BROTHERS, INC.
By: /s/ GARY R. SIMON ----------	By: /s/ ERIC J. KUFEL ----------
Gary R. Simon, Senior Vice President Business & Legal Affairs	
Date: 11/20/02 ----------	Date: 11/18/02 ----------

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") PURSUANT TO SEC RULE 24B-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT 1
#13770-WBLT

CHANNELS OF DISTRIBUTION
DEFINITIONS

LICENSEE MAY SELL THE LICENSED PRODUCTS ONLY THROUGH THE CHANNELS OF DISTRIBUTION AS SPECIFIED ABOVE IN PARAGRAPH L(a) OF THIS LICENSE AGREEMENT AND AS SUCH CHANNELS ARE DEFINED IN THIS EXHIBIT 1. ALL OTHER CHANNELS OF DISTRIBUTION DEFINED IN THIS EXHIBIT 1, WHICH ARE NOT SPECIFIED IN PARAGRAPH L(a) ABOVE, ARE SPECIFICALLY EXCLUDED FROM THIS LICENSE AGREEMENT.

1. "AIRPORT GIFT AND OTHER AIRPORT STORES" shall mean gift and other stores located within airports, excluding Duty-Free Store Operators (as defined below). Examples of Airport Gift and Other Stores include, without limitation, PARADIES and W.H. SMITH.

2. "AMUSEMENT GAME REDEMPTION" shall mean distribution of products as prizes awarded in amusement games.

3. "AMUSEMENT PARK GIFT STORES" shall mean gift stores located within amusement parks, such as Six Flags, Paramount Parks, Universal Theme Parks, Dollywood, Walt Disney World and the Disneyland Resort.

4. "ART & CRAFT STORES" shall mean stores that offer for sale primarily art and craft supplies. Examples of Art & Craft Stores include, without limitation, FAST FRAME, MICHAELS and MICHAELS MJ DESIGNS.

5. "ATHLETIC APPAREL & FOOTWEAR STORES" shall means stores that offer for sale primarily athletic apparel and footwear. Examples of Athletic Apparel & Footwear Stores include, without limitation, FOOTLOCKER, ATHLETE'S FOOT AND CHAMPS.

6. "AUTOMOTIVE/CARWASH STORES" shall mean (a) stores that offer for sale primarily automotive supplies, or (b) stores located at carwash or gasoline station premises.

7. "BABY SPECIALTY STORES" shall mean stores that offer for sale primarily infant apparel, furniture, accessories and other products designed specifically for babies. Examples of Baby Specialty Stores include, without limitation, BABIES R US.

8. "BEAUTY SUPPLY STORES" shall mean stores that offer for sale primarily cosmetics, haircare products, beauty accessories and personal grooming related items.

9. "BUSINESS TO BUSINESS" shall mean when a licensee sells product to another business and the items sold are used for CORPORATE GIFTS, PRIZES, ETC.

10. "CAMERA/PHOTO SPECIALTY STORES" shall mean stores that offer for sale primarily camera equipment and supplies.

11. "CANDY/CONFECTIONERY SPECIALTY STORES" shall mean stores that offer for sale primarily candy and confectionery products. Examples of Candy/Confectionery Specialty Stores include, without limitation, FAO SCHWEETZ AND THE SWEET FACTORY.

12. "CATALOG SHOWROOMS" shall mean stores that offer a broad assortment of products for sale primarily through a catalog along with display of samples of products in a showroom. Examples of Catalog Showrooms include, without limitation, SERVICE MERCHANDISE.

13. "CHAIN BOOK STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily books. Examples of Chain Book Stores include, without limitation, B. DALTON, SUPERCROWN, WALDEN BOOKS and BRENTANO'S.

14. "CHAIN COMIC BOOK STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily comic books.

15. "CHAIN DRUG STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily prescription and over-the-counter drugs, personal care products and household products. Examples of Chain Drug Stores include, without limitation, WALGREENS, RITE-AID, THRIFTY/PAYLESS, C.V.S./REVCO, THRIFT DRUG, PHAR MOR, LONGS DRUGS, JEAN COUTU, LONDON DRUGS and SHOPPER'S DRUG MART.

16. "CHAIN JEWELRY STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily jewelry. The "Chain Jewelry Stores" channel shall specifically exclude Guild Jewelers (as defined below). Examples of Chain Jewelry Stores include, without limitation, STERLING, BARRY'S, LIPMAN'S and HELLSBURG.

17. "CHAIN TOY STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily toys. In order to be considered a "Toy Store" hereunder, the total number of toy-type SKU's (stock-keeping units) must represent eighty percent (80%) or more of such store's total SKU's. The "Chain Toy Stores" channel shall specifically exclude Toy Specialty/Better Toy Chain Stores (as defined below). Examples of Chain Toy Stores include, without limitation, TOYS R US.

18. "COFFEE SPECIALTY STORES" shall mean stores that offer for sale primarily specialty coffee and related products, such as coffee mugs. Examples of Coffee Specialty Stores include, without limitation, STARBUCKS, BUZZ COFFEE, GLORIA JEANS and THE COFFEE BEANERY.

19. "COLLEGE/UNIVERSITY STORES" shall mean stores located on the campuses of colleges or universities.

20. "COMMERCIAL FACILITIES" shall mean offering products for sale to architectural firms or interior designers working with commercial facilities, such as hotels and daycare facilities.

21. "COMPUTER SPECIALTY STORES" shall mean stores that offer for sale primarily computer equipment and supplies. Examples of Computer Specialty Stores include, without limitation, COMP USA.

22. "CONVENIENCE STORES" shall mean stores that offer for sale primarily packaged and "quick service" food products, are generally open 24 hours a day, and are designed to offer greater convenience than larger Supermarket/Grocery Stores. Examples of Convenience Stores include, without limitation, 7-11, AM/PM, DAIRY MART and CIRCLE K.

23. "DENTAL/MEDICAL PROFESSION" shall mean institutions or offices that provide dental or medical services, such as hospitals, laboratories or doctors' offices.

24. "DIRECT MAIL CATALOGS" shall mean catalogs that offer products for sale and are mailed directly to consumers' homes. The "Direct Mail Catalogs" channel shall specifically exclude catalogs for fundraising purposes which shall be included in the "Fundraising" channel defined below. Examples of Direct Mail Catalogs include, without limitation, SPIEGEL, HEARTH & HOME, DOMESTICATIONS, TAPESTRY, COMPANY STORE, HAMMACHER SCHLEMMER, FINGERHUT, AMWAY, LILLIAN VERNON, REGAL, AVON and SEARS CATALOG. (continued...)

If Licensor grants to Licensee the right to distribute Licensed Products through any Direct Mail Catalogs: (a) each such catalog shall be specified in the Channels of Distribution set forth in Paragraph l(a) of the License Agreement or otherwise expressly approved in writing by Licensor on a case-by-case basis, and (b) each such catalog depicting or referring to the Licensed Products or the Licensed Property must be submitted to Licensor for prior written approval in accordance with Licensor's Brand Assurance policies and procedures.

25. "DIRECT RESPONSE" shall mean print advertisement, free standing inserts ("FSI's") and other promotional material (except catalogs) that are mailed directly to consumers' homes for the purpose of soliciting product sales directly from consumers. The "Direct Response" channel shall specifically exclude direct mail catalogs which shall be included in the "Direct Mail Catalog" channel defined above.

If Licensor grants to Licensee the right to distribute Licensed Products through Direct Response, each print advertisement, FSI and other promotional material depicting or referring to the Licensed Products or the Licensed Property must be submitted to Licensor for prior written approval in accordance with Licensor's Brand Assurance policies and procedures.

26. "DOOR-TO-DOOR SOLICITATION" shall mean offering products for sale through personal visits by salespersons to consumers' homes.

27. "DUTY-FREE OPERATORS" shall mean (a) stores usually located in transit locations (i.e. airports, in-flight, train, ferry stations, cruise lines and ports) which offer products for sale to international travelers free of taxes and duties and (b) sales offered to diplomat shops, diplomat suppliers and individual diplomats free of taxes and/or duties. If Licensor grants to Licensee the right to distribute products through Duty-Free Operators, such channels of distribution (like all other channels of distribution granted) shall be limited to those stores located within the Territory.

28. "EDUCATIONAL INSTITUTIONS" shall mean offering products (generally books) for sale to public or private schools or other educational institutions. Examples of Educational Institutions include, without limitation, the Los Angeles Unified School District.

29. "EDUCATIONAL SPECIALTY STORES" shall mean stores that offer for sale primarily educational products. Examples of Educational Specialty Stores include, without limitation, IMAGINARIUM and NATURE COMPANY.

30. "ELECTRONICS STORES" shall mean stores that offer for sale primarily electronic products. Examples of Electronics Stores include, without limitation, CIRCUIT CITY, FRY'S and BEST BUY.

31. "FAMILY RESTAURANTS" shall mean a food service establishment or group of food service establishments that offer a sit down meal menu conducive to all members of the family and generally offers table service to customers. Examples of Family Restaurants include, without limitation, DENNY'S and FRIENDLY'S.

32. "FASHION ACCESSORY STORES" shall mean stores that offer for sale primarily costume jewelry, hair accessories and other fashion accessories. Examples of Fashion Accessory Stores include, without limitation, CLAIRE'S BOUTIQUE, AFTERTHOUGHTS, IT'S ABOUT TIME, PIERCING PAGODA, ARDENE and BENTLEY'S.

33. "FASHION SPECIALTY BOUTIQUES" shall mean stores that offer for sale primarily fashion apparel product. Examples of Fashion Specialty Boutiques include, without limitation, FRED SEGAL, URBAN OUTFITTERS, AMERICAN RAG, and DR. J'S.

34. "FLORISTS" shall mean stores or companies that offer for sale primarily flowers. Examples of Florists include, without limitation, CONROY'S, FTD and 1-800-FLOWERS.

35. "FOOD SERVICE" shall mean locations that provide food service to consumers in cafeterias, hospital food services, school lunch programs, and similar institutional food service locations.

36. "FUNDRAISING" shall mean offering products for sale through catalogs, direct mail brochures, prize programs and in-school sales, which are used by schools and charitable, religious or other organizations to raise funds. Examples of Fundraising companies include, without limitation, GIFTCO, SPRINGWATER and DARLINGTON FARMS.

37. "FURNITURE STORES" shall mean stores that offer for sale primarily furniture. Examples of Furniture Stores include, without limitation, WICKES, HOMEMAKERS, KIDDLES and LEVITZ.

38. "GARDEN SPECIALTY STORES" shall mean stores that offer for sale primarily garden supplies and plants. Examples of Garden Specialty Stores include, without limitation, ARMSTRONG'S; CALLAWAY'S and WOLF Nurseries.

39. "GIFT RETAILERS" shall mean stores that (a) offer products for sale that are in somewhat related product categories and are known as "gifts" in the trade, which products generally are classified in the trade as "better" quality and are higher priced (as compared to National and Regional Discount/Mass Retailers' products), (b) do not usually discount merchandise or sell it at greatly reduced prices, (c) usually focus more on aesthetics in merchandise displays than on price, and (d) generally require individual store servicing by suppliers in merchandise set-up, display, SKU

maintenance and reordering. Suppliers to Gift Retailers typically advertise in trade publications, such as "GIFT & STATIONERY BUSINESS", "GIFTWARE NEWS" and "GIFTS & DECORATIVE ACCESSORIES". Suppliers to Gift Retailers usually include companies such as Enesco, Midwest of Cannon Falls, New Creative Enterprises, Dale Tiffany, Pacific Rim, Ande Rooney, Waterford, GiftCraft, Carson Industries, Possible Dreams, Lenox, Department 56, Lefton, Swarovski and Flambro. The "Gift Retailers" channel shall specifically exclude Novelty Gift Stores (as defined below), Duty-Free Store Operators (as defined above), and Airport Gift and Other Airport Stores (as defined above).

40. "GOURMET FOOD SPECIALTY STORES" shall mean stores that offer for sale primarily gourmet and specialty food products. Examples of Gourmet Food Specialty Stores include, without limitation, BRISTOL FARMS, WHOLE FOODS and GELSONS.

41. "GREETING CARD STORES" shall mean stores that offer for sale primarily greeting cards. Examples of Greeting Card Stores include, without limitation, HALLMARK.

42. "GUILD JEWELERS" shall mean stores that offer for sale primarily fine jewelry which is generally classified in the trade as "best" or "highest" quality. Examples of Guild Jewelers include, without limitation, MAYERS, ROGERS and BAILEY BANKS & BIDDLE.

43. "HOBBY & MODEL STORES" shall mean stores that offer for sale primarily hobby and model supplies.

44. "HOME IMPROVEMENT STORES" shall mean stores that offer for sale primarily hardware and home improvement supplies. Examples of Home Improvement Stores include, without limitation, HOME DEPOT, OSH, HOME BASE, Lowes and HOME HARDWARE.

45. "HOME SPECIALTY STORES" shall mean stores that offer for sale primarily bedding, towels and other bathroom products, kitchen merchandise and housewares. Examples of Home Specialty Stores include, without limitation, STROUDS, LINENS `N' THINGS, 3D BED & BATH, BED/BATH/BEYOND and LUXURY LINENS.

46. "ICE CREAM SHOPS" shall mean stores that offer for sale primarily ice cream, ice cream cakes and similar frozen dessert products. Examples of Ice Cream Shops include, without limitation, BASKIN-ROBBINS, DAIRY QUEEN and BEN AND JERRY'S SHOPS.

47. "IN-STORE BAKERIES" shall mean the in-store bakery departments within Supermarket/Grocery Stores, National and Regional Discount/Mass Retailers and Warehouse Clubs. Such departments offer for sale primarily freshly baked breads, cakes, cookies and similar bakery items.

48. "INTERNET" shall mean offering products for sale through the electronic network known as the Internet.

49. "MALL CLOTHING SPECIALTY STORES" shall mean stores that offer for sale primarily clothing and are located within a mall. Examples of Mall Clothing Specialty Stores include, without limitation, MILLERS OUTPOST, WET SEAL, AU COIN DES PETITES, LA SENZA, SUZIE SHIER and REITMANS.

50. "MID-TIER DEPARTMENT STORES" shall mean stores that offer products for sale in a broad assortment of unrelated product categories, which products are generally classified in the trade as "better" (but not "best") quality products. Examples of Mid-Tier Department Stores include, without limitation, JC PENNEY, SEARS, MERVYN'S, STEINMART, KOHLS, FRED MEYER, THE BAY, CLEMONT and SIMON'S.

51. "MILITARY EXCHANGE SERVICES" shall mean military headquarters as well as individual bases of armies and/or airforces of each country within the Territory. Examples of Military Exchange Services include, without limitation, U.S. ARMY AND AIRFORCE EXCHANGE SERVICE ("AAFES") and THE CANADIAN FORCES EXCHANGE SERVICE ("CANEX"). If Licensor grants to Licensee the right to distribute products through Military Exchange Services, such channel of distribution shall be limited to the Military Exchange Services of the countries within the Territory, but shall include all of such Military Exchange Services' stores located anywhere in the world.

52. "MUSIC/VIDEO STORES" shall mean stores that offer for sale primarily musical recordings, on compact discs, cassettes or other media, and/or

movie recordings on videos, laser disks or other media for home use by consumers. Examples of Music/Video Stores include, without limitation, BLOCKBUSTER, MUSICLAND, TOWER RECORDS, VIRGIN RECORDS, WHEREHOUSE RECORDS, SAM GOODY'S and SUNCOAST.

53. "NATIONAL DISCOUNT/MASS RETAILERS" shall mean stores that (a) have nation-wide distribution, (b) offer products for sale in a broad assortment of unrelated product categories, which products generally are not classified in the trade as "better/best" quality products, (c) are usually "self-service" with more of an emphasis on price than aesthetics, and (d) generally do not require individual store servicing by suppliers. Suppliers to National Discount/Mass Retailers typically advertise in trade publications, such as "DISCOUNT STORE NEWS" and "DISCOUNT MERCHANDISER", and usually attend the IMRA (International Mass Retailer Association) trade show. The "National Discount/Mass Retailers" channel shall specifically exclude the in-store bakery departments of such stores, which shall be included in the "In-Store Bakeries" channel defined above. Examples of National Discount/Mass Retailers include, without limitation, WALMART, K-MART, TARGET, ZELLERS, BIWAY and CANADIAN TIRE.

54. "NON-CHAIN BOOK STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily books.

55. "NON-CHAIN COMIC BOOK STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily comic books.

56. "NON-CHAIN DRUG STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily prescription and over-the-counter drugs, personal care products and household products.

57. "NON-CHAIN JEWELRY STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily jewelry. The "Non-Chain Jewelry Stores" channel shall specifically exclude Guild Jewelers (as defined above).

58. "NON-CHAIN TOY STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily toys. In order to be considered a "Toy Store" hereunder, the total number of toy-type SKU's must represent eighty percent (80%) or more of such store's total SKU's. Examples of Non-Chain Toy Stores include, without limitation, TALBOT'S TOYLAND and TONS OF TOYS, INC.

59. "NON-MALL CLOTHING SPECIALTY STORES" shall mean stores that offer for sale primarily clothing and are not located within a mall. Examples of Non-Mall Clothing Specialty Stores include, without limitation, KIDS MART, KIDS R US, CLOTHESTIME and FASHION BUG.

60. "NOVELTY GIFT STORES" shall mean stores that offer for sale primarily novelty gift items. The "Novelty Gift Stores" channel shall specifically exclude Airport Gift and Other Airport Stores and Duty-Free Operators (as such terms are defined above). Examples of Novelty Gift Stores include, without limitation, SPENCER'S and IT STORES.

61. "OFF-PRICE/CLOSEOUT STORES" shall mean stores that offer for sale primarily discounted apparel and other merchandise. Examples of Off-Price/Closeout Stores include, without limitation, MARSHALL'S, T.J. MAXX, ROSS DRESS FOR LESS, HIT OR MISS, TUESDAY MORNING and WINNERS.

62. "OFFICE SPECIALTY STORES" shall mean stores that offer for sale primarily office supplies. Examples of Office Specialty Stores include, without limitation, OFFICE DEPOT, STAPLES and OFFICE MAX.

63. "OUTLET STORES" shall mean stores that offer for sale primarily discounted merchandise of a particular manufacturer or retailer.

64. "PARTY STORES" shall mean stores that offer for sale primarily party supplies. Examples of Party Stores include, without limitation, PARTY CITY and PARTY WORLD.

65. "PET STORES" shall mean stores that offer for sale primarily pet supplies. Examples of Pet Stores include, without limitation, PETCO and PETSMART.

66. "QUICK SERVICE RESTAURANTS" shall mean a food service establishment or group of food service establishments that offer rapid meal menus to consumers and generally do not offer table service to customers. Examples of Quick Service Restaurants include, without limitation, SUBWAY and BURGER KING.

