LITCHFIELD FINANCIAL CORP /MA

FORM SC 14D9
(Statement of Ownership: Solicitation)

Filed 09/29/99

Address	430 MAIN STREET
	WILLIAMSTOWN, MA 01267
Telephone	4134581000
CIK	0000882515
SIC Code	6162 - Mortgage Bankers and Loan Correspondents
Fiscal Year	12/31

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14D-9

**SOLICITATION/RECOMMENDATION STATEMENT
PURSUANT TO SECTION 14(d)(4) OF THE
SECURITIES EXCHANGE ACT OF 1934**

LITCHFIELD FINANCIAL CORPORATION

(NAME OF SUBJECT COMPANY)

(NAME OF PERSON FILING STATEMENT)

COMMON STOCK, $.01 PAR VALUE PER SHARE
(TITLE OF CLASS OF SECURITIES)

536619 10 9

(CUSIP NUMBER OF CLASS OF SECURITIES)

**RICHARD A. STRATTON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
LITCHFIELD FINANCIAL CORPORATION
430 MAIN STREET
WILLIAMSTOWN, MASSACHUSETTS 01267**
(413) 458-1000
(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON
**AUTHORIZED TO RECEIVE NOTICES AND COMMUNICATIONS ON
BEHALF OF THE PERSON(S) FILING STATEMENT)**

WITH A COPY TO:

**JAMES WESTRA, ESQ.
HUTCHINS, WHEELER & DITTMAR
A PROFESSIONAL CORPORATION
101 FEDERAL STREET
BOSTON, MASSACHUSETTS 02110**
(617) 951-6600

ITEM 1. SECURITY AND SUBJECT COMPANY.

The name of the subject company is Litchfield Financial Corporation, a Massachusetts corporation (the "Company"), and the address of the principal executive offices of the Company is 430 Main Street, Williamstown, Massachusetts 01267. The title of the class of equity securities to which this statement relates is the common stock, $.01 par value per share, of the Company (the "Common Stock").

ITEM 2. TENDER OFFER OF ACQUISITION.

This statement relates to a cash tender offer by Textron Financial Corporation, a Delaware corporation ("Parent"), and its wholly-owned subsidiary, Lighthouse Acquisition Corp., a Massachusetts corporation ("Acquisition"), disclosed in a Tender Offer Statement on Schedule 14D-1 (the "Schedule 14D-1"), dated September 29, 1999, to purchase all of the issued and outstanding shares of Common Stock (the "Shares") at a price of $24.50 per share (such amount, or any greater amount per share paid pursuant to the Offer, being hereafter referred to as the "Per Share Amount"), net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated September 29, 1999 (the "Offer to Purchase"), and the related Letter of Transmittal (which together constitute the "Offer"). Textron Financial Corporation is a wholly-owned subsidiary of Textron Inc., a Delaware corporation ("Textron").

The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of September 22, 1999 (the "Merger Agreement"), by and among Parent, Acquisition and the Company. The Merger Agreement provides that, among other things, as soon as practicable after the consummation of the Offer and satisfaction or waiver of all conditions to the Merger (as defined in the Merger Agreement), subject to conditions set forth below in the section entitled "Meeting of Stockholders; Proxy Statement," Acquisition will be merged with and into the Company, with the Company surviving the Merger. A copy of the Merger Agreement is filed herewith as Exhibit 1, and is incorporated herein by reference.

Based on the information in the Offer to Purchase, the principal executive offices of Parent and Acquisition are located at 40 Westminster Street, Providence, Rhode Island 02903.

ITEM 3. IDENTITY AND BACKGROUND.

(a) The name and address of the Company, which is the person filing this statement, are set forth in Item 1 above.

(b) Except as set forth below, none of the officers or directors of the Company is presently a party to any transaction with the Company or its affiliates (other than for services as employees, officers and directors), including without limitation any material contract, agreement, arrangement or understanding (i) providing for the furnishing of services to or by, (ii) providing for rental of real or personal property to or from, or (iii) otherwise requiring payments to or from, any officer or director, any member of the family of any officer or director or any corporation, partnership, trust or other entity in which any officer or director has a substantial interest or is an officer, director, trustee or partner.