67. "REGIONAL DISCOUNT/MASS RETAILERS" shall mean stores that (a) have regional distribution, (b) generally offer products for sale in a broad assortment of unrelated product categories, which products generally are not classified in the trade as "better/best" quality products, (c) are usually "self-service" with more of an emphasis on price than aesthetics, and (d) generally do not require individual store servicing by suppliers. Suppliers to Regional Discount/Mass Retailers typically advertise in trade publications, such as "DISCOUNT STORE NEWS" and "DISCOUNT MERCHANDISER", and usually attend the IMRA (International Mass Retailer Association) trade show. The "Regional Discount/Mass Retailers" channel shall specifically exclude the in-store bakery departments of such stores, which shall be included in the "In-Store Bakeries" channel defined above. Examples of Regional Discount/Mass Retailers include, without limitation, MEIJERS, CALDOR, AMES, BRADLEES, HILL'S, ROSE'S, VENTURE, SHOPKO, COTTER, FIELDS, GIANT TIGER, HARTS, NORTHWEST and SAAN STORES.

68. "RETAIL BAKERIES" shall mean stores that offer for sale primarily freshly baked breads, cakes, cookies and similar bakery items. The "Retail Bakeries" channel shall specifically exclude In-Store Bakeries (as defined above).

69. "SCHOOL BOOK CLUBS/FAIRS" shall mean offering products for sale through book catalogs distributed to teachers and students at public or private schools (usually elementary or high school) or through book fairs conducted on the premises of such schools. Examples of School Book Clubs/Fairs include, without limitation, Troll Book Club and Scholastic Book Fair.

70. "SOUVENIR STORES" shall mean stores that offer for sale primarily souvenirs.

71. "SPORTING GOOD STORES" shall mean stores that offer for sale primarily sporting goods, equipment, athletic apparel, and other merchandise that reflects a sports theme. Examples of Sporting Good Stores include, without limitation, BIG 5 and SPORTS CHALET.

72. "SPORTS STADIUM SHOPS" shall mean concessionaire shops located within stadiums or arenas where sporting events are held.

73. "STATIONERY STORES" shall mean stores that offer for sale primarily stationery. Examples of Stationery Stores include, without limitation, FARR'S STATIONAIRES.

74. "STREET VENDORS" shall mean individual merchants who offer products for sale in stands, booths or other non-permanent structures usually located on the sidewalk and designed to attract passing pedestrians.

75. "SUPERMARKET/GROCERY STORES" shall mean stores that offer for sale primarily packaged food products. The "Supermarket/Grocery Stores" channel shall specifically exclude the in-store bakery departments of such stores, which shall be included in the "In-Store Bakeries" channel defined above. The "Supermarket/Grocery Stores" channel shall specifically exclude Gourmet Food Specialty Stores (as defined above) and Convenience Stores (as defined above). Examples of Supermarket/Grocery Stores include, without limitation, KROGER, SAFEWAY, AMERICAN STORES, ALBERTSON'S, WINN DIXIE, FOOD LION, VON'S, FINAST, RALPHS, MARSH and SUPERSTORES.

76. "SWAP MEETS/FLEA MARKETS" shall mean offering products for sale through organized events known as swap meets or flea markets, which involve a group of vendors offering for sale a variety of products, often collectibles or antiques.

77. "TELEVISION HOME SHOPPING" shall mean offering products for sale through cable and broadcast television, including infomercials, QVC and Home Shopping Network. The "Television Home Shopping" channel shall specifically exclude sales through the Internet, CD-Interactive and other electronic media.

78. "THEATRICAL CONCESSIONS" shall mean the retail section that sells such items as popcorn, soda and candy within chain and non-chain movie theater locations such as Cineplex Odeon, Loews and Cinemark.

79. "TOY SPECIALTY/BETTER TOY CHAIN STORES" shall mean companies that offer for sale primarily specialty toys. Examples of Toy Specialty/Better Toy Chain Stores include, without limitation, FAO SCHWARZ, ZANY BRAINY, IMAGINARIUM, and NOODLE KIDOODLE.

80. "TOY WHOLESALERS" shall mean companies that offer for sale primarily toys to retail stores. In order to be considered a "Toy Wholesaler" hereunder, the total number of toy-type SKU's must represent eighty percent (80%) or more of such wholesaler's total SKU's.

81. "TRACKSIDE - CART" shall mean offering products for sale at races organized and sponsored by Championship Auto Racing Teams.

82. "TRACKSIDE - NASCAR" shall mean offering products for sale at races organized and sponsored by the National Association for Stock Car Racing.

83. "TRACKSIDE - NHRA" shall mean offering products for sale at races organized and sponsored by the National Hot Rod Association.

84. "UPSTAIRS DEPARTMENT STORES" shall mean stores that (a) offer products for sale in a broad assortment of unrelated product categories, which products are generally classified in the trade as "best" quality products, and (b) offer a high level of customer service with a strong emphasis on store aesthetics. Examples of Upstairs Department Stores include, without limitation, BLOOMINGDALE'S, MACY'S, NORDSTROM, MAY DEPARTMENT STORES, SAKS FIFTH AVENUE, NEIMAN MARCUS and DILLARDS.

85. "VENDING MACHINES" shall mean self-contained automated dispensing equipment operated by insertion of coin or paper currency or the equivalent thereof (i.e. debit cards, credit cards, etc.).

86. "WALL DECOR STORES" shall mean stores that offer for sale primarily wall decor products. Examples of Wall Decor Stores include, without limitation, DECK THE WALLS, AARON BROTHERS and PRINTS PLUS.

87. "WAREHOUSE CLUBS" shall mean stores that offer for sale products in large sizes and quantities with more of an emphasis on price than service or store aesthetics. The "Warehouse Clubs" channel shall specifically exclude the in-store bakery departments of such stores, which shall be included in the "In-Store Bakeries" channel defined above. Examples of Warehouse Clubs include, without limitation, SAM'S CLUB and PRICE Costco.

88. "WBSS INTERNATIONAL" shall mean the retail stores known as Warner Bros. Studio Stores, which are operated outside the United States.

If Licensor grants to Licensee the right to sell Licensed Products to WBSS International: (a) such rights shall be worldwide, notwithstanding any restrictions as to "Territory" contained in the Agreement, and (b) such rights shall be non-exclusive, notwithstanding any exclusivity provisions contained in the Agreement.

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY
BRACKETS, HAS BEEN OMITTED AND FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") PURSUANT TO SEC RULE 24B-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT 2 #13770-WBLT
CONTRIBUTOR'S AGREEMENT

I, _____, the undersigned ("Contributor"), have been engaged by POORE BROTHERS, INC. ("Licensee") to work on or contribute to the creation of Licensed Products, described as _____, by Licensee under an agreement between Licensee and Warner Bros., a division of Time Warner Entertainment Company, L.P., c/o Warner Bros. Consumer Products, a division of Time Warner Entertainment Company, L.P. ("Warner") dated _____.

I understand and agree that the Licensed Products, and all Artwork or other results of my services for Licensee in connection with such Licensed Products ("Work") is a "work made for hire" for Warner and that all right, title and interest in and to the Work shall vest and remain with Warner. I reserve no rights therein. Without limiting the foregoing, I hereby assign and transfer to Warner all other rights whatsoever, in perpetuity throughout the universe which I may have or which may arise in me or in connection with the Work. I hereby waive all moral rights in connection with such Work together with any other rights which are not capable of assignment. I further agree to execute any further documentation relating to such transfer or waiver or relating to such Work at the request of Warner or Licensee, failing which Warner is authorized to execute same as my Attorney-in-Fact.

Contributor:

_____

Signature

_____

Print Name

_____

Address

_____

_____

Country

_____

Date

Warner Bros. Consumer Products:

By: _____

Date: _____

EXHIBIT 3
#13770-WBLT

WARNER BROS. CONSUMER PRODUCTS
4000 Warner Boulevard
Bridge Building 156 South - 4th Floor
Burbank, CA 91522

Re: APPROVAL OF THIRD PARTY MANUFACTURER

To Whom It May Concern:

This letter will serve as notice to you that pursuant to Paragraph 10(b) of the License Agreement dated _____, 200_ between WARNER BROS., A DIVISION OF TIME WARNER ENTERTAINMENT COMPANY, L.P. and POORE BROTHERS, INC. ("Licensee"), we have been engaged as the manufacturer for Licensee in connection with the manufacture of the Licensed Products as defined in the aforesaid License Agreement. We hereby acknowledge that we may not manufacture Licensed Products for, or sell or distribute Licensed Products to, anyone other than Licensee. We hereby further acknowledge that we have received a copy of the relevant terms and conditions and are cognizant of the terms and conditions set forth in said License Agreement and hereby agree to observe those provisions of said License Agreement which are applicable to our function as manufacturer of the Licensed Products. It is expressly understood that we are obligated to comply with all local laws, including without limitation, labor laws, wage and hour laws and anti-discrimination laws and that you or your representatives shall, at anytime, have the right to inspect our facilities and review our records to ensure compliance therewith. It is understood that this engagement is on a royalty free basis and that we may not subcontract any of our work without your prior written approval.

We understand that our engagement as the manufacturer for Licensee is subject to your written approval. We request, therefore, that you sign in the space below, thereby showing your acceptance of our engagement as aforesaid.

Very truly yours,

Manufacturer/Company Name

Signature

Print Name

Address

Country

Date

Product(s) Manufacturing

AGREED and ACCEPTED:

WARNER BROS. CONSUMER PRODUCTS
a division of Time Warner
Entertainment Company L.P.

By: _____ Gary R. Simon, Senior Vice President Business & Legal Affairs

Date: _____

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY

BRACKETS, HAS BEEN OMITTED AND FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") PURSUANT TO SEC RULE 24B-2 OF THE SECURITIES EXCHANGE act of 1934, AS AMENDED.

ATTACHMENT A

#13770-WBLT

(a) "CHANGE OF CONTROL" means and includes each of the following:

(1) Any transaction or series of transactions, whereby any person (as that term is used in Section 13 and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is or becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act) directly or indirectly, of securities of the Licensee representing more than fifty percent (50%) of the combined voting power of the Licensee's then outstanding securities; PROVIDED, that for purposes of this paragraph, the term "person" shall exclude (A) a trustee or other fiduciary holding securities under an employee benefit plan of the Licensee or a subsidiary of Licensee and (B) a corporation owned directly or indirectly by the stockholders of the Licensee in substantially the same proportions as their ownership in the Licensee;

(2) Any merger, consolidation, other corporate reorganization or liquidation of the Licensee in which the Licensee is not the continuing or surviving corporation or entity or pursuant to which shares of Stock would be converted into cash, securities, or other property, other than (A) a merger or consolidation with a wholly owned subsidiary, (B) a reincorporation of the Licensee in a different jurisdiction, or (C) other transaction in which there is no substantial change in the stockholders of the Licensee;

(3) Any merger or consolidation of the Licensee with or into another entity or any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Licensee immediately prior to such merger, consolidation or other reorganization;

(4) The sale, transfer, or other disposition of all or substantially all of the assets of the Licensee; or

(5) A change or series of related or unrelated changes in the composition of the Board of Directors of Licensee, during any twenty-four (24) month period beginning on the first anniversary of the date of this Agreement, as a result of which fewer than fifty percent (50%) of the incumbent directors are directors who either (i) had been directors of the Licensee on the later of such first anniversary or the date twenty-four (24) months prior to the date of the event that may constitute a Change of Control (the "Original Directors") or
(ii) were elected, or nominated for election, to the Board of Directors of the Licensee with the affirmative votes of a least a majority of the aggregate of the Original Directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved.

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BRACKETS, HAS BEEN OMITTED AND FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") PURSUANT TO SEC RULE 24B-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT 10.34

RETAIL AND PROMOTIONAL LICENSE
WARNER BROS. CONSUMER PRODUCTS
#13771-WBLT/BIA

PROMOTIONAL LICENSE AGREEMENT made NOVEMBER 20, 2002 by and between WARNER BROS., A DIVISION OF TIME WARNER ENTERTAINMENT COMPANY, L.P., c/o Warner Bros. Consumer Products, a division of Time Warner Entertainment Company L.P., whose address is 4000 Warner Blvd., Burbank, CA 91522 (hereinafter referred to as "LICENSOR") and POORE BROTHERS, INC., whose address is 3500 S. La Cometa Drive, Goodyear, AZ 85338, Attention: Eric Kufel (hereinafter referred to as "LICENSEE").

W I T N E S S E T H:

The parties hereto mutually agree as follows:

1. DEFINITIONS: As used in this Agreement, the following terms shall have the following respective meanings:

(a) "CHANNELS OF DISTRIBUTION": Licensee may conduct the Licensed Promotion and shall sell and distribute the Licensed Products and/or the Licensed Premiums through the following Channels of Distribution only (as such channels are defined and numbered in Exhibit 1 attached hereto and incorporated herein by reference):

CHANNEL EXHIBIT 1 NUMBER

[*]

All other Channels of Distribution defined in Exhibit 1 which are not specified above in this Paragraph l(a) are specifically excluded from this Agreement.

[*]

(b) "GUARANTEED CONSIDERATION": [*]

(c) "LICENSED PREMIUM(S)": Licensee shall have the right to include premiums incorporating the Licensed Property in association with the Licensed Promotion.

Any and all such premiums shall be determined by the parties at a later date and shall be added to this License Agreement pursuant to a written amendment, provided, however, that Licensor shall have the absolute right to approve in writing all the elements (i.e. all premiums as well as all product packaging, advertising, etc.) prior to manufacture of said premiums.

For purposes of this subparagraph, the term "premium" shall be defined as including, but not necessarily limited to, combination sales, free or self-liquidating items offered to the public in conjunction with the sale or promotion of a product or service, including traffic building or continuity visits by the consumer/customer, or any similar scheme or device, the prime intent of which is to use the premiums in such a way as to promote, publicize and or sell the products, services or business image of the user of such item.

(d) "LICENSED PRODUCTS": Salted Snacks Category defined as: Potato Chips, Potato Crisps, 2-D Potato or Corn Snacks, 3-D Potato or Corn Snacks, Pretzels, Cheese Puffs, Tortilla Chips, Pellet Fried Snacks, Extruded Fried Snacks.

It is understood and agreed that for the purposes of this Agreement, Salted Snacks Category shall exclude the following: pre-popped popcorn, nuts, crackers, and cookies.

(e) "LICENSED PROMOTION": The right to utilize the Licensed Property in connection with the advertising and promotion of the Licensed Products and with the manufacture, distribution and advertisement of Licensed Premiums as set forth below:

(i) Licensee shall commit to purchase [*] in national television media to support the theatrical release of the Motion Picture. It is understood and agreed that such television support may not air earlier than six (6) weeks prior to the release of the Motion Picture and shall air within an eight
(8) to twelve (12) week period (the "Promotional Window"). Such television media shall be dedicated exclusively to advertising the Licensed Products and the products licensed under separate license agreement #13770-WBLT and shall include a Motion Picture in-theater communication integrated into the spot or tagged at the end of the spot. Such television media shall include but not be limited to, network primetime, network cable and spot buys;

(ii) Licensee shall run one dedicated FSI featuring artwork from the Motion Picture on no less than fifty percent (50%) of such FSI (the "Motion Picture FSI") during the Promotional Window. The Motion Picture FSI shall also include an in-theater communication. It is understood and agreed that the Motion Picture FSI shall run no earlier than September 28, 2003 and no later than November 8, 2003; provided however, in the event the theatrical release of the Motion is prior to or after November 14, 2003 (the "New Theatrical Release Date), then the Motion Picture FSI shall run no earlier than six (6) weeks prior to and no later than one
(1) week prior to the New Theatrical Release Date. The Motion Picture FSI shall fulfill Licensee's annual FSI requirement for the calendar year 2003 under separate license agreement #13770-WBLT;

(iii) Upon the conclusion of the Licensed Promotion, Licensee shall provide to Licensor confirmation of the actual value and number of impressions for each component of the Licensed Promotion. Within two (2) months after the completion of the Licensed Promotion, Licensee will provide Licensor a written report substantially in the form attached hereto as Attachment B, summarizing the results of the Licensed Promotion (e.g. increase in business in dollars or impressions). Along with such report, Licensee shall return to Licensor all remaining collateral marketing materials.

(f) "LICENSED PROPERTY": The names, characters, trademarks, logos, likenesses, environmental settings, costumes and plot elements (collectively the "Elements") contained in or associated with the released version of the theatrical motion picture entitled "LOONEY TUNES: BACK IN ACTION" (the "MOTION PICTURE"), excluding therefrom any elements which are the property of third parties. In addition, the Licensed Property shall also include the representations, names, logos, movements, personalities, artwork, photographs and other material in connection with the "Looney Tunes" animated characters as depicted in the Motion Picture: BUGS BUNNY, DAFFY DUCK, SYLVESTER, TWEETY, ROAD RUNNER, WILE E. COYOTE, TASMANIAN DEVIL, ELMER FUDD, PORKY PIG, YOSEMITE SAM, PEPE LE PEW, MARVIN THE MARTIAN and FOGHORN LEGHORN only. Collectively, the Elements described above are referred to herein as the "LICENSED PROPERTY". Specifically excluded herein, however, is the right to reproduce the names, likenesses, autographs, signatures, visual representations, audio recordings or voices (the "Name and Likeness") of the actors and actresses in the Motion Picture (the "Performer (s)") except to the extent specifically permitted otherwise in writing by Licensor and then only to the extent the Performer(s) have granted merchandising rights to Licensor. Notwithstanding the foregoing, all uses of any of the elements set forth above, including the Names and Likeness of any of the Performer(s) afforded hereunder must be specifically approved in writing by Licensor, pursuant to paragraph 9 herein.

Licensee acknowledges that the rights granted herein are limited only to the Elements contained in the Motion Picture and that any and all rights in, to or associated with any previously or subsequently produced "LOONEY TUNES" style guides, television or theatrical motion picture or television series, as well as with any sequels or spin-offs thereto are specifically excluded from this Agreement and may be

licensed separately to any third party(s) of Licensor's choice at Licensor's sole discretion. Furthermore, no sound bites, voices, music or other audio is included herein. If Licensee wishes to use any such elements, Licensee must separately procure the necessary rights and any rights clearance or related fees arising from same shall be at Licensee's sole expense.

(g) "MARKETING DATE": October 1, 2003

It is understood and agreed that Licensed Products may not ship prior to September 15, 2003.

(h) "ROYALTY RATE": Licensee shall pay to Licensor the following sums:

(i) [*] of Net Sales of all Licensed Products; and

(ii) [*] of Net Purchase Price of all Licensed Premiums distributed by Licensee hereunder. The term "Net Purchase Price" herein shall mean the price actually paid by Licensee for any Licensed Premium(s) authorized and distributed hereunder. It is understood and agreed that any Royalties paid to Licensor on Net Purchase Price of Premiums shall be in addition to and shall not offset the Guaranteed Consideration hereunder.

(g) "STYLE GUIDE": Any materials provided by Licensor to Licensee which sets forth the style, format, characterization and any artwork depicting the Licensed Property which has been approved by Licensor in writing

(i) "TERM": [*].

(j) "TERRITORY": United States (fifty states), Puerto Rico, United States Virgin Islands, and United States Military Bases.

2. GRANT OF LICENSE:

(a) Subject to the restrictions, limitations, reservations and conditions and Licensor's approval rights set forth in this Agreement, Licensor hereby grants to Licensee and Licensee hereby accepts for the Term of this Agreement, a license to utilize the Licensed Property solely on or in connection with the Licensed Promotion and the Licensed Products and/or Licensed Premiums throughout the Territory on an exclusive basis in the Salted Snack Category as defined in Paragraph 1(d), except that sales of Licensed Products and Licensed Premiums sold through Airport Gift and Other Airport Stores shall be on a non-exclusive basis.

(b) [*]

(c) Without limiting any other approval rights of Licensor as contained herein, no television commercials (animated or live action) may be utilized under this Agreement without the specific prior written approval of Licensor.

3. RESERVATION OF RIGHTS; PREMIUMS:

(a) Licensor reserves all rights not expressly conveyed to Licensee hereunder, and Licensor may grant licenses to others to use the Licensed Property, artwork and textual matter in connection with other uses, services and products without limitation.

(b) Notwithstanding anything to the contrary stated herein, Licensor, for itself and its affiliates, specifically reserves the right, without limitation throughout the world, to itself use, or license any third party(s) of its choice to use the Licensed Property for the marketing, manufacture, distribution and sale of products and/or the promotion of services similar or identical to those licensed herein in Paragraphs l(c) and l(d) above for sale through any catalogue(s) or online website produced or distributed by or on behalf of Licensor or its affiliated companies, or for sale or distribution in any theaters, arenas or restaurants or for sale or distribution in connection with any home video product, including DVD or other formats, or for sale or

distribution in the retail stores known as "Warner Bros. Studio Stores" and any other retail stores operated by or on behalf of Licensor or its affiliated companies, or for sale or distribution in any theme/amusement parks operated by or on behalf of Licensor and its affiliated companies, including without limitation, the Six Flags and Movie World parks or its licensees, Six Flags, Movie World, or their affiliated companies. In addition, Licensor reserves the right to allow Six Flags and Movie World to manufacture (or have manufactured by a third party) products similar or identical to those licensed herein for distribution or sale in theme and/or amusement parks owned or operated by Six Flags and/or Movie World. Further, Licensor reserves the right to use, or license others to use, and/or manufacture products similar or identical to those licensed herein for use as premiums. Nothing contained herein shall be construed to mean that Licensee is granting a license to Licensor to utilize Licensee's proprietary and/or patented technology.

(c) Licensee specifically understands and agrees that no rights are granted herein with respect to the Warner Bros. "shield" logo or trademark, or any other trademark(s), logo(s) or copyrights owned by Licensor other than those specifically set forth above in the Licensed Property, it being understood that all rights in and to said properties are reserved exclusively to Licensor for use and/or licensing as it deems appropriate to third party(s) of its choice. Notwithstanding the foregoing Licensee may use the Warner Bros. shield logo in connection with the legal line referenced in Paragraph 8(d) below as instructed by Licensor's Brand Assurance Department.

(d) Licensee agrees that it will not use, or knowingly permit the use of, and will exercise due care that its customers likewise will refrain from the use of, the Licensed Products as premiums or the Licensed Premiums as products for retail sale, except with the prior written consent of Licensor.

(e) Licensee specifically understands and agrees that no rights are granted hereunder with respect to the Warner Bros. "BABY LOONEY TUNES" infant property, it being understood that all rights in and to said property are reserved exclusively to Licensor for use and/or licensing as it deems appropriate to third parties of its choice.

(f) Licensee further understands and agrees that the rights granted herein are limited only to the cartoon characters set forth above and that any and all rights in, to or associated with the theatrical motion picture entitled "SPACE JAM", as well as with any sequels thereto, are specifically excluded herefrom, it being understood that all rights in and to said property are reserved exclusively to Licensor for use and/or licensing as it deems appropriate to third parties of its choice.

4. CONSIDERATION:

(a) The Guaranteed Consideration paid by Licensee as set forth above shall be applied against such royalties as are, or have become, due to Licensor. No part of such Guaranteed Consideration shall be repayable to Licensee. Royalties earned in excess of the Guaranteed Consideration applicable to the Term hereof shall not offset any Guaranteed Consideration required in respect of the succeeding renewal term (if any); likewise, royalties earned in excess of the Guaranteed Consideration applicable to the renewal term (if any) shall not offset any Guaranteed Consideration applicable to any prior term.

(b) Royalty Payments: Licensee shall pay to Licensor a sum equal to the Royalty Rate as set forth above of (i) all Net Sales by Licensee of the Licensed Products and/or (ii) Net Purchase Price of the Licensed Premiums covered by this Agreement. The term "net sales" herein shall mean [*]. No costs incurred in the manufacture, sale, distribution, advertisement, or exploitation of the Licensed Products shall be deducted from any royalties payable by Licensee.

(c) Royalties shall be payable concurrently with the periodic statements required in Paragraph 5(a) hereof, except to the extent offset by the Guaranteed Consideration theretofore remitted.

5. PERIODIC STATEMENTS:

(a) Within thirty (30) days after the end of the first fiscal quarter after the date of execution of the License Agreement and promptly on the 25th day after the end of each fiscal quarter thereafter, Licensee shall furnish to Licensor complete and accurate statements certified to be accurate by Licensee, or if a corporation, by an officer of Licensee, showing the (i) number of units; (ii) country in which manufactured, sold, distributed and/or to which shipped; (iii) Description (as such term is defined below) of the Licensed Products and/or Licensed Premiums; (iv) gross sales price or Net Purchase Price (if applicable); and (v) itemized deductions from gross sales price and net sales price (if applicable) together with any returns made during the preceding fiscal quarter. Such statements shall be in such formats as Licensor shall reasonably require (which formats may be amended by Licensor from time to time) and shall be furnished to Licensor whether or not any of the Licensed Products and/or Licensed Premiums have been distributed during fiscal quarters to which such statements refer. Receipt or acceptance by Licensor of any of the statements furnished pursuant to this Agreement or of any sums paid hereunder shall not preclude Licensor from questioning the correctness thereof at any time, and in the event that any inconsistencies or mistakes are discovered in such statements or payments, they shall immediately be rectified and the appropriate payments made by Licensee. Upon demand of Licensor, Licensee shall at its own expense, but not more than once in any twelve (12) month period, furnish to Licensor a detailed statement by an officer of Licensee showing the
(i) number of units; (ii) country in which manufactured, sold, distributed and/or to which shipped; (iii) Description of the Licensed Products and/or Licensed Premiums; (iv) gross sales price or Net Purchase Price (if applicable); and (v) itemized deductions from gross sales price and net sales price (if applicable) of the Licensed Products and/or Licensed Premiums covered by this Agreement distributed and/or sold by Licensee up to and including the date upon which Licensor has made such demand. For purposes of this Paragraph
5(a), the term "Description" shall mean a detailed description of the Licensed Products and/or Licensed Premiums including the nature of each of the Licensed Products and/or Licensed Premiums, any and all names and likenesses, whether live actors or animated characters, from the Licensed Property utilized on the Licensed Products and/or Licensed Premiums and/or any related packaging and/or wrapping material, and any other components of the Licensed Property utilized on the Licensed Products and/or Licensed Premiums and/or any related packaging and/or wrapping material. In the event Licensor is responsible for the payment of any additional third party participations based on Licensee not reporting by character name and likeness as provided above, Licensee shall be responsible for reimbursing Licensor for the full amount of all such third party claims, including without limitation the participation itself, interest, audit and reasonable attorneys' fees. Licensee understands and agrees that it is a material term and condition of this Agreement that Licensee include the Description on all statements. In the event Licensee fails to do so, Licensor shall have the right to terminate this Agreement, in accordance with the provisions of Paragraph 14 herein.

(b) For the statements and payments required hereunder, Licensee shall reference the contract number(s) on all statements and payments. If the United States Postal Service is used deliver to the following:

WARNER BROS. CONSUMER PRODUCTS
21477 Network Place
Chicago, IL 60673-1214

If sent by Federal Express or any other Courier Service deliver to the following:

BANK ONE
Attention WBCP lockbox #21477

525 West Monroe
8th Floor Mail Room
Chicago, IL 60661
Telephone Number 312-732-5500

(c) Any payments which are made to Licensor hereunder after the due date required therefor, shall bear interest at the then current prime rate, as published in The Wall Street Journal (New York edition), plus three (3%) percent (or the maximum rate permissible by law, if less) from the date such payments are due to the date of payment. Licensor's right hereunder to interest on late payments shall not preclude Licensor from exercising any of its other rights or remedies pursuant to this Agreement or otherwise with regard to Licensee's failure to make timely remittances.

6. BOOKS AND RECORDS:

(a) Licensee shall keep, maintain and preserve (in Licensee's principal place of business) for at least two (2) years following expiration or termination of the Term of this Agreement or any renewal(s) hereof (if applicable), complete and accurate records of accounts including, without limitation, purchase orders, inventory records, invoices, correspondence, banking and financial and other records pertaining to the various items required to be submitted by Licensee as well as to ensure Licensee's compliance with local laws as required pursuant to Paragraph 13(k) hereof. Such records and accounts shall be available for inspection and audit up to two (2) times per year during or after the Term of this Agreement or any renewal(s) hereof (if applicable) during reasonable business hours and upon reasonable notice by Licensor or its nominees. Licensee agrees not to cause any interference with Licensor or nominees of Licensor in the performance of their duties. During such inspections and audits, Licensor shall have the right to take extracts and/or make copies of Licensee's relevant records as it deems reasonably necessary. Licensor agrees to keep confidential all information and copies obtained by Licensor pursuant to this Paragraph other than with respect to required disclosures in connection with disputes between the parties or as otherwise required by law, court order or governmental process.

(b) The exercise by Licensor in whole or in part, at any time of the right to audit records and accounts or of any other right herein granted, or the acceptance by Licensor of any statement or statements or the receipt and/or deposit by Licensor, of any payment tendered by or on behalf of Licensee shall be without prejudice to any rights or remedies of Licensor and such acceptance, receipt and/or deposit shall not preclude or prevent Licensor from thereafter disputing the accuracy of any such statement or payment.

(c) If pursuant to its right hereunder Licensor causes an audit and inspection to be instituted which thereafter discloses a deficiency between the amount found to be due to Licensor and the amount actually received or credited to Licensor, then Licensee shall, upon Licensor's demand, promptly pay the deficiency, together with interest thereon at the then current prime rate from the date such amount became due until the date of payment, and, if the deficiency is more than five percent (5%) of all payments made by Licensee during the period covered by the audit, then Licensee shall pay the reasonable costs and expenses of such audit and inspection.

7. INDEMNIFICATIONS:

(a) During the Term, and continuing after the expiration or termination of this Agreement, Licensor shall indemnify Licensee and its affiliates and shall hold them harmless from any loss, liability, damage, cost or expense, including reasonable attorneys' fees, arising out of any claims or suits which may be brought or made against Licensee and its affiliates by reason of the breach by Licensor of the warranties or representations as set forth in Paragraph 12 hereof, provided that Licensee shall give prompt written notice, and full cooperation and assistance to Licensor relative to any such claim or suit and provided, further, that Licensor shall have the option to undertake and conduct the defense of any suit so brought. Licensee shall not, however, be entitled to recover for lost profits. Licensee shall cooperate fully in all respects with Licensor in the conduct and defense of said suit and/or proceedings related thereto.

(b) During the Term, and continuing after the expiration or termination of this Agreement, Licensee shall indemnify Licensor, Time Warner Entertainment Company, L.P. ("TWE") and each of its affiliates, and shall hold them harmless from any loss, liability, damage, cost or expense, including reasonable attorneys' fees, arising out of any

claims or suits which may be brought or made against Licensor, TWE or any of its affiliates, by reason of: (i) any breach of Licensee's covenants and undertakings hereunder; (ii) any unauthorized use by Licensee of the Licensed Property; (iii) any use of any trademark or copyright on or in connection with the Licensed Products, the Licensed Premiums or the Licensed Promotion (except trademarks or copyrights in the Licensed Property used in accordance with the terms of this Agreement), design, patent, process, method or device on or in connection with the Licensed Products, Licensed Premiums or Licensed Promotion; (iv) Licensee's non-compliance with any applicable federal, state or local laws or with any other applicable regulations; and (v) any alleged defects and/or inherent dangers (whether obvious or hidden) in the Licensed Products and/or Licensed Premiums, or the use thereof. Provided, however, that Licensor shall give prompt written notice, and full cooperation and assistance to Licensee relative to any claim or suit and provided, further, that Licensee shall have the option to undertake and conduct the defense of any suit so brought. Licensor shall cooperate fully in all respects with Licensee in the conduct and defense of said suit and/or proceedings related thereto. Provided, however, that Licensor shall give prompt written notice, and full cooperation and assistance to Licensee relative to any such claim or suit and provided, further, that Licensee shall have the option to undertake and conduct the defense of any suit so brought. Licensor shall cooperate fully in all respects with Licensee in the conduct and defense of said suit and/or proceedings related thereto.

(c) With regard to Paragraph 7(b) above, Licensee agrees to obtain, at its own expense, Commercial General Liability Insurance, including product liability and contractual liability coverage providing adequate protection for Licensor and Licensee against any such claims or suits in amounts no less than three million dollars ($3,000,000) per occurrence, combined single limits. Simultaneously with the execution of this Agreement, Licensee undertakes to submit to Licensor a fully paid policy or certificate of insurance naming Licensor, TWE and each of its affiliates as additional insured parties and, requiring that the insurer shall not terminate or materially modify such policy or certificate of insurance without written notice to Licensor at least thirty (30) days in advance thereof. Such insurance shall at all times be primary and not contributory with any insurance carried by Licensor, TWE or any of their affiliates. Further the delivery of the policy or certificate, as provided in this Paragraph 7(c) are material obligations of Licensee.

8. ARTWORK; COPYRIGHT AND TRADEMARK NOTICES:

(a) The Licensed Property shall be displayed or used only in such form and in such manner as has been specifically approved in writing by Licensor in advance and Licensee undertakes to assure usage of the trademark(s) and character(s) solely as approved hereunder. Licensee further agrees and acknowledges that any and all Artwork (defined below) created, utilized, approved and/or authorized for use hereunder by Licensor which features or includes the Licensed Property shall be owned exclusively by Licensor excluding intellectual property rights in and to any elements that are owned by Licensee or licensed by Licensee from a third party and do not include the Licensed Property. "Artwork" as used herein shall include, without limitation, all pictorial, graphic, visual, audio, audio-visual, digital, literary, animated, artistic, dramatic, sculptural, musical or any other type of creations and applications, whether finished or not, including, but not limited to, animation, drawings, designs, sketches, images, tooling and tooling aids, illustrations, film, video, electronic, digitized or computerized information, software, object code, source code, on-line elements, music, text, dialogue, stories, visuals, effects, scripts, voiceovers, logos, one-sheets, promotional pieces, packaging, display materials, printed materials, photographs, interstitials, notes, shot logs, character profiles and translations, produced by Licensee or for Licensee, pursuant to this Agreement. Licensor reserves for itself or its designees all rights to use any and all Artwork created, utilized and/or approved hereunder without limitation excluding intellectual property rights in and to any elements that are owned by Licensee or licensed by Licensee from a third party and do not include the Licensed Property. Nothing contained herein shall be construed to mean that Licensee is granting a license to Licensor to utilize Licensee's proprietary, patented technology, and/or intellectual property rights whether alone or in combination with the Licensed Property.

(b) Licensee acknowledges that, as between Licensor and Licensee, the Licensed Property and Artwork and all derivative works thereof, and all copyrights, trademarks and other proprietary rights therein are owned exclusively by Licensor and Licensee shall have no interest in or claim thereto, except for the limited right to use the same pursuant to this Agreement and subject to its terms and conditions.

Licensor acknowledges that, as between Licensor and Licensee, the Licensee's intellectual property and all derivative works thereof, and all copyrights, trademarks and other proprietary rights therein are owned exclusively by Licensee and Licensor shall have not interest in or claim thereto.

Licensee agrees and acknowledges that any Artwork created by Licensee or for Licensee hereunder is a "work made for hire" for Licensor under the U.S. Copyright Act, and any and all similar provisions of law under other jurisdictions, and that Licensor is the author of such works for all purposes, and that Licensor is the exclusive owner of all the rights comprised in the undivided copyright and all renewals, extensions and reversions therein, in and to such works in perpetuity and throughout the universe. Licensee hereby waives and releases in favor of Licensor all rights (if any) of "droit moral," rental rights and similar rights in and to the Artwork (the "Intangible Rights") and agrees that Licensor shall have the right to revise, condense, abridge, expand, adapt, change, modify, add to, subtract from, re-title, re-draw, re-color, or otherwise modify the Artwork, without the consent of Licensee. Licensee hereby irrevocably grants, transfers and assigns to Licensor all right, title and interest, including copyrights, trademark rights, patent rights and other proprietary rights, it may have in and to the Artwork and all derivative works, in perpetuity and throughout the universe. Licensee acknowledges that Licensor shall have the right to terminate this Agreement in the event Licensee asserts any rights (other than those specifically granted pursuant to this Agreement) in or to the Licensed Property or Artwork.

Licensee hereby warrants that any and all work created by Licensee under this Agreement apart from the materials provided to Licensee by Licensor is and shall be wholly original with or fully cleared by Licensee and shall not copy or otherwise infringe the rights of any third parties, and Licensee hereby indemnifies Licensor and will hold Licensor harmless from any such claim of infringement or otherwise involving Licensee's performance hereunder, under the terms of Paragraph 7(b). At the request of Licensor, Licensee shall execute such form(s) of assignment of copyright or other papers as Licensor may reasonably request in order to confirm and vest in Licensor the rights in the properties as provided for herein. In addition, Licensee hereby appoints Licensor as Licensee's Attorney-in-Fact to take such actions and to make, sign, execute, acknowledge and deliver all such documents as may from time to time be necessary to confirm in Licensor, its successors and assigns, all rights granted herein. If any third party makes or has made any contribution to the creation of Artwork authorized for use hereunder, Licensee agrees to obtain from such party a full confirmation and assignment of rights so that the foregoing rights shall vest fully in Licensor, in the form of the Contributor's Agreement attached hereto as Exhibit 2 and by this reference made a part hereof, prior to commencing work, and subject to the prior written approval of Licensor, ensuring that all rights in the Artwork and Licensed Property arise in and are assigned to Licensor. Promptly upon entering into each such Contributor's Agreement, Licensee shall give Licensor a copy of such Contributor's Agreement. Licensee assumes all responsibility for such parties and agrees that Licensee shall bear any and all risks arising out of or relating to the performance of services by them and to the fulfillment of their obligations under the Contributor's Agreement.