STOCK OPTIONS

As of the Effective Time, each outstanding, unexercised stock option to purchase shares of the Company's Common Stock (a "Company Stock Option") issued under the Company's 1990 Stock Option Plan, as amended (the "1990 Plan") and the 1995 Stock Option Plan for Non-Employee Directors, as amended (the "Director Plan") shall terminate and be canceled and each holder of a Company Stock Option shall be entitled to receive, in consideration therefor, a cash payment from the Company equal to the product of (a) the excess, if any, of (x) the Merger Consideration over (y) the per share exercise price of such Company Stock Option, times (b) the number of Shares (as defined in the Merger Agreement) subject to the Company Stock Option (whether or not then exercisable or vested). As of September 22, 1999, there were options covering 913,720 shares outstanding at exercise prices ranging from $1.44 to $23.25. With respect to Company Stock Options, including those accelerated pursuant to the Merger Agreement, the executive officers and directors of the Company will respectively receive the following approximate amounts: Richard A.

Stratton will receive $3,575,169; Heather A. Sica will receive $2,467,907; Ronald E. Rabidou will receive $746,098; John Costa will receive $310,812; John J. Malloy will receive $255,625; Joseph Weingarten will receive $681,562; Gerald Segel will receive $405,769; James Westra will receive $100,755; James Zinn will receive $42,317; Eugene McMahon will receive $42,317; and Grant Wilson will receive $42,317.

CERTAIN CONTRACTS

Certain contracts, agreements, arrangements and understandings between the Company or its affiliates and certain of its executive officers, directors or affiliates are described under the heading "Employment Agreements, Change of Control Severance Agreements, Stock Option Plans" in the Information Statement pursuant to Section 14(f) of the Securities Exchange Act of 1934, attached as Annex A hereto and incorporated by reference herein.

CHANGE OF CONTROL SEVERANCE AGREEMENTS

On September 22, 1999, the Board of Directors of the Company approved a Severance Agreement (the "Severance Agreement") to be entered into by the Company and Joseph Weingarten (the "Executive"). On January 1, 1999, the Company executed severance agreements with each of Richard A. Stratton, Heather A. Sica and Ronald E. Rabidou, each containing substantially the same terms and conditions as the Severance Agreement. On March 22, 1999, the Company executed a Severance Agreement with John Costa containing substantially the same terms and conditions as the Severance Agreement. Pursuant to a separate arrangement with Mr. Costa entered into at the commencement of Mr. Costa's employment with the Company, Mr. Costa will be entitled to an additional payment of $71,250 upon the completion of the Merger. The Severance Agreement provides that if, following a Transaction (as defined in the Severance Agreement), the Executive's employment has been terminated by the Company for any reason, other than Cause (as such term is defined therein) or the death or disability of the Executive, or by the Executive for Good Reason (as such term is defined therein), then the Company will pay the Executive, a lump sum equal to the higher of (i) the Executive's total salary and bonus for the most recently completed fiscal year, and (ii) the Executive's total annualized salary and bonus, based on the partial fiscal year in which the date of termination occurs (the "Severance Payments"). In addition to such lump-sum severance payment, the Executive shall (i) be entitled to participate in the Company's medical insurance plan for a period of twelve months following the termination date at the Company's expense, after which the Executive will have COBRA rights as provided by law and (ii) for a period of twelve months, be permitted to participate in any of the Company's other benefit plans in which the Executive is participating as of the termination date pursuant to Company policy. The foregoing summary of certain provisions of the Severance Agreement is qualified in its entirety by reference to the form of Severance Agreement, which is incorporated herein by reference, and a copy of which is filed herewith as Exhibit 2.

The Severance Agreement further provides that, in the event that the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any penalty or excise tax subsequently imposed by law applies to any payment or benefit received or to be received by the Executive in connection with a Transaction or the termination of the Executive's employment (whether pursuant to the terms of the Severance Agreement or any other plan, arrangement, or agreement with the Company, any Person whose actions result in the Transaction or any Person affiliated with the Company or such Person) (all such payments and benefits, including the Severance Payments, being hereinafter called "Total Payments"), an additional amount shall be paid by the Company to the Executive such that the aggregate after-tax amount that he shall receive with respect to the Total Payments, including this section, shall have a present value equal to the aggregate after-tax amount that he would have received and retained had such excise or penalty tax (and any interest or penalties in respect thereof) not applied to him. For this purpose, the Executive shall be presumed to be subject to tax in each year relevant to the computation at the then maximum applicable combined Federal and Massachusetts income tax rate, and the present value of payments to him shall be made consistent with the principles of Section 280G of the Code.