(c) Upon expiration or termination of this Agreement for any reason, or upon demand by Licensor at any time, Licensee shall promptly deliver to Licensor all Artwork or Licensed Property, whether finished or not, including drawings, drafts, sketches, illustrations, screens, data, digital files and information, copies or other items, information or things created in the course of preparing the Licensed Property, excluding any elements that are owned by Licensee or licensed by Licensee from a third party and all materials provided to Licensee by Licensor hereunder, or, at Licensor's option and instruction, shall destroy some or all of the foregoing and shall confirm to Licensor in writing that Licensee has done so. Licensee shall not use such Artwork or Licensed Property, items, information or things, material, for any purpose other than is permitted under this Agreement. For any Licensee elements and/or intellectual property that utilize Licensed Property or Artwork in whole or in part, Licensee shall destroy such elements

and/or intellectual property upon expiration or termination of this Agreement for any reason and shall confirm to Licensor in writing that Licensee has done so.

(d) Licensee shall, within thirty (30) days of receiving an invoice, pay Licensor for Artwork executed for Licensee by Licensor (or by third parties under contract to Licensor) for use in the development of the Licensed Products and/or Licensed Premiums and any related packaging, display and promotional materials at Licensor's prevailing commercial art rates. The foregoing shall include any Artwork that, in Licensor's opinion, and subject to Licensee's written approval, is necessary to modify Artwork initially prepared by Licensee and submitted for approval. Estimates of Artwork charges are available upon request. Licensor shall submit to Licensee, for Licensee's prior approval, any increases of ten percent (10%) or more above the estimate originally approved by Licensee, and Licensee shall not be obligated to pay for such increased cost if Licensee has not provided its approval thereof.

(e) Licensee shall cause to be imprinted, irremovably and legibly on the packaging of each Licensed Product and/or Licensed Premium manufactured, distributed or sold under this Agreement, and all printed and/or televised advertising, promotional, packaging and wrapping material wherein the Licensed Property appears, the following copyright and/or trademark notice(s) or such other notice as may be approved by Licensor:

LOONEY TUNES, CHARACTERS, NAMES AND ALL RELATED INDICIA ARE TRADEMARKS OF AND (C) WARNER BROS.

(S02)

(The year date shall be as instructed by Licensor.)

(f) In no event shall Licensee use, in respect to the Licensed Products and/or Licensed Premiums and/or in relation to any advertising, promotional, packaging or wrapping material, any copyright or trademark notices which shall conflict with, be confusing with, or negate, any notices required hereunder by Licensor in respect to the Licensed Property.

(g) Licensee agrees to deliver to Licensor free of cost six (6) of each of the Licensed Premiums together with their packaging and wrapping material for trademark registration purposes in compliance with applicable laws, simultaneously upon distribution to the public. Any copyrights or trademarks with respect to the Licensed Promotion or Licensed Products and/or Licensed Premiums shall be procured by and for the benefit of Licensor and at Licensor's expense. Licensee further agrees to provide Licensor with the date of the first use of the Licensed Products and/or Licensed Premiums in interstate and intrastate commerce.

(h) Licensee shall assist Licensor, at Licensor's expense, in the procurement, protection, and maintenance of Licensor's rights to the Licensed Property. Licensor may, in its sole discretion, commence or prosecute and effect the disposition of any claims or suits relative to the imitation, infringement and/or unauthorized use of the Licensed Property either in its own name, or in the name of Licensee, or join Licensee as a party in the prosecution of such claims or suits. Licensee agrees to cooperate fully with Licensor in connection with any such claims or suits and undertakes to furnish full assistance to Licensor in the conduct of all proceedings in regard thereto. Licensee shall promptly notify Licensor in writing of any known infringements or imitations or unauthorized uses by others of the Licensed Property, on or in relation to promotions similar to the Licensed Promotion or products identical to similar to or related to the Licensed Products and/or Licensed Premiums. Licensor shall in its sole discretion have the right to settle or effect compromises in respect thereof. Licensee shall not institute any suit or take any action on account of such infringements, imitations or unauthorized uses.

(i) Licensee acknowledges receipt of Licensor's Style Guide and undertakes to utilize the depictions of the Licensed Property (and, if authorized by Licensor, any emblems and/or devices associated therewith) in the form as set forth therein on all Licensed Products as well as advertising, promotional, packaging or wrapping materials. In the event that Licensee desires to utilize renditions which vary from those as set forth in the Style Guide, Licensee shall make a request to Licensor in that connection, and if the request is approved, Licensor shall prepare appropriate Artwork and deliver same to

Licensee. Licensee shall utilize such Artwork solely in the form furnished by Licensor, if Licensee decides to use such Artwork in Licensee's sole discretion, shall pay a reasonable fee to Licensor in respect thereof not later than one month after delivery thereof by Licensor to Licensee, and such fee shall be additional to and not offset by any Guaranteed Consideration referred to in Paragraph 1(b) hereinabove.

(j) If Licensee is unable or unwilling to use artwork from the Licensor's Style Guide and if Licensor is unable or unwilling to provide Licensee with Artwork as described in subparagraph (h) above and if Licensor expressly consents in writing, which consent shall not be unreasonably withheld, but may be subject to such conditions as Licensor may elect in its sole discretion, then and only then may the Licensee create or procure the creation of Artwork. In any event, Licensee shall assign or procure the assignment in writing of all rights, copyright and otherwise, in and to any Artwork, and it is intended that this provision shall take effect as an assignment of prospective copyrights in Artwork yet to be created by or for. The Licensee further undertakes to take all and any steps necessary for the recordal or registration of the assignment(s) referred to hereinabove.

9. APPROVALS AND QUALITY CONTROLS:

(a) Licensee agrees to strictly comply and maintain compliance with the quality standards, specifications and rights of approval of Licensor in respect to any and all usage of the Licensed Property on or in relation to the Licensed Products and/or Licensed Premiums throughout the Term of this Agreement and any renewals or extensions thereof (if applicable). Licensee agrees to furnish to Licensor free of cost for its written approval as to quality and style, samples of each of the Licensed Products and/or Licensed Premiums, together with their packaging, hangtags, and wrapping material, as follows in the successive stages indicated: (i) rough sketches/layout concepts; (ii) finished artwork or final proofs; (iii) pre-production samples or strike-offs; and (iv) finished products, including packaged samples.

(b) No Licensed Products and/or Licensed Premiums and no material utilizing the Licensed Property shall be manufactured, sold, distributed or promoted by Licensee without prior written approval. In addition to the foregoing, Licensee understands that it shall furnish to Licensor, scripts and storyboards of any proposed media use of the Licensed Property as may be authorized hereunder, in sufficient time for Licensee to make all revisions which Licensor in its sole discretion may request. Licensee may, subject to Licensor's prior written approval, use textual and/or pictorial matter pertaining to the Licensed Property on promotional, display and advertising material as may, in its reasonable judgment, promote the sale of the Licensed Products and/or Licensed Premiums. All advertising and promotional materials relating to the Licensed Promotion and Licensed Products and/or Licensed Premiums must be submitted to the Licensor for its written approval at the following stages appropriate to the medium used. For print materials, submissions are to be made at the following stages: (a) rough sketches or layout concepts; (b) finished artwork or final proofs; and (c) finished materials. For television commercials, if approved by Licensor, submissions are to be made at the following stages: (a) initial concept; (b) storyboard, including written text;
(c) pencil tests and voice-overs for animation and/or selection of performers for live action; and (d) a cassette of the finished commercial prior to air date. For radio or other audio materials, if approved by Licensor, submissions are to be made at the following stages: (a) initial concept; (b) script; (c) voice-overs; and (d) a cassette of the finished commercial prior to the air date.

(c) Approval or disapproval shall lie in Licensor's sole discretion. Licensor shall use its best efforts to approve, disapprove or otherwise comment upon any items submitted to it for approval as may be required hereunder within ten (10) business days after receipt by it of such item (s). In the event that Licensor fails to approve, disapprove or otherwise comment upon the item(s) so submitted within said ten (10) business days, then Licensee shall have the right to notify Licensor of such failure by facsimile (evidenced by written confirmation of facsimile transmittal) and Licensor shall thereafter be required to approve, disapprove or otherwise comment upon the item(s) so submitted within seven (7) business days after receipt by it of said facsimile and failure to do so shall be deemed approval of any item(s) so submitted. Any Licensed Products and/or Licensed Premiums not so approved in writing shall be deemed unlicensed and shall not be manufactured, distributed or sold. If any unapproved

Licensed Products and/or Licensed Premiums are being distributed or sold, Licensor may, together with other remedies available to it including, but not limited to, immediate termination of this Agreement, require such Licensed Products and/or Licensed Premiums to be immediately withdrawn from the market and to be destroyed, such destruction to be attested to in a certificate signed by an officer of Licensee.

(d) Any material modification of a Licensed Product and/or Licensed Premium must be submitted in advance for Licensor's written approval as if it were a new Licensed Product and/or Licensed Premium. Any change involving the Artwork appearing on a Licensed Product shall constitute a material modification of such Licensed Product. Approval of a Licensed Product and/or Licensed Premium which uses particular artwork does not imply approval of such artwork for use with a different Licensed Product and/or Licensed Premium.

(e) Licensed Products and/or Licensed Premiums must conform in all material respects to the final production samples approved by Licensor. If in Licensor's reasonable judgement, the quality of a Licensed Product and/or Licensed Premium originally approved has deteriorated in later production runs, or if a Licensed Product and/or Licensed Premium has otherwise been altered, Licensor may, in addition to other remedies available to it, require that such Licensed Product and/or Licensed Premium be immediately withdrawn from the market.

(f) Licensee shall permit Licensor to inspect Licensee's manufacturing operations, testing and manufacturing payroll records (including those operations and relevant records of any supplier or manufacturer approved pursuant to Paragraph 10 (b) below) with respect to the Licensed Products and/or Licensed Premiums.

(g) If any changes or modifications are required to be made to any material submitted to Licensor for its written approval in order to ensure compliance with Licensor's specifications or standards of quality, Licensee agrees promptly to make such changes or modifications.

(h) Subsequent to final approval, no fewer than twenty-four (24) production samples of Licensed Products and/or Licensed Premiums will be sent to Licensor, to ensure quality control simultaneously upon distribution to the public. In addition, Licensor shall have the right to purchase any and all Licensed Products and/or Licensed Premiums in any quantity at the maximum discount price Licensee charges its best customer, assuming similar quantities and shipment terms.

(i) To avoid confusion of the public, Licensee agrees not to associate other characters or properties with the Licensed Property on the Licensed Products and/or Licensed Premiums or in any packaging, promotional or display materials unless Licensee receives Licensor's prior written approval. Furthermore, Licensee agrees not to use the Licensed Property (or any component thereof) on any business sign, business cards, stationery or forms, nor as part of the name of Licensee's business or any division thereof.

(j) Pursuant to this Agreement, Licensee shall use its reasonable commercial efforts to notify its customers of the requirement that Licensor has the right to approve all promotional, display and advertising materials that incorporate the Licensed Property. It is understood and agreed that the use of images featuring the Licensed Product and its approved packaging in promotional, display and advertising materials is excluded from this requirement, provided, however, none of the Licensed Property is utilized separately from the Licensed Product and its packaging. .

(k) It is understood and agreed that any animation used in electronic media, including but not limited to animation for television commercials and character voices for radio commercials, shall be produced by Warner Bros. pursuant to a separate agreement between Licensee and Warner Bros. Animation, subject to Warner Bros. Animation's customary rates. Any payment made to Warner Bros. Animation for such animation shall be in addition to and shall not offset the Guaranteed Consideration set forth in Paragraph 1(b).

(l) Licensor's approval of Licensed Products and/or Licensed Premiums (including, without limitation, the Licensed Products and/or Licensed Premiums themselves as well as promotional, display and advertising materials) shall in no way constitute or be construed as an approval by Licensor of Licensee's use of any trademark, copyright and/or other proprietary materials not owned by Licensor.

10 DISTRIBUTION; SUBLICENSE MANUFACTURE:

(a) Within the Channels of Distribution set forth in Paragraph l(a) hereof, Licensee shall sell the Licensed Products/Licensed Premiums to wholesalers, distributors or retailers for sale or resale and distribution directly to the public. If Licensee sells or distributes the Licensed Products/Licensed Premiums at a special price, directly or indirectly, to itself, including without limitation, any subsidiary of Licensee or to any other person, firm, or corporation affiliated with Licensee (including any affiliated distributors) or its officers, directors or major stockholders, for ultimate sale to unrelated third parties, Licensee shall pay royalties with respect to such sales or distribution, based upon the price generally charged the trade by Licensee.

(b) Licensee shall not be entitled to sublicense any of its rights under this Agreement. In the event Licensee is not the manufacturer of the Licensed Products and/or Licensed Premiums, Licensee shall, subject to the prior written approval of Licensor, which approval shall not be unreasonably withheld, be entitled to utilize a third party manufacturer in connection with the manufacture and production of the Licensed Products and/or Licensed Premiums, provided that such manufacturer shall execute a letter in the form of Exhibit 3 attached hereto and by this reference made a part hereof. In such event, Licensee shall remain primarily obligated under all of the provisions of this Agreement and any default of this Agreement by such manufacturer shall be deemed a default by Licensee hereunder. In no event shall any such third party manufacturer agreement include the right to grant any rights to subcontractors.

11. GOODWILL: Licensee recognizes the great value of the publicity and goodwill associated with the Licensed Property and acknowledges: (i) such goodwill is exclusively that of Licensor; and (ii) that the Licensed Property has acquired a secondary meaning as Licensor's trademarks and/or identifications in the mind of the purchasing public. Licensee further recognizes and acknowledges that a breach by Licensee of any of its covenants, agreements or undertakings hereunder will cause Licensor irreparable damage, which cannot be readily remedied in damages in an action at law, and may, in addition thereto, constitute an infringement of Licensor's copyrights, trademarks and/other proprietary rights in, and to the Licensed Property, thereby entitling Licensor to equitable remedies, and costs.

12. LICENSOR'S WARRANTIES AND REPRESENTATIONS: Licensor represents and warrants to Licensee that:

(a) It has, and will have throughout the Term of this Agreement, the right to license the Licensed Property to Licensee in accordance with the terms and provisions of this Agreement; and

(b) The making of this Agreement by Licensor and use by Licensor of the Licensed Property pursuant to this Agreement does not violate any agreements, rights or obligations of any person, firm or corporation.

13. LICENSEE'S WARRANTIES AND REPRESENTATIONS: Licensee represents and warrants to Licensor that, during the Term and thereafter:

(a) It will not attack the title of Licensor (or third parties that have granted rights to Licensor) in and to the Licensed Property or any copyright or trademarks pertaining thereto, nor will it attack the validity of the license granted hereunder;

(b) It will not harm, misuse or bring into disrepute the Licensed Property;

(c) It will conduct the Licensed Promotion as well as manufacture, promote and distribute the Licensed Products and/or Licensed Premiums in accordance with the terms of this Agreement, and in compliance with all applicable government regulations and industry standards;

(d) It will not create any expenses chargeable to Licensor without the prior written approval of Licensor in each and every instance. It will not cause or allow any liens or encumbrances to be placed against, or grant any security interest (except to U.S. Bank National Association, a National banking association) in, the Licensed Property, and/or it will not intentionally cause or allow any liens or encumbrances to be placed against, or grant any security interest (except to U.S. Bank National Association, a National banking association) in Licensee's inventory, contract rights and/or accounts receivables, and/or proceeds thereof, with respect to the Licensed Products without Licensor's prior written consent;

(e) It will use reasonable commercial efforts to protect its right to manufacture, promote and distribute the Licensed Products and/or Licensed Premiums hereunder;

(f) It will at all times comply with all government laws and regulations, including but not limited to product safety, food, health, drug, cosmetic, sanitary or other similar laws relating or pertaining to the conduct of the Licensed Promotion as well as the manufacture, distribution, advertising or use of the Licensed Products and/or Licensed Premiums, and shall maintain its appropriate customary high quality standards during the Term hereof. It shall comply with any regulatory agencies which shall have jurisdiction over the Licensed Promotion or Licensed Products and/or Licensed Premiums and shall procure and maintain in force any and all permissions, certifications and/or other authorizations from governmental and/or other official authorities that may be required in response thereto. Each Licensed Product and/or Licensed Premium and component thereof distributed hereunder shall comply with all applicable laws and regulations. Licensee shall follow reasonable and proper procedures for testing that all Licensed Products and/or Licensed Premiums comply with such laws, regulations and standards. Licensee shall permit Licensor or its designees to inspect testing records and procedures with respect to the Licensed Products and/or Licensed Premiums for compliance. Licensed Products and/or Licensed Premiums that do not comply with all applicable laws, regulations and standards shall automatically be deemed unapproved and immediately taken off the market;

(g) It shall, upon Licensor's request, provide credit information to Licensor including, but not limited to, fiscal year-end financial statements (profit-and-loss statement and balance sheet) and operating statements;

(h) It will provide Licensor with the date(s) of first use of the Licensed Products and/or Licensed Premiums in interstate and intrastate commerce, where appropriate;

(i) It will, pursuant to Licensor's instructions, duly take any and all necessary steps to secure execution of all necessary documentation for the recordation of itself as user of the Licensed Property in any jurisdiction where this is required or where Licensor reasonably requests that such recordation shall be effected. Licensee further agrees that it will at its own expense cooperate with Licensor in cancellation of any such recordation at the expiration of this Agreement or upon termination of Licensee's right to use the Licensed Property. Licensee hereby appoints Licensor its Attorney-in-Fact for such purpose;

(j) It will not deliver or sell Licensed Products and/or Licensed Premiums outside the Territory or knowingly deliver or sell Licensed Products and/or Licensed Premiums to a third party for delivery outside the Territory;

(k) It will not use any labor that violates any local labor laws, including all wage and hour laws, laws against discrimination and that it will not use prison, slave or child labor in connection with the manufacture of the Licensed Products and/or Licensed Premiums;

(l) It shall not send, share with or otherwise disclose any Artwork to any third party, including licensees of Licensor, but with the exception of approved third party manufacturers hereunder, without the prior written consent of Licensor;

(m) It shall at all times comply with all commercially reasonable manufacturing, sales, distribution, retail and marketing policies and strategies promulgated in writing by Licensor from time-to-time, and provided the same shall not materially increase the costs of manufacturing, sales, distribution, retail and marketing the Licensed Products; and

(n) If requested by Licensor to do so, it will use reasonable efforts to utilize specific design elements of the Licensed Property provided to Licensee by Licensor on any promotional or advertising materials and/or hangtags, labels or other materials with respect to the Licensed Products and/or Licensed Premiums.