THE MERGER AGREEMENT

The following is a summary of the material terms of the Merger Agreement. This summary is not a complete description of the terms and conditions thereof and is qualified in its entirety by reference to the full text thereof, which is incorporated herein by reference and a copy of which is filed herewith as Exhibit 1.

The Offer. The Merger Agreement provides that no later than five business days from the date of initial public announcement of the Merger Agreement, Acquisition will commence the Offer. The parties to the Merger Agreement have agreed in the Merger Agreement that the obligations of Acquisition to accept for payment and pay for Shares tendered pursuant to the Offer will be subject only to the satisfaction or waiver of the conditions described below under "Offer Conditions", including the Minimum Condition. Under the Merger Agreement, Acquisition expressly reserves the right, in its sole discretion, to waive any such condition (other than the Minimum Condition), provided, that, without the prior written consent of the Company, Acquisition will not (i) decrease the amount to be paid per share in the Offer to below $24.50, (ii) change the form of consideration to be paid in the Offer, (iii) reduce the maximum number of Shares to be purchased in the Offer or the Minimum Condition, (iv) impose conditions to the Offer in addition to the Offer Conditions or (v) amend any other term of the Offer in a manner which, in the Company's reasonable judgment, is adverse to the holders of the Shares (provided that a waiver by Acquisition of any condition other than the Minimum Condition shall not be deemed to be adverse to the holders of the Shares or the Company).

Notwithstanding the foregoing, Acquisition may, without the consent of the Company, extend the Offer for an aggregate period of up to five business days beyond the Expiration Date if there shall not have been tendered sufficient Shares so that the Merger could be effected without a meeting of the Company's stockholders in accordance with Section 82 of the MBCL. Acquisition shall have no obligation to pay interest on the purchase price of tendered Shares.

Company Board Representation. The Merger Agreement provides that, promptly upon purchase by Acquisition of Shares pursuant to the Offer, and from time to time thereafter, Acquisition shall be entitled to designate up to such number of directors, rounded up to the next whole number, on the Board of Directors of the Company as shall give Acquisition representation on the Board of Directors equal to the product of the total number of directors on such Board (including any vacancies or unfilled newly-created directorships) multiplied by the percentage that the aggregate number of Shares beneficially owned by Acquisition or any affiliate of Acquisition bears to the total number of Shares then outstanding, and the Company shall amend, or cause to be amended, its by-laws to provide for the foregoing and shall, at such time, promptly take all action necessary to cause Acquisition's designees to be so elected, including either increasing the size of the Board of Directors or securing the resignations of incumbent directors or both; provided, that there shall at all times be at least two Disinterested Directors (as defined in the Merger Agreement). The Merger Agreement further provides that the Company's obligations to appoint designees to its Board of Directors will be subject to Section 14(f) of the Exchange Act and Rule 14f-1 thereunder.

The Merger. The Merger Agreement provides that, upon the terms and subject to the conditions thereof, at the Effective Time and in accordance with the MBCL, Acquisition will be merged with and into the Company. As a result of the Merger, the separate corporate existence of Acquisition will cease and the Company will continue as the Surviving Corporation.

The Merger Agreement provides that the Amended and Restated Articles of Organization of the Company, as in effect immediately prior to the Effective Time, shall be the articles of organization of the Surviving Corporation until thereafter amended as provided by law. At the Effective Time, the by-laws of Acquisition as in effect immediately prior to the Effective Time will be the by-laws of the Surviving Corporation, until thereafter altered, amended or repealed as provided by law. The Merger Agreement provides that the directors of Acquisition immediately prior to the Effective Time will be the initial directors of the Surviving Corporation and the officers of the Company immediately prior to the Effective Time will be the initial officers of the Surviving Corporation, each to hold office until their respective successor shall be duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the articles of organization and by-laws of the Surviving Corporation.

The Merger Agreement provides that, at the Effective Time, each Share that is issued and outstanding immediately prior to the Effective Time (other than Shares owned by the Company or by Parent, Acquisition or any direct or indirectly wholly-owned subsidiary of the Company, Parent or Acquisition, which shall be cancelled, and other than Shares, if any (collectively, "Dissenting Shares"), held by stockholders who have properly exercised appraisal rights under Section 89 of the MBCL) will, by virtue of the Merger and without any action on the part of the Company, Acquisition or the holders of the Shares, be cancelled, extinguished and converted into and become a right to receive $24.50 in cash (the "Merger Consideration"), payable to the holder thereof, without interest, upon surrender of the certificate formerly representing such Share, less any required withholding taxes. All Shares that are owned by the Company (as treasury stock or otherwise) and all Shares owned by Parent, Acquisition or any direct or indirect wholly-owned subsidiary of the Company, Parent or Acquisition, if any, will be canceled and retired and cease to exist, and no cash or other consideration will be delivered in exchange therefore.

The Merger Agreement provides that Shares that are issued and outstanding immediately prior to the Effective Time and which are held by a stockholder who has not voted in favor of the Merger and who is otherwise entitled to demand, and who properly demands appraisal for such Shares in accordance with all the provisions of the MBCL concerning the rights of holders of Shares to dissent from the Merger and require appraisal of their Shares, will not be converted into or exchangeable for the right to receive the Merger Consideration unless such holder fails to perfect or otherwise effectively withdraws or loses such holder's right to appraisal, if any. Such holders will be entitled to receive the appraised value of such Shares held by them in accordance with the applicable provisions of the MBCL. If, after the Effective Time, such holder fails to perfect or loses its right to appraisal, each Share of such holder will be treated as if it had been converted as of the Effective Time into the right to receive the Merger Consideration, without any interest thereon.

The Merger Agreement provides that each share of common stock of Acquisition will be converted into one share of common stock of the Surviving Corporation.

The Merger Agreement provides that each option granted to a Company employee or director pursuant to the Company's 1990 Stock Option Plan, as amended, and 1995 Stock Option Plan for Non-Employee Directors, as amended (together, the "Stock Plans") to acquire shares of Company Common Stock (each such option hereinafter is referred to as an "Option") that is outstanding immediately prior to the Effective Time, whether or not then vested or exercisable, shall, effective as of immediately prior to the Effective Time, be canceled and the holder thereof shall be entitled to receive at the Effective Time or as soon as practicable thereafter from the Company in consideration for such cancellation an amount in cash equal to the product of (1) the number of Shares previously subject to such Option and (2) the excess, if any, of the Merger Consideration over the exercise price per share of such Option (subject to any applicable withholding taxes).

Representations and Warranties. The Merger Agreement contains various customary representations and warranties of the parties thereto including, without limitation, representations and warranties by the Company as to the Company's organization and authorized capital stock, subsidiaries, noncontravention and consents, filings with the Commission, financial statements, no material adverse change, legal proceedings, subsequent events, commissions and fees, offering documents, employee benefit plans, compliance with the law, intellectual property, taxes and opinion of financial advisor. Some of the representations are qualified by the limitation that, in order for the representation to have been breached, the event breaching the representation must have a Material Adverse Effect. A "Material Adverse Effect" as to the Company means any change or effect that would (i) be materially adverse to the business, financial condition or results of operations of the Company and its subsidiaries, taken as a whole or (ii) prevent or materially delay the consummation of the Offer or the Merger; provided, however, that a decline in the price of the Company's Common Stock as traded on the Nasdaq National Market as a result of the Company (i) failing to complete contemplated off-balance sheet financings, (ii) attempting to reacquire assets serviced by the Company and financed off-balance sheet, or (iii) discontinuing "gain on sale accounting," shall not be deemed to have a Material Adverse Effect unless it is otherwise a result of an event or occurrence that is materially adverse to the business, financial condition or results of operations of the Company and its subsidiaries taken as a whole.

In addition, the Merger Agreement contains representations and warranties of Parent and Acquisition concerning their organization, authorization of the agreement, noncontravention and consents, commissions and fees, and funds.

AGREEMENTS OF THE COMPANY, ACQUISITION AND PARENT.