14. TERMINATION BY LICENSOR:

(a) Licensor shall have the right to terminate this Agreement without prejudice to any rights which it may have, whether pursuant to the provisions of this Agreement, or otherwise in law, or in equity, or otherwise, upon the occurrence of anyone or more of the following events (herein called "defaults"):

(i) Licensee materially defaults in the performance of any of its obligations provided for in this Agreement; or

(ii) Licensee shall have failed to deliver to Licensor or to maintain in full force and effect the insurance referred to in Paragraph 7(c) hereof; or

(iii) Licensee shall fail to make any payments due hereunder on the date due; or

(iv) Licensee shall fail to deliver any of the statements required herein or to give access to the premises and/or license records pursuant to the provisions hereof to Licensor's authorized representatives for the purposes permitted hereunder; or

(v) Licensee shall fail to comply in all material respects with any laws, or regulations as provided in Paragraph 13(f) or any governmental agency or other body, office or official vested with appropriate authority finds that the Licensed Products and/or Licensed Premiums are harmful or defective in any way, manner or form, or are being manufactured, sold or distributed in contravention of applicable laws, regulations or standards, or in a manner likely to cause harm; or

(vi) Licensee shall be unable to pay its debts when due, or shall make any assignment for the benefit of creditors, or shall file any petition under the bankruptcy or insolvency laws of any jurisdiction, county or place, or shall have or suffer a receiver or trustee to be appointed for its business or property, or be adjudicated a bankrupt or an insolvent; or

(vii) Licensee does not commence in good faith to execute the Licensed Promotion (i.e. manufacture, distribute and sell the Licensed Products and/or Licensed Premiums) on or before the Marketing Date or thereafter fails to diligently and continuously execute the Licensed Promotion; or

(viii) Licensee shall execute the Licensed Promotion and/or manufacture, sell or distribute (whichever first occurs) any of the Licensed Products and/or Licensed Premiums without the prior written approval of Licensor as provided in Paragraph 9 hereof; or

(ix) Licensee undergoes a change of control as defined in Attachment A, attached hereto and incorporated herein by reference, provided that Licensor must give written notice of termination, if at all, within thirty (30) days after written notice of the change in control is given to Licensor by Licensee; or

(x) Licensee uses Artwork which has not been approved by Licensor in compliance with the provisions of Paragraph 8(h), (i) or (j) hereof; or

(xi) A manufacturer approved pursuant to Paragraph 10(b) hereof shall sell Licensed Products and/or Licensed Premiums to parties other than Licensee or engage in conduct, which conduct if engaged in by Licensee would entitle Licensor to terminate this Agreement; or

(xii) Licensee delivers or sells Licensed Products and/or Licensed Premiums outside the Territory or knowingly sells Licensed Products and/or Licensed Premiums(s) to a third party who Licensee knows intends to, or who Licensee reasonably should suspect intends to, sell or deliver such Licensed Products and/or Licensed Premiums outside the Territory; or

(xiii) Licensee uses any labor that violates any local labor laws and/or it uses prison, slave or child labor in connection with the manufacture of the Licensed Products and/or Licensed Premiums; or

(xiv) Licensee has made a material misrepresentation or has omitted to state a material fact necessary to make the statements not misleading as they pertain to this Agreement; or

(xv) Licensee shall materially breach any other agreement in effect between Licensee on the one hand and Licensor on the other.

(b) In the event any of these defaults occur, Licensor shall give notice of termination in writing to Licensee in the manner prescribed in Paragraph 16 below. Licensee shall have ten (10) business days from the date of giving notice in which to correct any of these defaults (except subdivisions (vii), (viii), (x) and (xii) above which are not curable), and failing such, this Agreement shall thereupon immediately terminate, and any and all payments then or later due from Licensee hereunder (including Guaranteed Consideration) shall then be immediately due and payable in full and no portion of those prior payments shall be repayable to Licensee.

(c) Licensee shall have the right to terminate this Agreement without prejudice to any other rights which it may have, whether pursuant to the provisions of this Agreement, or otherwise at law or in equity, if Licensor defaults in the performance of any of its obligations provided for in this Agreement or in the event of a material breach by Licensor of its warranties or representations set forth in this Agreement. In the event any such default occurs, Licensee shall give notice of termination in writing to Licensor by certified mail. Licensor shall have thirty (30) days from the date of giving notice in which to correct any default or, if the correction would reasonably take more than thirty (30) days, such additional time as is needed so long as Licensor diligently pursues such correction, and failing such correction, this Agreement shall thereupon immediately terminate, and any and all Guaranteed Consideration later due from Licensee hereunder shall no longer be due; provided, however, that no portion of prior payments hereunder shall be repayable to Licensee.

15. FINAL STATEMENT UPON EXPIRATION OR TERMINATION: Licensee shall deliver, as soon as practicable, but not later than forty-five (45) days following expiration or termination of this Agreement, a statement indicating the number and description of Licensed Products and/or Licensed Premiums on hand together with a description of all advertising and promotional materials relating thereto. Following expiration or termination of this Agreement, Licensee shall immediately cease any and all manufacturing of the Licensed Products and/or Licensed Premium. However, if Licensee has complied with all the terms of this Agreement, including, but not limited to, complete and timely payment of the Guaranteed Consideration and Royalty Payments, then Licensee may continue to distribute its remaining inventory, on a non-exclusive basis only, for a period not to exceed ninety (90) days following such expiration (the "Sell-Off Period"), subject to payment of applicable royalties thereto. In no event, however, may Licensee distribute during the Sell-Off Period an amount of Licensed Products and/or Licensed Premiums that exceeds the average amount of Licensed Products and/or Licensed Premiums distributed during any consecutive ninety (90) day period during the Term. In the event this Agreement is terminated by Licensor for any reason under this Agreement, Licensee shall be deemed to have forfeited its Sell-Off Period. If Licensee has any remaining inventory of the Licensed Products and/or Licensed Premiums following the Sell-Off Period,

Licensee shall, at Licensor's option, make available such inventory to Licensor for purchase at or below cost, deliver up to Licensor for destruction said remaining inventory or furnish to Licensor an affidavit attesting to the destruction of said remaining inventory. Licensee shall, at Licensor's option, deliver to Licensor at no charge all Artwork (except tooling and tooling aids) related to the Licensed Products, deliver up to Licensor for destruction Artwork or furnish to Licensor an affidavit attesting to the destruction of said Artwork. Licensee shall furnish to Licensor an affidavit attesting to the destruction or removal of the Licensed Property from all tooling and tooling aids. Licensor shall have the right to conduct a physical inventory in order to ascertain or verify such inventory and/or statement. In the event that Licensee refuses to permit Licensor to conduct such physical inventory, Licensee shall forfeit its right to the Sell-Off Period hereunder or any other rights to dispose of such inventory. In addition to the forfeiture, Licensor shall have recourse to all other legal remedies available to it.

16. NOTICES: Except as otherwise specifically provided herein, all notices which either party hereto are required or may desire to give to the other shall be given by addressing the same to the other at the address set forth above, or at such other address as may be designated in writing by any such party in a notice to the other given in the manner prescribed in this paragraph. All such notices shall be sufficiently given when the same shall be deposited so addressed, postage prepaid, in the United States mail and/or when the same shall have been delivered, so addressed, by facsimile or by overnight delivery service and the date of transmission by facsimile, receipt of overnight delivery service or two business days after mailing shall for the purposes of this Agreement be deemed the date of the giving of such notice.

17. NO PARTNERSHIP, ETC.: This Agreement does not constitute and shall not be construed as constitution of a partnership or joint venture between Licensor and Licensee. Neither party shall have any right to obligate or bind the other party in any manner whatsoever, and nothing herein contained shall give, or is intended to give, any rights of any kind to any third persons.

18. NO SUBLICENSING/NON-ASSIGNABILITY: This Agreement shall bind and inure to the benefit of Licensor, its successors and assigns. This Agreement is personal to Licensee. Licensee shall not sublicense, franchise or delegate to third parties its rights hereunder (except as set forth in Paragraph 10(b) hereof) without the prior written consent of Licensor. Neither this Agreement nor any of the rights of Licensee hereunder shall be sold, transferred or assigned by Licensee and no rights hereunder shall devolve by operation of law or otherwise upon any receiver, liquidator, trustee or other party. Notwithstanding the foregoing, Licensor shall not seek injunctive relief to prevent Licensee from consummating a "change of control" as defined in Attachment A, and any termination of this Agreement as a result of a "change of control" shall be in accordance with Paragraph 14(a)(ix) above.

19. BANKRUPTCY RELATED PROVISIONS:

(a) The parties hereby agree and intend that this Agreement is an executory contract governed by Section 365 of the U.S. Bankruptcy Code ("Bankruptcy Code").

(b) In the event of Licensee's bankruptcy, the parties intend that any royalties payable under this Agreement during the bankruptcy period be deemed administrative claims under the Bankruptcy Code because the parties recognize and agree that the bankruptcy estate's enjoyment of this Agreement will (i) provide a material benefit to the bankruptcy estate during its reorganization and (ii) deny Licensor the benefit of the exploitation of the rights through alternate means during the bankruptcy reorganization.

(c) The parties acknowledge and agree that any delay in the decision of trustee of the bankruptcy estate to assume or reject the Agreement (the "Decision Period") materially harms Licensor by interfering with Licensor's ability to alternatively exploit the rights granted under this Agreement during a Decision Period of uncertain duration. The parties recognize that arranging appropriate alternative exploitation would be a time consuming and expensive process and that it is unreasonable for Licensor to endure a Decision Period of extended uncertainty. Therefore, the parties agree that the Decision Period shall not exceed sixty (60) days.

(d) Licensor, in its interest to safeguard its valuable interests (including, without limitation, its intellectual property rights in the Licensed Property), has relied on the particular skill and knowledge base of Licensee. Therefore, the parties acknowledge and agree that in a bankruptcy context this Agreement is a license of the type described by Section 365(c)(1) of the Bankruptcy Code and may not be assigned without the prior written consent of the Licensor.

20. CONSTRUCTION AND DISPUTE RESOLUTION: This Agreement shall be construed in accordance with the laws of the State of California of the United States of America without regard to its conflicts of laws provisions. Any and all controversies, claims or disputes arising out of or related to this Agreement or the interpretation, performance or breach thereof, including, but not limited to, alleged violations of state or federal statutory or common law rights or duties, and the determination of the scope or applicability of this agreement to arbitrate ("Dispute"), except as set forth in subparagraphs (b) and (c), below, shall be resolved according to the procedures set forth in subparagraph (a), below, which shall constitute the sole dispute resolution mechanism hereunder:

(a) ARBITRATION: In the event that the parties are unable to resolve any Dispute informally, then such Dispute shall be submitted to final and binding arbitration. The arbitration shall be initiated and conducted according to either the JAMS Streamlined (for claims under $250,000) or the JAMS Comprehensive (for claims over $250,000) Arbitration Rules and Procedures, except as modified herein, including the Optional Appeal Procedure, at the Los Angeles office of JAMS, or its successor ("JAMS") in effect at the time the request for arbitration is made (the " Arbitration Rules"). The arbitration shall be conducted in Los Angeles County before a single neutral arbitrator appointed in accordance with the Arbitration Rules. The arbitrator shall follow California law and the Federal Rules of Evidence in adjudicating the Dispute. The parties waive the right to seek punitive damages and the arbitrator shall have no authority to award such damages. The arbitrator will provide a detailed written statement of decision, which will be part of the arbitration award and admissible in any judicial proceeding to confirm, correct or vacate the award. Unless the parties agree otherwise, the neutral arbitrator and the members of any appeal panel shall be former or retired judges or justices of any California state or federal court with experience in matters involving the entertainment industry. If either party refuses to perform any or all of its obligations under the final arbitration award (following appeal, if applicable) within thirty (30) days of such award being rendered, then the other party may enforce the final award in any court of competent jurisdiction in Los Angeles County. The party seeking enforcement shall be entitled to an award of all costs, fees and expenses, including attorneys' fees, incurred in enforcing the award, to be paid by the party against whom enforcement is ordered.

(b) INJUNCTIVE RELIEF: Notwithstanding the foregoing, either party shall be entitled to seek injunctive relief (unless otherwise precluded by any other provision of this Agreement) in the state and federal courts of Los Angeles County.

(c) OTHER MATTERS: Any Dispute or portion thereof, or any claim for a particular form of relief (not otherwise precluded by any other provision of this Agreement), that may not be arbitrated pursuant to applicable state or federal law may be heard only in a court of competent jurisdiction in Los Angeles County.

21. WAIVER, MODIFICATION ETC.: No waiver, modification or cancellation of any term or condition of this Agreement shall be effective unless executed in writing by the party charged therewith. No written waiver shall excuse the performance of any acts other than those specifically referred to therein. The fact that the Licensor has not previously insisted upon Licensee expressly complying with any provision of this Agreement shall not be deemed to be a waiver of Licensor's future right to require compliance in respect thereof and Licensee specifically acknowledges and agrees that the prior forbearance in respect of any act, term or condition shall not prevent Licensor from subsequently requiring full and complete compliance thereafter. If any term or provision of this Agreement is held to be invalid or unenforceable by any court of competent jurisdiction or any other authority vested with jurisdiction, such holding shall not affect the validity or enforceability of any other term or provision hereto and this Agreement shall be interpreted and construed as if such term or provision, to the extent the same shall have been held to be invalid, illegal or unenforceable, had never been contained herein. Headings of paragraphs herein are for convenience only and are without substantive significance.

22. CONFIDENTIALITY: The Artwork and the materials and information supplied to one party by the other hereunder constitute, relate to, contain and form a part of confidential and proprietary information of the disclosing party, including, but not limited to, Style Guides, design elements, character profiles, unpublished copyrighted material, release dates, marketing and promotional strategies, information about new products, properties and characters, the terms and conditions of this Agreement, and other information which is proprietary in nature or is a trade secret (collectively, the "Proprietary Information"). The parties acknowledge and agree that the Proprietary Information is highly confidential and that disclosure of the Proprietary Information will result in serious harm to the owner thereof. Among other damage, unauthorized disclosure of the Proprietary Information will (i) damage carefully planned marketing strategies, (ii) reduce interest in the Licensed Property, (iii) make unique or novel elements of the Licensed Property susceptible to imitation or copying by competitors, infringers or third parties prior to Licensor's release of the information or materials, (iv) damage proprietary protection in undisclosed or unpublished information or materials, and (v) provide unauthorized third parties with materials capable of being used to create counterfeit and unauthorized merchandise, audio-visual products or other products, all of which will seriously damage the parties' rights and business. Except as expressly approved in writing by the owner of the Proprietary Information, the other party shall not reproduce or use the Proprietary Information of the other party and shall not discuss, distribute, disseminate or otherwise disclose the Proprietary Information or the substance or contents thereof, in whole or in part, in its original form or in any other form, with or to any other person or entity other than employees of the parties and, in the case of Licensee, third parties who have executed a Contributor's Agreement (as provided in Paragraph 8(b)) or third party manufacturer's agreement (as provided in paragraph 10(b)) and been approved by Licensor as provided hereunder, and such employees and third parties shall be given access to the Proprietary Information only on a "need-to-know" basis. The foregoing restrictions shall not apply to any information which, (i) at the time of disclosure, is in the public domain or which, after disclosure, becomes part of the public domain by publication or otherwise through no action or fault of the receiving party;
(ii) information which the receiving party can show was in its possession at the time of disclosure and was not acquired, directly or indirectly, from the other party; (iii) information which was received from a third party having the legal right to transmit the same; (iv) information which is independently developed, conceived, or created without use of or reference to any Proprietary Information of the other party; or (v) information which is disclosed pursuant to valid court order, other legal process, or disclosure laws.

23. ENTIRE AGREEMENT: This Agreement constitutes the entire Agreement between the parties concerning the subject matter hereof and cancels and supersedes any prior understandings and agreements between the parties hereto with respect thereto. There are no representations, warranties, terms, conditions, undertakings or collateral agreements, expressed, implied or statutory, between the parties other than as expressly set forth in this Agreement.

24. ACCEPTANCE BY LICENSOR: This instrument, when signed by Licensee shall be deemed an application for license and not a binding agreement unless and until accepted by Warner Bros. Consumer Products by signature of a duly authorized officer and the delivery of such a signed copy to Licensee. The receipt and/or deposit by Warner Bros. Consumer Products of any check or other consideration given by Licensee and/or delivery of any material by Warner Bros. Consumer Products to Licensee shall not be deemed an acceptance by Warner Bros. Consumer Products of this application. The foregoing shall apply to any documents relating to renewals or modifications hereof.

This Agreement shall be of no force or effect unless and until it is signed by all of the parties listed below:

AGREED and ACCEPTED:	AGREED and ACCEPTED:
WARNER BROS. CONSUMER PRODUCTS a division of Time Warner Entertainment Company, L.P.	POORE BROTHERS, INC.
By: /s/ Gary R. Simon Gary R. Simon, Senior Vice President Business & Legal Affairs	By: /s/ Eric J. Kufel
Date: 11/20/02	Date: 11/18/02

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") PURSUANT TO SEC RULE 24B-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT 1
#1377L-WBLT/BIA

CHANNELS OF DISTRIBUTION
DEFINITIONS

LICENSEE MAY SELL THE LICENSED PRODUCTS ONLY THROUGH THE CHANNELS OF DISTRIBUTION AS SPECIFIED ABOVE IN PARAGRAPH 1(a) OF THIS LICENSE AGREEMENT AND AS SUCH CHANNELS ARE DEFINED IN THIS EXHIBIT 1. ALL OTHER CHANNELS OF DISTRIBUTION DEFINED IN THIS EXHIBIT 1, WHICH ARE NOT SPECIFIED IN PARAGRAPH 1(a) ABOVE, ARE SPECIFICALLY EXCLUDED FROM THIS LICENSE AGREEMENT.

1. "AIRPORT GIFT AND OTHER AIRPORT STORES" shall mean gift and other stores located within airports, excluding Duty-Free Store Operators (as defined below). Examples of Airport Gift and Other Stores include, without limitation, PARADIES and W.H. SMITH.

2. "AMUSEMENT GAME REDEMPTION" shall mean distribution of products as prizes awarded in amusement games.

3. "AMUSEMENT PARK GIFT STORES" shall mean gift stores located within amusement parks, such as Six Flags, Paramount Parks, Universal Theme Parks, Dollywood, Walt Disney World and the Disneyland Resort.

4. "ART & CRAFT STORES" shall mean stores that offer for sale primarily art and craft supplies. Examples of Art & Craft Stores include, without limitation, FAST FRAME, MICHAELS and MICHAELS MJ DESIGNS.

5. "ATHLETIC APPAREL & FOOTWEAR STORES" shall means stores that offer for sale primarily athletic apparel and footwear. Examples of Athletic Apparel & Footwear Stores include, without limitation, FOOTLOCKER, ATHLETE'S FOOT and CHAMPS.

6. "AUTOMOTIVE/CARWASH STORES" shall mean (a) stores that offer for sale primarily automotive supplies, or (b) stores located at carwash or gasoline station premises.

7. "BABY SPECIALTY STORES" shall mean stores that offer for sale primarily infant apparel, furniture, accessories and other products designed specifically for babies. Examples of Baby Specialty Stores include, without limitation, BABIES R US.

8. "BEAUTY SUPPLY STORES" shall mean stores that offer for sale primarily cosmetics, haircare products, beauty accessories and personal grooming related items.

9. "BUSINESS TO BUSINESS" shall mean when a licensee sells product to another business and the items sold are used for CORPORATE GIFTS, PRIZES, ETC.

10. "CAMERA/PHOTO SPECIALTY STORES" shall mean stores that offer for sale primarily camera equipment and supplies.

11. "CANDY/CONFECTIONERY SPECIALTY STORES" shall mean stores that offer for sale primarily candy and confectionery products. Examples of Candy/Confectionery Specialty Stores include, without limitation, FAO SCHWEETZ and THE SWEET FACTORY.

12. "CATALOG SHOWROOMS" shall mean stores that offer a broad assortment of products for sale primarily through a catalog along with display of samples of products in a showroom. Examples of Catalog Showrooms include, without limitation, SERVICE MERCHANDISE.

13. "CHAIN BOOK STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily books. Examples of Chain Book Stores include, without limitation, B. DALTON, SUPERCROWN, WALDEN BOOKS and BRENTANO'S.

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14. "CHAIN COMIC BOOK STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily comic books.

15. "CHAIN DRUG STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily prescription and over-the-counter drugs, personal care products and household products. Examples of Chain Drug Stores include, without limitation, WALGREENS, RITE-AID, THRIFTY/PAYLESS, C.V.S./REVCO, THRIFT DRUG, PHAR MOR, LONGS DRUGS, JEAN COUTU, LONDON DRUGS and SHOPPER'S DRUG MART.

16. "CHAIN JEWELRY STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily jewelry. The "Chain Jewelry Stores" channel shall specifically exclude Guild Jewelers (as defined below). Examples of Chain Jewelry Stores include, without limitation, STERLING, BARRY'S, LIPMAN'S and HELLSBURG.

17. "CHAIN TOY STORES" shall mean chain stores (containing twenty (20) or more individual stores) that offer for sale primarily toys. In order to be considered a "Toy Store" hereunder, the total number of toy-type SKU's (stock-keeping units) must represent eighty percent (80%) or more of such store's total SKU's. The "Chain Toy Stores" channel shall specifically exclude Toy Specialty/Better Toy Chain Stores (as defined below). Examples of Chain Toy Stores include, without limitation, TOYS R US.

18. "COFFEE SPECIALTY STORES" shall mean stores that offer for sale primarily specialty coffee and related products, such as coffee mugs. Examples of Coffee Specialty Stores include, without limitation, STARBUCKS, BUZZ COFFEE, GLORIA JEANS and THE COFFEE BEANERY.

19. "COLLEGE/UNIVERSITY STORES" shall mean stores located on the campuses of colleges or universities.

20. "COMMERCIAL FACILITIES" shall mean offering products for sale to architectural firms or interior designers working with commercial facilities, such as hotels and daycare facilities.

21. "COMPUTER SPECIALTY STORES" shall mean stores that offer for sale primarily computer equipment and supplies. Examples of Computer Specialty Stores include, without limitation, COMP USA.

22. "CONVENIENCE STORES" shall mean stores that offer for sale primarily packaged and "quick service" food products, are generally open 24 hours a day, and are designed to offer greater convenience than larger Supermarket/Grocery Stores. Examples of Convenience Stores include, without limitation, 7-11, AM/PM, DAIRY MART and CIRCLE K.

23. "DENTAL/MEDICAL PROFESSION" shall mean institutions or offices that provide dental or medical services, such as hospitals, laboratories or doctors' offices.

24. "DIRECT MAIL CATALOGS" shall mean catalogs that offer products for sale and are mailed directly to consumers' homes. The "Direct Mail Catalogs" channel shall specifically exclude catalogs for fundraising purposes which shall be included in the "Fundraising" channel defined below. Examples of Direct Mail Catalogs include, without limitation, SPIEGEL, HEARTH & HOME, DOMESTICATIONS, TAPESTRY, COMPANY STORE, HAMMACHER SCHLEMMER, FINGERHUT, AMWAY, LILLIAN VERNON, REGAL, AVON and SEARS CATALOG. (continued...)

If Licensor grants to Licensee the right to distribute Licensed Products through any Direct Mail Catalogs: (a) each such catalog shall be specified in the Channels of Distribution set forth in Paragraph l(a) of the License Agreement or otherwise expressly approved in writing by Licensor on a case-by-case basis, and (b) each such catalog depicting or referring to the Licensed Products or the Licensed Property must be submitted to Licensor for prior written approval in accordance with Licensor's Brand Assurance policies and procedures.

25. "DIRECT RESPONSE" shall mean print advertisement, free standing inserts ("FSI's") and other promotional material (except catalogs) that are mailed directly to consumers' homes for the purpose of soliciting product sales directly from consumers. The "Direct Response" channel shall specifically exclude direct mail catalogs which shall be included in the "Direct Mail Catalog" channel defined above.

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If Licensor grants to Licensee the right to distribute Licensed Products through Direct Response, each print advertisement, FSI and other promotional material depicting or referring to the Licensed Products or the Licensed Property must be submitted to Licensor for prior written approval in accordance with Licensor's Brand Assurance policies and procedures.

26. "DOOR-TO-DOOR SOLICITATION" shall mean offering products for sale through personal visits by salespersons to consumers' homes.

27. "DUTY-FREE OPERATORS" shall mean (a) stores usually located in transit locations (i.e. airports, in-flight, train, ferry stations, cruise lines and ports) which offer products for sale to international travelers free of taxes and duties and (b) sales offered to diplomat shops, diplomat suppliers and individual diplomats free of taxes and/or duties. If Licensor grants to Licensee the right to distribute products through Duty-Free Operators, such channels of distribution (like all other channels of distribution granted) shall be limited to those stores located within the Territory.

28. "EDUCATIONAL INSTITUTIONS" shall mean offering products (generally books) for sale to public or private schools or other educational institutions. Examples of Educational Institutions include, without limitation, the Los Angeles Unified School District.

29. "EDUCATIONAL SPECIALTY STORES" shall mean stores that offer for sale primarily educational products. Examples of Educational Specialty Stores include, without limitation, IMAGINARIUM and NATURE COMPANY.

30. "ELECTRONICS STORES" shall mean stores that offer for sale primarily electronic products. Examples of Electronics Stores include, without limitation, CIRCUIT CITY, FRY'S and BEST BUY.

31. "FAMILY RESTAURANTS" shall mean a food service establishment or group of food service establishments that offer a sit down meal menu conducive to all members of the family and generally offers table service to customers. Examples of Family Restaurants include, without limitation, DENNY'S and FRIENDLY'S.

32. "FASHION ACCESSORY STORES" shall mean stores that offer for sale primarily costume jewelry, hair accessories and other fashion accessories. Examples of Fashion Accessory Stores include, without limitation, CLAIRE'S BOUTIQUE, AFTERTHOUGHTS, IT'S ABOUT TIME, PIERCING PAGODA, ARDENE and BENTLEY'S.

33. "FASHION SPECIALTY BOUTIQUES" shall mean stores that offer for sale primarily fashion apparel product. Examples of Fashion Specialty Boutiques include, without limitation, FRED SEGAL, URBAN OUTFITTERS, AMERICAN RAG, and DR. J'S.

34. "FLORISTS" shall mean stores or companies that offer for sale primarily flowers. Examples of Florists include, without limitation, CONROY'S, FTD and 1-800-FLOWERS.

35. "FOOD SERVICE" shall mean locations that provide food service to consumers in cafeterias, hospital food services, school lunch programs, and similar institutional food service locations.

36. "FUNDRAISING" shall mean offering products for sale through catalogs, direct mail brochures, prize programs and in-school sales, which are used by schools and charitable, religious or other organizations to raise funds. Examples of Fundraising companies include, without limitation, GIFTCO, SPRINGWATER and DARLINGTON FARMS.

37. "FURNITURE STORES" shall mean stores that offer for sale primarily furniture. Examples of Furniture Stores include, without limitation, WICKES, HOMEMAKERS, KIDDLES and LEVITZ.

38. "GARDEN SPECIALTY STORES" shall mean stores that offer for sale primarily garden supplies and plants. Examples of Garden Specialty Stores include, without limitation, Armstrong's, Callaway's and Wolf Nurseries.

39. "GIFT RETAILERS" shall mean stores that (a) offer products for sale that are in somewhat related product categories and are known as "gifts" in the trade, which products generally are classified in the trade as "better" quality and are higher priced (as compared to National and Regional Discount/Mass Retailers' products), (b) do not usually discount merchandise or sell it at greatly reduced prices, (c) usually focus more on aesthetics

in merchandise displays than on price, and (d) generally require individual store servicing by suppliers in merchandise set-up, display, SKU maintenance and reordering. Suppliers to Gift Retailers typically advertise in trade publications, such as "GIFT & STATIONERY BUSINESS", "GIFTWARE NEWS" and "GIFTS & DECORATIVE ACCESSORIES". Suppliers to Gift Retailers usually include companies such as Enesco, Midwest of Cannon Falls, New Creative Enterprises, Dale Tiffany, Pacific Rim, Ande Rooney, Waterford, GiftCraft, Carson Industries, Possible Dreams, Lenox, Department 56, Lefton, Swarovski and Flambro. The "Gift Retailers" channel shall specifically exclude Novelty Gift Stores (as defined below), Duty-Free Store Operators (as defined above), and Airport Gift and Other Airport Stores (as defined above).

40. "GOURMET FOOD SPECIALTY STORES" shall mean stores that offer for sale primarily gourmet and specialty food products. Examples of Gourmet Food Specialty Stores include, without limitation, BRISTOL FARMS, WHOLE FOODS and GELSONS.

41. "GREETING CARD STORES" shall mean stores that offer for sale primarily greeting cards. Examples of Greeting Card Stores include, without limitation, HALLMARK.

42. "GUILD JEWELERS" shall mean stores that offer for sale primarily fine jewelry which is generally classified in the trade as "best" or "highest" quality. Examples of Guild Jewelers include, without limitation, MAYERS, ROGERS and BAILEY BANKS & BIDDLE.

43. "HOBBY & MODEL STORES" shall mean stores that offer for sale primarily hobby and model supplies.

44. "HOME IMPROVEMENT STORES" shall mean stores that offer for sale primarily hardware and home improvement supplies. Examples of Home Improvement Stores include, without limitation, HOME DEPOT, OSH, HOME BASE, LOWES and HOME HARDWARE.

45. "HOME SPECIALTY STORES" shall mean stores that offer for sale primarily bedding, towels and other bathroom products, kitchen merchandise and housewares. Examples of Home Specialty Stores include, without limitation, STROUDS, LINENS 'N' THINGS, 3D BED & BATH, BED/BATH/BEYOND and LUXURY LINENS.

46. "ICE CREAM SHOPS" shall mean stores that offer for sale primarily ice cream, ice cream cakes and similar frozen dessert products. Examples of Ice Cream Shops include, without limitation, BASKIN-ROBBINS, DAIRY QUEEN and BEN AND JERRY'S SHOPS.

47. "IN-STORE BAKERIES" shall mean the in-store bakery departments within Supermarket/Grocery Stores, National and Regional Discount/Mass Retailers and Warehouse Clubs. Such departments offer for sale primarily freshly baked breads, cakes, cookies and similar bakery items.

48. "INTERNET" shall mean offering products for sale through the electronic network known as the Internet.

49. "MALL CLOTHING SPECIALTY STORES" shall mean stores that offer for sale primarily clothing and are located within a mall. Examples of Mall Clothing Specialty Stores include, without limitation, MILLERS OUTPOST, WET SEAL, AU COIN DES PETITES, LA SENZA, SUZIE SHIER and REITMANS.

50. "MID-TIER DEPARTMENT STORES" shall mean stores that offer products for sale in a broad assortment of unrelated product categories, which products are generally classified in the trade as "better" (but not "best") quality products. Examples of Mid-Tier Department Stores include, without limitation, JC PENNEY, SEARS, MERVYN'S, STEINMART, KOHLS, FRED MEYER, THE BAY, CLEMONT and SIMON'S.

51. "MILITARY EXCHANGE SERVICES" shall mean military headquarters as well as individual bases of armies and/or airforces of each country within the Territory. Examples of Military Exchange Services include, without limitation, U.S. ARMY AND AIRFORCE EXCHANGE SERVICE ("AAFES") AND THE CANADIAN FORCES EXCHANGE SERVICE ("CANEX"). If Licensor grants to Licensee the right to distribute products through Military Exchange Services, such channel of distribution shall be limited to the Military Exchange Services of the countries within the Territory, but shall include all of such Military Exchange Services' stores located anywhere in the world.

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52. "MUSIC/VIDEO STORES" shall mean stores that offer for sale primarily musical recordings, on compact discs, cassettes or other media, and/or movie recordings on videos, laser disks or other media for home use by consumers. Examples of Music/Video Stores include, without limitation, BLOCKBUSTER, MUSICLAND, TOWER RECORDS, VIRGIN RECORDS, WHEREHOUSE RECORDS, SAM GOODY'S and SUNCOAST.

53. "NATIONAL DISCOUNT/MASS RETAILERS" shall mean stores that (a) have nation-wide distribution, (b) offer products for sale in a broad assortment of unrelated product categories, which products generally are not classified in the trade as "better/best" quality products, (c) are usually "self-service" with more of an emphasis on price than aesthetics, and (d) generally do not require individual store servicing by suppliers. Suppliers to National Discount/Mass Retailers typically advertise in trade publications, such as "DISCOUNT STORE NEWS" and "DISCOUNT MERCHANDISER", and usually attend the IMRA (International Mass Retailer Association) trade show. The "National Discount/Mass Retailers" channel shall specifically exclude the in-store bakery departments of such stores, which shall be included in the "In-Store Bakeries" channel defined above. Examples of National Discount/Mass Retailers include, without limitation, WALMART, K-MART, TARGET, ZELLERS, BIWAY and CANADIAN TIRE.

54. "NON-CHAIN BOOK STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily books.

55. "NON-CHAIN COMIC BOOK STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily comic books.

56. "NON-CHAIN DRUG STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily prescription and over-the-counter drugs, personal care products and household products.

57. "NON-CHAIN JEWELRY STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily jewelry. The "Non-Chain Jewelry Stores" channel shall specifically exclude Guild Jewelers (as defined above).

58. "NON-CHAIN TOY STORES" shall mean stores or groups of stores (containing fewer than twenty (20) individual stores) that offer for sale primarily toys. In order to be considered a "Toy Store" hereunder, the total number of toy-type SKU's must represent eighty percent (80%) or more of such store's total SKU's. Examples of Non-Chain Toy Stores include, without limitation, TALBOT'S TOYLAND and TONS OF TOYS, INC.

59. "NON-MALL CLOTHING SPECIALTY STORES" shall mean stores that offer for sale primarily clothing and are not located within a mall. Examples of Non-Mall Clothing Specialty Stores include, without limitation, KIDS MART, KIDS R US, CLOTHESTIME and FASHION BUG.

60. "NOVELTY GIFT STORES" shall mean stores that offer for sale primarily novelty gift items. The "Novelty Gift Stores" channel shall specifically exclude Airport Gift and Other Airport Stores and Duty-Free Operators (as such terms are defined above). Examples of Novelty Gift Stores include, without limitation, SPENCER'S and IT STORES.

61. "OFF-PRICE/CLOSEOUT STORES" shall mean stores that offer for sale primarily discounted apparel and other merchandise. Examples of Off-Price/Closeout Stores include, without limitation, MARSHALL'S, T.J. MAXX, ROSS DRESS FOR LESS, HIT OR MISS, TUESDAY MORNING and WINNERS.

62. "OFFICE SPECIALTY STORES" shall mean stores that offer for sale primarily office supplies. Examples of Office Specialty Stores include, without limitation, OFFICE DEPOT, STAPLES and OFFICE MAX.

63. "OUTLET STORES" shall mean stores that offer for sale primarily discounted merchandise of a particular manufacturer or retailer.

64. "PARTY STORES" shall mean stores that offer for sale primarily party supplies. Examples of Party Stores include, without limitation, PARTY CITY and PARTY WORLD.

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65. "PET STORES" shall mean stores that offer for sale primarily pet supplies. Examples of Pet Stores include, without limitation, PETCO and PETSMART.

66. "QUICK SERVICE RESTAURANTS" shall mean a food service establishment or group of food service establishments that offer rapid meal menus to consumers and generally do not offer table service to customers. Examples of Quick Service Restaurants include, without limitation, SUBWAY and BURGER KING.

67. "REGIONAL DISCOUNT MASS RETAILERS" shall mean stores that (a) have regional distribution, (b) generally offer products for sale in a broad assortment of unrelated product categories, which products generally are not classified in the trade as "better/best" quality products, (c) are usually "self-service" with more of an emphasis on price than aesthetics, and (d) generally do not require individual store servicing by suppliers. Suppliers to Regional Discount/Mass Retailers typically advertise in trade publications, such as "DISCOUNT STORE NEWS" and "DISCOUNT MERCHANDISER", and usually attend the IMRA (Intemational Mass Retailer Association) trade show. The "Regional Discount/Mass Retailers" channel shall specifically exclude the in-store bakery departments of such stores, which shall be included in the "In-Store Bakeries" channel defined above. Examples of Regional Discount/Mass Retailers include, without limitation, MEIJERS, CALDOR, AMES, BRADLEES, HILL'S, ROSE'S, VENTURE, SHOPKO, COTTER, FIELDS, GIANT TIGER, HARTS, NORTHWEST and SAAN STORES.

68. "RETAIL BAKERIES" shall mean stores that offer for sale primarily freshly baked breads, cakes, cookies and similar bakery items. The "Retail Bakeries" channel shall specifically exclude In-Store Bakeries (as defined above).

69. "SCHOOL BOOK CLUBS/FAIRS" shall mean offering products for sale through book catalogs distributed to teachers and students at public or private schools (usually elementary or high school) or through book fairs conducted on the premises of such schools. Examples of School Book Clubs/Fairs include, without limitation, Troll Book Club and Scholastic Book Fair.

70. "SOUVENIR STORES" shall mean stores that offer for sale primarily souvenirs.

71. "SPORTING GOOD STORES" shall mean stores that offer for sale primarily sporting goods, equipment, athletic apparel, and other merchandise that reflects a sports theme. Examples of Sporting Good Stores include, without limitation, BIG 5 and SPORTS CHALET.

72. "SPORTS STADIUM SHOPS" shall mean concessionaire shops located within stadiums or arenas where sporting events are held.

73. "STATIONERY STORES" shall mean stores that offer for sale primarily stationery. Examples of Stationery Stores include, without limitation, FARR'S STATIONAIRES.

74. "STREET VENDORS" shall mean individual merchants who offer products for sale in stands, booths or other non-permanent structures usually located on the sidewalk and designed to attract passing pedestrians.

75. "SUPERMARKET/GROCERY STORES" shall mean stores that offer for sale primarily packaged food products. The "Supermarket/Grocery Stores" channel shall specifically exclude the in-store bakery departments of such stores, which shall be included in the "In-Store Bakeries" channel defined above. The "Supermarket/Grocery Stores" channel shall specifically exclude Gourmet Food Specialty Stores (as defined above) and Convenience Stores (as defined above). Examples of Supermarket/Grocery Stores include, without limitation, KROGER, SAFEWAY, AMERICAN STORES, ALBERTSON'S, WINN DIXIE, FOOD LION, VON'S, FINAST, RALPHS, MARSH and SUPERSTORES.