Conduct of Business Pending the Merger. Pursuant to the Merger Agreement, the Company has covenanted and agreed that, prior to the Effective Time, the Company and its subsidiaries will conduct their operations according to their ordinary and usual course of business and consistent with past practice. The Merger Agreement further provides that, without limiting the generality of the foregoing, and except as expressly contemplated by the Merger Agreement, prior to the Effective Time, neither the Company nor any of its subsidiaries will, without the prior written consent of Parent:

(a) amend or otherwise change its articles of organization or by-laws or equivalent organizational documents;

(b) issue, deliver, sell, pledge, dispose of or encumber, or authorize or commit to the issuance, sale, pledge, disposition or encumbrance of, (i) any shares of capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of capital stock, or any other ownership interest (including but not limited to stock appreciation rights or phantom stock), of the Company or any of its subsidiaries (except for the issuance of up to 913,720 Shares required to be issued pursuant to the terms of options outstanding as of September 22, 1999) or (ii) any assets of the Company or any of its subsidiaries, except in the ordinary course of business and in a manner consistent with past practice;

(c) declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its capital stock;

(d) reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any of its capital stock;

(e) (i) acquire (by merger, consolidation, or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof; (ii) incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any person, or make any loans, advances or capital contributions to, or investments in, any other person (other than in the ordinary course of business consistent with past practice) and other than existing committed facilities; (iii) enter into any contract or agreement other than in the ordinary course of business consistent with past practice; or (iv) authorize capital expenditures (during any three month period) which are, in the aggregate, in excess of $25,000 for the Company and its subsidiaries taken as a whole;

(f) except to the extent required under existing employee and director benefit plans, agreements or arrangements as in effect on the date of the Merger Agreement or as provided in the Merger Agreement, increase the compensation or fringe benefits of any of its directors, officers or employees, except for increases in salary or wages of employees of the Company or its subsidiaries who are not officers of the Company in the ordinary course of business in accordance with past practice, or grant any severance or termination pay not currently required to be paid under existing severance plans to or enter into any employment, consulting or severance agreement or arrangement with any present or former director, officer or other employee of the Company or any of its subsidiaries, or establish, adopt, enter into or amend or terminate any collective bargaining agreement or employee benefit plan, including, but not limited to, bonus, profit sharing, thrift, compensation, stock option, restricted stock, pension, retirement, deferred compensation, employment, termination, severance or other plan, agreement, trust, fund, policy or arrangement for the benefit of any directors, officers or employees;

(g) except as may be required as a result of a change in law or in generally accepted accounting principles, change any of the accounting practices or principles used by it, other than discontinuance of the gain on sale method;

(h) make any material tax election change for any annual tax accounting period, change any method of tax accounting, file any amended tax return or settle or compromise any material federal, state, local or foreign tax liability;

(i) settle or compromise any pending or threatened suit, action or claim which is material or which relates to the transactions contemplated hereby;

(j) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its subsidiaries not constituting an inactive subsidiary (other than the Merger);

(k) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction (i) in the ordinary course of business and consistent with past practice of liabilities reflected or reserved against in the financial statements of the Company or incurred in the ordinary course of business and consistent with past practice and (ii) of liabilities required to be paid, discharged or satisfied pursuant to the terms of any contract in existence on the date of the Merger Agreement;

(l) (i) make or commit to make any financial services loan;

(ii) make or commit to make any other loan except as specifically provided in clauses (iii) through (ix) of this paragraph (l);

(iii) purchase or commit to purchase consumer land loans from a single dealer exceeding an aggregate amount of (y) $1,000,000 in the case of a dealer that is an approved dealer as of the date of the Merger Agreement or
(z) $2,500,000 in the case of a dealer that becomes an approved dealer on or after the date of the Merger Agreement;

(iv) purchase or commit to purchase consumer timeshare loans from a single seller exceeding an aggregate amount of (y) $500,000 in the case of a seller that is an approved seller as of the date of the Merger Agreement or (z) $1,000,000 in the case of a seller that becomes an approved seller on or after the date of the Merger Agreement;

(v) make or commit to make loans for the acquisition and/or construction of timeshare units that exceed (y) $2,500,000 in the case of a new loan to an approved borrower (or group of affiliated borrowers) as of the date of the Merger Agreement; provided however, that any increase in an existing commitment shall not exceed $1,000,000, and provided, further, that any additional loans or increases as described in this clause (y) shall not cause the aggregate commitments to such borrower to exceed $2,500,000 or (z) $2,000,000 in the case of a borrower (or group of affiliated borrowers) which becomes an approved borrower on or after the date of the Merger Agreement;