76. "SWAP MEETS/FLEA MARKETS" shall mean offering products for sale through organized events known as swap meets or flea markets, which involve a group of vendors offering for sale a variety of products, often collectibles or antiques.

77. "TELEVISION HOME SHOPPING" shall mean offering products for sale through cable and broadcast television, including infomercials, QVC and Home Shopping Network. The "Television Home Shopping" channel shall specifically exclude sales through the Internet, CD-Interactive and other electronic media.

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78. "THEATRICAL CONCESSIONS" shall mean the retail section that sells such items as popcorn, soda and candy within chain and non-chain movie theater locations such as Cineplex Odeon, Loews and Cinemark.

79. "TOY SPECIALTY/BETTER TOY CHAIN STORES" shall mean companies that offer for sale primarily specialty toys. Examples of Toy Specialty/Better Toy Chain Stores include, without limitation, FAO SCHWARZ, ZANY BRAINY, IMAGINARIUM, and NOODLE KIDOODLE.

80. "TOY WHOLESALERS" shall mean companies that offer for sale primarily toys to retail stores. In order to be considered a "Toy Wholesaler" hereunder, the total number of toy-type SKU's must represent eighty percent (80%) or more of such wholesaler's total SKU's.

81. "TRACKSIDE - CART" shall mean offering products for sale at races organized and sponsored by Championship Auto Racing Teams.

82. "TRACKSIDE - NASCAR" shall mean offering products for sale at races organized and sponsored by the National Association for Stock Car Racing.

83. "TRACKSIDE - NHRA" shall mean offering products for sale at races organized and sponsored by the National Hot Rod Association.

84. "UPSTAIRS DEPARTMENT STORES" shall mean stores that (a) offer products for sale in a broad assortment of unrelated product categories, which products are generally classified in the trade as "best" quality products, and (b) offer a high level of customer service with a strong emphasis on store aesthetics. Examples of Upstairs Department Stores include, without limitation, BLOOMINGDALE'S, MACY'S, NORDSTROM, MAY DEPARTMENT STORES, SAKS FIFTH AVENUE, NEIMAN MARCUS and DILLARDS.

85. "VENDING MACHINES" shall mean self-contained automated dispensing equipment operated by insertion of coin or paper currency or the equivalent thereof (i.e. debit cards, credit cards, etc.).

86. "WALL DECOR STORES" shall mean stores that offer for sale primarily wall decor products. Examples of Wall Decor Stores include, without limitation, DECK THE WALLS, AARON BROTHERS and PRINTS PLUS.

87. "WAREHOUSE CLUBS" shall mean stores that offer for sale products in large sizes and quantities with more of an emphasis on price than service or store aesthetics. The "Warehouse Clubs" channel shall specifically exclude the in-store bakery departments of such stores, which shall be included in the "In-Store Bakeries" channel defined above. Examples of Warehouse Clubs include, without limitation, SAM'S CLUB and PRICE COSTCO.

88. "WBSS INTERNATIONAL" shall mean the retail stores known as Warner Bros. Studio Stores, which are operated outside the United States.

If Licensor grants to Licensee the right to sell Licensed Products to WBSS International: (a) such rights shall be worldwide, notwithstanding any restrictions as to "Territory" contained in the Agreement, and (b) such rights shall be non-exclusive, notwithstanding any exclusivity provisions contained in the Agreement.

EXHIBIT 2
#13771-WBLT/BIA

CONTRIBUTOR'S AGREEMENT

I, _____, the undersigned ("Contributor"), have been engaged by POORE BROTHERS, INC. ("Licensee") to work on or contribute to the creation of Licensed Products, described as _____, by Licensee under an agreement between Licensee and Warner Bros., a division of Time Warner Entertainment Company, L.P., c/o Warner Bros. Consumer Products, a division of Time Warner Entertainment Company, L.P. ("Warner") dated _____.

I understand and agree that the Licensed Products, and all Artwork or other results of my services for Licensee in connection with such Licensed Products ("Work") is a "work made for hire" for Warner and that all right, title and interest in and to the Work shall vest and remain with Warner. I reserve no rights therein. Without limiting the foregoing, I hereby assign and transfer to Warner all other rights whatsoever, in perpetuity throughout the universe which I may have or which may arise in me or in connection with the Work. I hereby waive all moral rights in connection with such Work together with any other rights which are not capable of assignment. I further agree to execute any further documentation relating to such transfer or waiver or relating to such Work at the request of Warner or Licensee, failing which Warner is authorized to execute same as my Attorney-in-Fact.

Contributor:

_____

Signature

_____

Print Name

_____

Address

_____

_____

Country

_____

Date

Warner Bros. Consumer Products:

By: _____

Date: _____

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EXHIBIT 3
#13771-WBLT/BIA

WARNER BROS. CONSUMER PRODUCTS
4000 Warner Boulevard
Bridge Building 156 South - 4th Floor
Burbank, CA 91522

Re: Approval of Third Party Manufacturer

To Whom It May Concern:

This letter will serve as notice to you that pursuant to Paragraph 10(b) of the License Agreement dated _____, 200_ between WARNER BROS., A DIVISION OF TIME WARNER ENTERTAINMENT COMPANY, L.P. and POORE BROTHERS, INC. ("Licensee"), we have been engaged as the manufacturer for Licensee in connection with the manufacture of the Licensed Products as defined in the aforesaid License Agreement. We hereby acknowledge that we may not manufacture Licensed Products for, or sell or distribute Licensed Products to, anyone other than Licensee. We hereby further acknowledge that we have received a copy of the relevant terms and conditions and are cognizant of the terms and conditions set forth in said License Agreement and hereby agree to observe those provisions of said License Agreement which are applicable to our function as manufacturer of the Licensed Products. It is expressly understood that we are obligated to comply with all local laws, including without limitation, labor laws, wage and hour laws and anti-discrimination laws and that you or your representatives shall, at anytime, have the right to inspect our facilities and review our records to ensure compliance therewith. It is understood that this engagement is on a royalty free basis and that we may not subcontract any of our work without your prior written approval.

We understand that our engagement as the manufacturer for Licensee is subject to your written approval. We request, therefore, that you sign in the space below, thereby showing your acceptance of our engagement as aforesaid.

Very truly yours,

Manufacturer/Company Name

Signature

Print Name

Address

Country

Date

Product(s) Manufacturing

AGREED and ACCEPTED:
WARNER BROS. CONSUMER PRODUCTS
a division of Time Warner
Entertainment Company L.P.

By: _____ Gary R. Simon, Senior Vice President Business & Legal Affairs

Date: _____

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(a) "Change of Control" means and includes each of the following:

(1) Any transaction or series of transactions, whereby any person (as that term is used in Section 13 and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is or becomes the beneficial owner (as that term is used in Section 13(d) of the Exchange Act) directly or indirectly, of securities of the Licensee representing more than fifty percent (50%) of the combined voting power of the Licensee's then outstanding securities; PROVIDED, that for purposes of this paragraph, the term "person" shall exclude (A) a trustee or other fiduciary holding securities under an employee benefit plan of the Licensee or a subsidiary of Licensee and (B) a corporation owned directly or indirectly by the stockholders of the Licensee in substantially the same proportions as their ownership in the Licensee;

(2) Any merger, consolidation, other corporate reorganization or liquidation of the Licensee in which the Licensee is not the continuing or surviving corporation or entity or pursuant to which shares of Stock would be converted into cash, securities, or other property, other than (A) a merger or consolidation with a wholly owned subsidiary, (B) a reincorporation of the Licensee in a different jurisdiction, or (C) other transaction in which there is no substantial change in the stockholders of the Licensee;

(3) Any merger or consolidation of the Licensee with or into another entity or any other corporate reorganization, if more than fifty percent (50%) of the combined voting power of the continuing or surviving entity's securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Licensee immediately prior to such merger, consolidation or other reorganization;

(4) The sale, transfer, or other disposition of all or substantially all of the assets of the Licensee; or

(5) A change or series of related or unrelated changes in the composition of the Board of Directors of Licensee, during any twenty-four (24) month period beginning on the first anniversary of the date of this Agreement, as a result of which fewer than fifty percent (50%) of the incumbent directors are directors who either (i) had been directors of the Licensee on the later of such first anniversary or the date twenty-four (24) months prior to the date of the event that may constitute a Change of Control (the "Original Directors") or
(ii) were elected, or nominated for election, to the Board of Directors of the Licensee with the affirmative votes of a least a majority of the aggregate of the Original Directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved.

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ATTACHMENT B
(CLOSING REPORT)

PROMOTION PROGRAM EVALUATION SHEET

PARTNER: DATE:

VALUE/IMPRESSIONS PER ELEMENT:

	TIMING	VALUE ($)	IMPRESSIONS ($)
TV:			
PRINT:			
RADIO:			
ON-PACK:			
POP:			
PREMIUMS (AMOUNT #):			
OTHER: (PLEASE DESCRIBE)			
TOTAL			

BRIEF PROGRAM DESCRIPTION:

RESULTS:

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COMMENTS:

Exhibit 3 - Page 4

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EXHIBIT 10.35

LICENSE AGREEMENT

THIS AGREEMENT is entered into as of July 19, 2000 (hereinafter the "Effective Date"),

BETWEEN:

M.J. QUINLAN & ASSOCIATES PTY. LIMITED, a company incorporated under the laws of New South Wales, (hereinafter called "Quinlan"), its registered office is at 28/8-12 Waratah Street, Cronulla, N.S.W., 2230, Sydney, Australia.

AND

POORE BROTHERS, INC., a Delaware corporation, with its principal place of business at 3500 S. La Cometa Drive, Goodyear, AZ 85338, U.S.A., on behalf of itself and all existing and hereafter acquired or created subsidiaries or other business entities directly or indirectly controlled by Poore Brothers, Inc., (hereinafter collectively referred to as "Poore Brothers" or the "Licensee").

PREAMBLE

WHEREAS:

A. Quinlan has been, is and will be engaged in the business of research and development to manufacture, process and package 3-dimensional hollow fried snack food products (hereinafter the "Product"), including without limitation a kangaroo-shaped Product. In conducting its business, Quinlan has and will acquire technical experience, know-how, skill and specialized knowledge and information, and has developed and acquired, and will develop and acquire production methods, computer programs, specifications, formulae, recipes, ideas, inventions, designs and improvements thereto in connection with the manufacturing, processing and packaging the Product (hereinafter "Know-How"), including without limitation the kangaroo-shaped Product.

B. Quinlan is, and will become, the owner of patent rights (including without limitation U.S. Letter Patent No. 5,268,187), design patent rights (including without limitation U.S. Design Patent Nos. D343,495 and D371,671), copyrights, trademark rights (including without limitation for "Jumpy's" if granted) and trade secret rights and improvements thereto in relation to the Product and to the Know-How (hereinafter collectively referred to as the "Intellectual Property").

C. Poore Brothers wishes to obtain a license from Quinlan to use the Intellectual Property and other intangible rights pertaining to the Product and the Know-How pertaining to the manufacturing, processing, packaging, marketing and promoting of the Product.

D. Poore Brothers is engaged in the manufacture and marketing of food products, in particular snack foods, and has technical experience, know-how, skill and specialised knowledge, information, production methods, specifications, formulae, recipes and designs, in particular but without limitation relative to the manufacture of Sheeted 2-D snack foods products, some of which is in common with the Know-How utilised to manufacture, process or package the Product.

IT IS HEREBY AGREED AS FOLLOWS:

ARTICLE (1)

Paragraphs A through D of the above Preamble are parts of this Agreement and are meant to be enforceable and to create rights and duties to the same extent as any and all other provisions of this Agreement.

ARTICLE (2)

RIGHTS

1. Quinlan hereby grants to Poore Brothers an exclusive license (except as provided in Paragraph 3 immediately below) to use all Intellectual Property and Know-How to manufacture, process, package, market, promote and sell the Product in the United States of America including its territories, military bases and facilities and the Commonwealth of Puerto Rico (hereinafter collectively the "Territory") and to sublicense third parties to manufacture, process, package, market, promote, and sell the Product in the Territory.

2. For as long as this Agreement is in effect, Quinlan will not, directly or indirectly, grant a right to use the Intellectual Property or the Know-How to any other third party to manufacture, process, package, market, promote or sell Product within the Territory and will not itself manufacture, process, package, market, promote or sell Product in the Territory.

3. The Licensee agrees that it is not granted under this Agreement any rights to manufacture for sale to third parties, the specialized patented sheeting equipment claimed in US Letter Patent 5,268,187, the rights to which have been licensed to Heat and Control Pty. Ltd. of San Francisco, California.

4. To effect the transfer in useable form of the Know-How and Intellectual Property from Quinlan to Poore Brothers, Quinlan shall disclose to Poore Brothers, as soon as reasonably practicable after the Effective Date of this Agreement but in no event later than thirty (30) days after the effective date of this Agreement, all Know-How and Intellectual Property in

tangible form as would be reasonably necessary for a person skilled in the snack food business to be able to manufacture, process, package, market, promote and sell 3-dimensional hollow fried snack food products.

5. Any modification or improvement by Quinlan to the Know-How or Intellectual Property made before the termination of this Agreement shall be included in the license to Poore Brothers without additional charge or fee due to Quinlan. Any modification or improvement by Poore Brothers to the Know-How or Intellectual Property, including without limitation any intellectual property rights to such modification or improvement, shall be owned by Poore Brothers. However, the use by Poore Brothers of any such modification or improvement shall not be used to reduce the Licensee's obligations under this Agreement to pay the fees and royalties as specified in Article 4.

6. Poore Brothers shall use reasonable commercial effort, consistent with Poore Brothers' business plans, to promote the sale of the Product in the Territory. Nothing in this Agreement or otherwise shall prevent Poore Brothers from manufacturing, processing, packaging, marketing, promoting or selling, for itself or any third party, anywhere in the world including the Territory, any snack food product other than the Product, even if such snack food product competes directly with the Product. However, Poore Brothers shall not sell the Product outside the Territory or to any person or entity that Poore Brothers knows to have the intention of reselling or otherwise distributing the Product outside the Territory without the express prior written permission of Quinlan.

ARTICLE (3)

TECHNICAL SERVICES

To assist the Licensee, Quinlan will:

1. Provide the Licensee with written specifications for process machinery and will give the Licensee names and contact details of U.S.A. based equipment manufacturers and suppliers.

2. Where practicable, advise on the modification, adaptation and suitability of Licensee's existing plants and equipment to manufacture, process and package the Product.

3. Provide the Licensee in writing with raw material specifications and suitable U.S.A. based suppliers.

4. If requested by the Licensee and giving Quinlan reasonable notice, attend production trials and start up of production of the Product in the Licensee's Bluffton Plant subject to agreement by the Licensee to reimburse Quinlan's actual and reasonable costs and expenses in relation to this attendance. The length of Quinlan's attendance and of Poore Brothers' duty to reimburse Quinlan's actual and reasonable costs and expenses will be mutually agreed in writing by Poore Brothers and Quinlan.

5. Promptly inform and disclose in tangible form to the Licensee all improvements, additions, alterations and modifications which it may develop, learn or discover from time to time related to the Product, Know-How and Intellectual Property without payment by the Licensee of any further charges, fees or royalties.

6. The Licensee shall provide Quinlan with samples of the Product including the packaging from time to time upon written request for quality analysis and guidance in technical and marketing matters, but no more often than once in any three (3) month period.

ARTICLE (4)

FEES AND ROYALTIES

1. In consideration of the obligations and services provided by Quinlan and the rights granted to the Licensee according to the terms of this Agreement, the Licensee shall pay to Quinlan fees and royalties as follows:

A. Except as otherwise provided in paragraph 4 of Article 8, a royalty calculated as [*] of the Licensee's Net Sales of the Product to wholesalers, distributors or retailers (collectively "Trade"). In the case that the Licensee sells to an intermediate marketing or distribution company or the like wholly or partly owned or controlled by the Licensee, then the royalty shall be calculated based on the Net Sales of such company of the Product to the Trade.

B. "Net Sales" shall mean [*].

C. Quinlan will be paid a technical fee of [*] per day (in addition to actual and reasonable related costs and expenses) for services and attendance at production trials and start-up of production of the Product as provided under Article 3, paragraph 4. However, any payments of daily fees by Licensee shall be credited against any royalties payable to Quinlan in the first full year after commencement of sales of Product.

2. The royalty fees shall be calculated, due and payable quarterly (every three (3) months). Payments shall be made within thirty (30) days after the end of each calendar quarter.

3. If any sum payable pursuant to this Agreement shall not have been paid to Quinlan by the due date, and unless the delay is due to or is a result of causes or reasons beyond the Licensee's control or command, the Licensee shall (without any prejudice to any other claims or remedies of Quinlan) pay interest thereon to Quinlan at a per annum rate two percent (2%) above the prime lending rate of Wells Fargo Bank, N.A., then prevailing. The interest is payable in respect of the period commencing on the due date of the payment and ending on the actual date of payment at the prevailing

rates over this period. Any exchange rate loss suffered by Quinlan in Australian dollars as a result of the payment of royalties by Licensee more than sixty days after the due date for such payment, will be paid by the Licensee unless the delay is due to or is the result of causes or reasons beyond the Licensee's control or command.

4. Payments by Licensee hereunder shall be made by wire transfer to a bank account specified in writing by Quinlan to Licensee at least thirty (30) days before the due date of payment.

ARTICLE (5)

RECORDS

The Licensee shall keep accounts and provide Quinlan with a sales statement within thirty (30) days from the end of each calendar quarter (three (3) months) which statement shall indicate the information necessary to show how the royalty for such calendar quarter was calculated. Quinlan shall be entitled to have the accounts of the Licensee with respect of the Product examined by a certified public accountant acceptable to Poore Brothers during Poore Brothers normal business hours or at such other time agreed to by the parties and in such a manner so as not to adversely effect the conduct of Poore Brothers' business. The cost of the examination by the accountant will be paid by Quinlan unless the royalties paid by the Licensee are found to be more than 5% less than the amount due pursuant to the terms of this Agreement. But in no event shall Poore Brothers be obligated to pay any cost of such an examination in excess of the royalty amount found not to have been paid. If any such examination finds that Poore Brothers paid more royalties than were due, Poore Brothers shall get a credit against future royalty payments in the amount of such overpayment less the cost of the examination, which examination cost shall not exceed the credit for overpayment of royalties. Quinlan shall not have the right to demand an examination of Poore Brothers' accounts more than once in any twelve (12) month period.

ARTICLE (6)

INTELLECTUAL PROPERTY RIGHTS & CONFIDENTIALITY

1. The Know-How and Intellectual Property together with all subsequent improvements thereto made by Quinlan and licensed to the Licensee shall remain the property of Quinlan at all times and may only be used by the Licensee in accordance with the terms of this Agreement and all rights thereto revert to Quinlan on expiration or lawful termination of this Agreement.

2. For the period set forth in Article (6), paragraph 5 below in so far as the Know-How and any Licensor trade secrets are not publicly known, the Licensee will not, without prior written agreement from Quinlan, intentionally divulge the Know-How, trade secrets or any part of it than

any third party or any of its related or associated companies outside the Territory other than its agents or representative who may have a need to know such information. Before disclosing any part of the Know-How or trade secrets to its agents or representatives, the Licensee will obtain a binding Confidential and Non Disclosure Agreement, in the same form as Exhibit A attached hereto, signed by such agents or representatives.

3. Notwithstanding the foregoing, the Licensee shall not be liable or responsible for the disclosure of Know-How that:

A. Is or becomes known to the public other than by breach of any non-disclosure obligation of the Licensee;

B. Is rightfully received by the Licensee from a third party;

C. Is demonstrated by the Licensee to have been developed independently of any Know-How furnished or disclosed by Quinlan;

D. Can be demonstrated to have been legally in the possession of and known to the Licensee prior to March 24, 1999;

E. Has been disclosed by Quinlan to a third party without restrictions on disclosure; or

F. Is disclosed by the Licensee pursuant to an order or demand by a court or other governmental authority.

4. For the purpose of this Agreement, the Know-How or any part of the Know-How which is specific as to Quinlan's products, processes and equipment shall not be deemed to be within the public domain merely because it may be embraced by more general published or available information. In addition, any combination of features shall not be deemed to be within the public domain merely because individual features are published or available, but only if the combination itself and its principle of operation are published or available.

5. The Licensee's obligation with respect to confidentiality shall endure, subject to the provisions of Article 6, paragraph 3, as a continuing undertaking for a minimum period of ten (10) years from the Effective Date and thereafter for any remaining term of this Agreement and for three (3) years thereafter subject only to such general or limited written release that Quinlan may in its absolute discretion and from time to time give.

6. The provisions of this Article 6 regarding confidentiality of Quinlan's Know-How and trade secrets shall supercede and replace those contained in the Confidentiality Agreement of March 24, 1999, between Quinlan and Poore Brothers, and that Confidentiality Agreement shall have no further force and effect on the parties after the Effective Date.

ARTICLE (7)

TRADE MARKS AND BRAND NAMES

1. Quinlan will file an application with the U.S. Trademark Office for registration of the marks "Jumpy's" kangaroo snack food shape and a graphical kangaroo design for snack foods. Poore Brothers will incorporate the graphical kangaroo design on the packaging for any kangaroo-shaped Product. The cost of such application and its prosecution through the U.S. Trademark Office will be paid exclusively by Quinlan.

2. The packaging for any Product shall indicate that the Product is manufactured and marketed under a license from Quinlan and will note Quinlan's Patent and/or Trade Mark rights as required by U.S. law.

3. The Licensee may create, register in its name and use any brand name of its choosing under which the Product is to be marketed and sold; provided however, that on the expiration or lawful termination of this Agreement, the Licensee will within 120 days discontinue the use of this brand name in respect of marketing, promoting and selling the Product.

ARTICLE (8)

WARRANTY

1. Quinlan warrants in good faith that the Know-How to be supplied to the Licensee hereunder will enable the Licensee to manufacture, process and package the Product at a cost that will permit Poore Brothers to earn a reasonable profit as is customary in the trade.

2. Quinlan agrees to indemnify and hold harmless the Licensee (including its officers, directors, employees and agents) from and against any claims, actions or demands alleging that the Product (except any developed without Quinlan's involvement), Know-How or Intellectual Property infringe any intellectual property right of any third party; provided that the Licensee shall promptly notify Quinlan in writing of any such claim, action or demand, that Quinlan shall have full responsibility to control the settlement or litigation of any such claims, actions or demands, and that Licensee shall reasonably cooperate with Quinlan in the defense of any such claims, actions or demands; provided further that Quinlan shall not settle any such claim, action or demand on terms that would materially limit Poore Brothers' rights or ability to manufacture, process, package, market, promote or sell the Product or any other snack food product and to exploit and use without limitation the Intellectual Property and Know-How without Poore Brothers' prior written consent, obtained by Quinlan after full disclosure of all relevant facts to Poore Brothers. Quinlan shall reimburse

Poore Brothers' reasonable costs and expenses actually incurred in cooperating with Quinlan as provided in this paragraph.

3. Quinlan warrants that it has, and as to any improvements or modifications will have, the unconditional right to grant the license rights (except as provided in Article 2, paragraph 3 above) provided Poore Brothers under this Agreement. Quinlan further warrants that it has granted no third party any rights inconsistent with or in derogation of the license rights provided to Poore Brothers under this Agreement.

4. [*]

ARTICLE (9)

DURATION AND TERMINATION

1. Subject to the parties' rights to terminate as set forth herein or otherwise provided by law, this Agreement shall take effect on the Effective Date and shall continue for a period of ten (10) years, and shall be extended automatically for additional period(s) of five (5) years each after the expiration of the initial ten (10) year period and each subsequent period unless the Licensee gives notice of termination at least six (6) months before expiration of the initial or any extension period.

2. If production or selling by Licensee of the Product ceases for any reason, except for reasons beyond the Licensee's control including, without limitation, acts of God, action or any order of a government, fire, flood, strike, supply problem, severe weather or war, for more than six (6) months in any continuous period, either party shall have the right to terminate this Agreement after giving sixty (60) days notice to the other party. If the Licensee has not commenced active sales and marketing of the Product before March 31, 2001, then Quinlan shall have the right to terminate this Agreement by giving sixty (60) days notice; provided, however, that this period shall be extended by the amount of time equivalent to the time of any delay caused, directly or indirectly, by Quinlan.

3. If Quinlan materially fails to fulfill its obligations under this Agreement, the Licensee is entitled to give ninety (90) days notice to remedy such a breach, and unless the breach is remedied within such period from receipt of the notice, the Licensee will continue to have the right to manufacture, process, package, market, promote and sell the Product and may withhold payment of further royalties accruing from date of the notice until the breach is remedied by Quinlan. After Quinlan remedies such default to Licensee's reasonable satisfaction, License will pay Quinlan any royalties withheld less any damages or lost profits suffered by Poore Brothers as a result of Quinlan's breach.

4. If the Licensee materially fails to fulfill its obligations under this Agreement, then Quinlan is entitled to give ninety (90) days notice to remedy such a breach, and unless the material breach is remedied within

such period from receiving the notice, Quinlan shall have the right to suspend performance of its obligations under Article (3) of this Agreement. However, the Licensee has the right to refer to arbitration Quinlan's claim of material breach according to the terms of this Agreement. Further, if the Licensee rectifies the breach and notifies Quinlan within sixty (60) days of suspension, Quinlan shall reinstate performance of its obligations under this Agreement and Quinlan's performance will then continue as if it had not been suspended. If after a total period of one hundred and fifty
(150) days of receipt of notice, the material breach is not remedied by Licensee, Quinlan has the right to terminate this Agreement by giving Poore Brothers notice, provided that Quinlan shall not have the right to terminate this Agreement if an arbitration as provided herein is pending.

5. If a receiver shall be appointed for the whole or any material part of Licensee's assets used by Poore Brothers to manufacture Product, or if an order is entered by a court with jurisdiction over Licensee, or a resolution passed for winding up the Licensee, or the Licensee otherwise becomes subject to or takes advantage of the bankruptcy or insolvency laws applicable to it (unless the Licensee emerges from any such proceedings as a solvent corporation and undertakes with Quinlan to be bound by the terms of this Agreement) then this Agreement shall, if permitted by law, terminate upon notice to the Licensee from Quinlan.

6. The termination of this Agreement for whatever reason shall not effect the rights of Quinlan and the Licensee to seek payment of any fees or other payments then due. The termination of this Agreement shall not in any way prejudice or affect any obligation hereunder which by its terms is expressed to continue thereafter.

7. On the expiration or rightful termination of this Agreement as provided herein, the Licensee shall forthwith discontinue the use of the Know-How and Intellectual Property and the manufacture of the Product and deliver to Quinlan at its registered office free of charge all documents and copies thereof embodying or containing Know-How.

ARTICLE (10)

INFRINGEMENT OF INTELLECTUAL PROPERTY

In the event that at any time hereafter there shall not be pending in the Territory a suit by Quinlan against an infringer or misappropriator of any of the Intellectual Property based on infringement or misappropriation of such scale that if licensed on the terms imposed in this Agreement, the annual royalty returned to Quinlan would be at least Five Thousand Dollars ($5,000) per year, then if any person or company shall produce, market or sell products coming within the definition of Product, and if:

1. Poore Brothers shall give Quinlan written notice that such production, marketing or sale is an infringement or misappropriation of any of the Intellectual Property; and

2. Poore Brothers shall request in writing that suit be brought under the Intellectual Property so infringed or misappropriated against such person or company because of such infringement or misappropriation; and

3. Poore Brothers and Quinlan obtain an opinion from a mutually acceptable law firm in the Territory that such person or company is likely infringing or misappropriating any of the Intellectual Property; and

4. Quinlan fails to bring such suit for infringement or misappropriation of the Intellectual Property identified in the law firm's opinion or to obtain discontinuance of such infringement or misappropriation within one hundred twenty (120) days after receipt of Poore Brothers' request under subparagraph 2 above; and

5. Sales of such person or company of such products is of such volume as to produce, if licensed, royalties of at least Five Thousand Dollars ($5,000) per year, then, in such case, Poore Brothers shall be permanently relieved of the payment of royalties that would otherwise accrue from the time conditions 1-5 are all satisfied until the day Quinlan shall bring suit against the likely infringer or misappropriator or shall obtain discontinuance of said infringement or misappropriation. Failure to pay royalties pursuant to this Article shall not adversely affect any rights of Poore Brothers under this Agreement or provide a basis for Quinlan to exercise any rights otherwise available to it contrary to the interest of Poore Brothers under this Agreement.

ARTICLE (11)

NOTICES

Any notices given by either party in this Agreement shall be duly given if sent by (a) registered airmail or (b) reputable international overnight courier (with confirmation of receipt), to the other party at its address given in this Agreement or to such other address as may be indicated by one party to the other in writing in accordance with the terms of this Article 11. Any notices given by telex, facsimile or e-mail are not considered effective until confirmed by registered airmail or delivery by a reputable international overnight courier. Notices shall be deemed to have been received on the working day following the date on which the notice is delivered by registered airmail or internationally recognized express courier.

ARTICLE (12)

MODIFICATIONS

No modifications of this Agreement shall be binding upon the parties hereto unless made in writing and signed by both parties.

ARTICLE (13)

ASSIGNMENT

This Agreement shall be binding upon and enure to the benefit of the successors and assigns of the parties. Notwithstanding the foregoing, the complete rights and obligations of a party (the "Assigning Party") may be assigned, without the consent of the other party, by the Assigning Party to any corporation which is or becomes a wholly owned subsidiary or parent of the Assigning Party, or which survives a merger in which the Assigning Party participates or to any corporation or other person or business entity which acquires all or substantially all of the assets of the Assigning Party; provided that the party to whom such assignment is made agrees to comply in full with the obligations of the Assigning Party hereunder.

ARTICLE (14)

ENTIRE AGREEMENT

This Agreement contains the entire understanding of the parties and there are no representations, warranties or undertakings other than those expressly set forth herein.

ARTICLE (15)

DISPUTE, LAW AND JURISDICTION

The Agreement shall be governed by and construed in accordance with the internal laws of the state of Arizona U.S.A. without giving effect to any choice of law rule that would cause the application of the laws of any other jurisdiction to the rights and duties of the parties. Both parties shall try to settle any dispute or disagreement which may arise in connection with any interpretation(s) of this Agreement or the performance or non-performance thereof in good faith and mutual trust. Should they, however, fail to arrive at a mutually satisfactory settlement, resolution of any such dispute shall, at the request of either party, be determined by arbitration. The arbitration shall be conducted under the Commercial Arbitration rules of the American Arbitration Association then in effect except where modified in this Agreement. The arbitration shall be held in Phoenix, Arizona or such other location selected by the mutual agreement of the parties, and the language for arbitration shall be English. The matter will be resolved by a sole arbitrator selected by mutual agreement of the parties, or, if the parties cannot agree, by the American Arbitration Association as provided in its Commercial Rules. The award of the arbitrator shall be final and binding upon the parties and may be executed and enforced in any court having competent jurisdiction.

ARTICLE (16)

TRAVEL

The Licensee shall pay business class air travel and reasonable hotel and meal expenses incurred by Quinlan in connection with this Agreement provided that Quinlan has obtained the Licensee's prior written agreement to such travel.

ARTICLE (17)

SEVERABILITY

If any provision of this Agreement is declared invalid or unenforceable by any lawful tribunal, then it shall be adjusted to conform to legal requirements of that tribunal and that modification shall automatically become a part of this Agreement. If no adjustment can be made, the provision shall be deleted as though never included in this Agreement and the remaining provisions of this Agreement shall remain in full force and effect unless such invalidity or unenforceability causes substantial deviation from the underlying intent of the parties expressed in this Agreement, in which case the parties shall replace the invalid or unenforceable provision with a valid and enforceable provision which corresponds as far as possible to the spirit and purpose of the invalid or unenforceable provision.

ARTICLE (18)

WAIVERS

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

ARTICLE (19)

COUNTERPARTS

This Agreement may be executed in any number of counterparts (including by telefacsimile), each of which when executed and delivered shall be an original, but which counterparts together shall constitute one and the same instrument.

In WITNESS WHEREOF the parties hereto have hereunto set their hands and seals

SIGNED for and on behalf of)
Poore Brothers, Inc.)

signature)
---

title)

DATED THIS day of)
who warrants his authority)
to sign this Agreement in)
the presence of:)

Witness

SIGNED for and on behalf of)
M.J. Quinlan & Assoc Pty Ltd)

signature)
---

title)

DATED THIS day of)
who warrants his authority)
to sign this Agreement in)
the presence of:)

Witness

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") PURSUANT TO SEC RULE 24B-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT A

CONFIDENTIALITY AND NON-DISCLOSURE AGREEMENT

WHEREAS M.J. Quinlan & Associates Pty. Limited, a company incorporated under the laws of New South Wales ("Licensor"), has entered into a License Agreement dated as of July ____, 2000 (the"License Agreement"), with Poore Brothers, Inc. ("Licensee"), pursuant to which Licensor granted a license to Licensee to use certain confidential and proprietary information owned by Licensor relating to the manufacture, processing, packaging, marketing, promoting and sale of 3-dimensional hollow fried snack food products (hereinafter "Know-How"); and

WHEREAS, it is necessary for Licensee, in furtherance of Licensee's business, to disclose such Know-How and related trade secrets to the undersigned party;

NOW, THEREFORE, the undersigned party acknowledges and agrees as follows:

1. The undersigned party agrees to keep all Know-How and trade secrets regarding Know-How received from Licensee in strict confidence and shall not disclose them to any third party and shall not use them for any purpose other than as authorized by Licensee.

2. Upon request by Licensee, the undersigned party agrees promptly to return to Licensee all materials received from Licensee that contain any Know-How and related trade secrets.

3. This agreement imposes no obligation upon the undersigned party with respect to any Know-How or related trade secrets that (a) were in the possession of, or were rightfully known by the undersigned party without an obligation to maintain their confidentiality prior to receipt from Licensee; (b) are or become generally known to the public without violation of this agreement; (c) are obtained by the undersigned party in good faith from a third party having the right to disclose them without an obligation of confidentiality; (d) are independently developed by the undersigned party without the participation of individuals who have had access to the Know-How or related trade secrets; or (e) are required to be disclosed by court order.

DATE: By:

[*] = CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY
BRACKETS, HAS BEEN OMITTED AND FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") PURSUANT TO SEC RULE 24B-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

EXHIBIT 21.1

LIST OF SUBSIDIARIES OF POORE BROTHERS, INC.

Name of Subsidiary	State of Incorporation/Formation
La Cometa Properties, Inc.	Arizona
Tejas PB Distributing, Inc.	Arizona
Poore Brothers - Bluffton, LLC	Delaware
Boulder Natural Foods, Inc.	Arizona
BN Foods, Inc.	Colorado

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-48692 and 333-26117 on Form S-8 of our report dated February 12, 2003 relating to the consolidated financial statements of Poore Brothers, Inc. and subsidiaries as of and for the year ended December 28, 2002 (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the application of procedures relating to certain disclosures and reclassifications of financial statement amounts related to the 2001 and 2000 financial statements that were audited by other auditors who have ceased operations and for which we have expressed no opinion or other form of assurance other than with respect to such disclosures and reclassifications, and an explanatory paragraph relating to the change in the method of accounting for goodwill and other intangible assets with indefinite lives as required by the Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", which was effective January 1, 2002), appearing in this Annual Report on Form 10-K of Poore Brothers, Inc. and subsidiaries for the year ended December 28, 2002.

DELOITTE & TOUCHE LLP

Phoenix, Arizona
March 27, 2003

EXHIBIT 23.2

NOTICE REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended (the "Securities Act"), provides that if any part of a registration statement at the time such part becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement in such registration statement, report or valuation which purports to have been prepared or certified by the accountant.

This Annual Report on Form 10-K is incorporated by reference into Poore Brothers, Inc.'s (the "Company's") filings on Form S-8 (File Nos. 333-87028 and 333-87026) (collectively, the Registration Statements) and, for purposes of determining any liability under the Securities Act, is deemed to be a new registration statement for each Registration Statement into which it is incorporated by reference.

On May 8, 2002 the Board of Directors dismissed Arthur Andersen LLP as its independent public accountants and appointed Deloitte & Touche LLP as its independent public accountants. After reasonable efforts, the Company has been unable to obtain Arthur Andersen's written consent to the incorporation by reference into the Registration Statements of its audit report with respect to Company's financial statements as of December 31, 2001 and 2000 and for the years then ended included in this Form 10-K. Under these circumstances, Securities and Exchange Commission Rule 437a under the Securities Act permits the Company to file this Form 10-K without a written consent from Arthur Andersen LLP. As a result, however, Arthur Andersen LLP may not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen LLP or any omissions of a material fact required to be stated therein. Accordingly, you may not be able to assert a claim against Arthur Andersen LLP under Section 11(a) of the Securities Act for any purchases of securities under the Registration Statements made on or after the date of this Form 10-K. To the extent provided in Section 11(b)(3)(C) of the Securities Act, however, other persons who are liable under Section 11(a) of the Securities Act, including the Company's officers and directors, should still be able to rely on Arthur Andersen LLP's original audit reports as being made by an expert for purposes of establishing a due diligence defense under Section 11(b) of the Securities Act.

EXHIBIT 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER 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 Annual Report on Form 10-K of Poore Brothers, Inc. (the "Company") for the fiscal year ended December 28, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Eric J. Kufel (the Company's President and Chief Executive Officer) and Thomas W. Freeze (the Company's Senior Vice President, Chief Financial Officer, Secretary and Treasurer) hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

(i) The Report fully complies with the requirements of Section 15(d) of the Securities Exchange Act of 1934, as amended; and

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

By: /s/ Eric J. Kufel

Eric J. Kufel
President and Chief Executive Officer

Dated: March 28, 2003

By: /s/ Thomas W. Freeze

Thomas W. Freeze
Senior Vice President, Chief Financial Officer, Treasurer and Secretary

Dated: March 28, 2003