(vi) make or commit to make loans for the acquisition and/or development of landlots that exceed (y) $500,000 in the case of a new loan to an approved borrower (or group of affiliated borrowers) as of the date of the Merger Agreement; provided however, that any increase in an existing commitment shall not exceed $100,000, and provided, further, that any additional loans or increases as described in this clause (y) shall not cause the aggregate commitments to such borrower to exceed $1,500,000 or
(z) $1,000,000 in the case of a borrower (or group of affiliated borrowers) which becomes an approved borrower on or after the date of the Merger Agreement;

(vii) make or commit to make loans for the finance or purchase of land (not including consumer loans as provided in clause (iii) of this paragraph
(l)) that exceed (y) $1,000,000 in the case of a new loan to an approved borrower (or group of affiliated borrowers) as of the date of the Merger Agreement; provided however, that any increase in an existing commitment shall not exceed $250,000, and provided, further, that any additional loans or increases as described in this clause (y) shall not cause the aggregate commitments to such borrower to exceed $2,500,000 or (z) $500,000 in the case of a borrower (or group of affiliated borrowers) which becomes an approved borrower on or after the date of the Merger Agreement;

(viii) make or commit to make loans for the finance or purchase of timeshare units (not including consumer loans as provided in clause (iv) of Section 5.1(l) above) that exceed (y) $5,000,000 in the case of a new loan to an approved borrower (or group of affiliated borrowers) as of the date of the Merger Agreement; provided however, that any increase in an existing commitment shall not exceed $2,500,000, and provided, further, that any additional loans or increases as described in this clause (y) shall not cause the aggregate commitments to such borrower to exceed $5,000,000 or
(z) $5,000,000 in the case of a borrower (or group of affiliated borrowers) which becomes an approved borrower on or after the date of the Merger Agreement; or

(ix) purchase or commit to purchase any tax lien certificate greater than $500,000;

provided, that nothing in this paragraph (l) shall prohibit the Company from honoring any contractual obligation in existence on the date of the Merger Agreement;

(m) refinance or restructure any existing loan, except in the ordinary course of business consistent with past practice and prudent lending practices;

(n) make any material changes in its polices or practices concerning loan underwriting and credit scoring, or which persons may approve loans or credit scoring;

(o) except in the ordinary course of business consistent with past practice and prudent business practices, enter into any securities transaction for its own account or purchase or otherwise acquire any investment security for its own account other than (A) securities backed by the full faith and credit of the United States or an agency thereof and (B) other readily marketable securities not in excess of $100,000;

(p) foreclose upon or otherwise take title to or possession or control of any real property (other than residential property) without first obtaining a phase one environmental report thereon;

(q) enter into any new, or modify, amend or extend the terms of any existing, contracts relating to the purchase or sale of financial or other futures, or any put or call option relating to cash, securities or commodities or any interest rate swap agreements or other agreements relating to the hedging of interest rate risk, except in the ordinary course of business consistent with past practices and prudent business practices; or

(r) take, or offer or propose to take, or agree to take in writing or otherwise, any of the actions described in paragraphs (a) through (q) or any action which would make any of the representations or warranties of the Company contained in the Merger Agreement untrue and incorrect as of the date when made if such action had then been taken, or would result in any of the Offer Conditions not being satisfied.

No Solicitation of Transactions. The Merger Agreement provides that the Company, its affiliates and their respective officers, directors, employees, representatives and agents shall immediately cease any existing discussions or negotiations, if any, with any parties conducted theretofore with respect to any acquisition or exchange of all or any material portion of the assets of, or any equity interest in, the Company or any of its subsidiaries or any business combination with or involving the Company or any of its subsidiaries. The Merger Agreement also provides that, at any time prior to consummation of the Offer, the Company may, directly or indirectly, furnish information and access, in each case only in response to a request for such information or access to any person made after the date thereof which was not encouraged, solicited or initiated by the Company or any of its affiliates or any of its or their respective officers, directors, employees, representatives or agents after the date thereof, pursuant to appropriate confidentiality agreements, and may participate in discussions and negotiate with such person concerning any merger, sale of assets, sale of shares of capital stock or similar transaction (including an exchange of stock or assets) involving the Company or any subsidiary or division of the Company, in each case (whether furnishing information and access or participating in discussions and negotiations) only if such person has submitted a written proposal to the Board of Directors of the Company relating to any such transaction and the Board by majority vote determines in good faith, based upon the advice of outside counsel to the Company, that failing to take such action would constitute a breach of the Board's fiduciary duty under applicable law. The Board is required to provide a copy of any such written

proposal to Parent immediately after receipt thereof, notify Parent immediately if any proposal (oral or written) is made and in such notice indicate in reasonable detail the identity of the offeror and the terms and conditions of any proposal and keep Parent promptly advised of all developments which could reasonably be expected to culminate in the Board of Directors withdrawing, modifying or amending its recommendation of the Offer, the Merger and the other transactions contemplated by the Merger Agreement. Except as set forth in Section 6.5 of the Merger Agreement, neither the Company or any of its affiliates, nor any of its or their respective officers, directors, employees, representatives or agents shall, directly or indirectly, encourage, solicit, participate in or initiate discussions or negotiations with, or provide any information to, any corporation, partnership, person or other entity or group (other than Parent and Acquisition, any affiliate or associate of Parent and Acquisition or any designees of Parent or Acquisition) concerning any merger, sale of any material portion of assets, sale of any of the shares of capital stock or similar transactions (including an exchange of stock or assets) involving the Company or any subsidiary or division of the Company; provided, that the Board of Directors of the Company may take, and disclose to the Company's stockholders, a position contemplated by Rules 14d-9 and 14e-2 promulgated under the Exchange Act with regard to any tender offer; provided, further, that the Board of Directors may not recommend that the stockholders of the Company tender their Shares in connection with any such tender offer unless the Board by majority vote shall have determined in good faith, based upon the advice of outside counsel to the Company, that failing to take such action would constitute a breach of the Board's fiduciary duty under applicable law. The Merger Agreement provides that the Company shall not release any third party from, or waive any provisions of, any confidentiality or standstill agreement to which the Company is a party, unless the Board by majority vote shall have determined in good faith, based upon the advice of outside counsel to the Company, that failing to release such third party or waive such provisions would constitute a breach of the fiduciary duties of the Board of Directors under applicable law.

Meeting of Stockholders; Proxy Statement. The Merger Agreement provides that if required by applicable law in order to consummate the Merger, the Company will duly call, give notice of, convene and hold a meeting of its stockholders ("Stockholders Meeting") promptly after the consummation of the Offer to consider and vote upon the Merger Agreement and the Merger. At the Stockholders Meeting, Parent and Acquisition will cause all Shares then owned by them and their subsidiaries to be voted in favor of the approval and adoption of the Merger Agreement and approval of the Merger. If the Stockholders Meeting is called, the Company will prepare and file with the Commission a proxy statement (the "Proxy Statement") to be mailed to the stockholders of the Company in connection with the meeting of such stockholders to consider and vote upon the Merger and, except if the Board of Directors by majority vote determines in good faith, based on the advice of outside legal counsel to the Company that to do so would constitute a breach of fiduciary duty under applicable law, include in the Proxy Statement the unanimous recommendation of the Board of Directors that the stockholders of the Company vote in favor of the approval and adoption of the Merger Agreement and the transactions contemplated thereby. As soon as practicable following the consummation of the Offer, the Company will file the Proxy Statement with the Commission. The Company, Parent and Acquisition will use their reasonable best efforts to respond promptly to all comments of and requests by the Commission and to cause the Proxy Statement and all required amendments and supplements thereto to be mailed to holders of Shares entitled to vote at the Stockholders Meeting at the earliest practicable time following expiration or termination of the Offer. The Merger Agreement provides that in the event that Acquisition shall acquire at least 90% of the outstanding Shares, the Company will, at the request of Acquisition, take all necessary and appropriate action to cause the Merger to become effective as soon as reasonably practicable after such acquisition, without a meeting of the Company's stockholders, in accordance with Section 82 of the MBCL.

Access to Information; Confidentiality. The Merger Agreement provides that, prior to the Effective Time, the Company shall, and shall cause its subsidiaries, officers, directors, employees, auditors and other agents to, afford the officers, employees, auditors and other agents of Parent complete access, consistent with applicable law, at all reasonable times to its officers, employees, agents, properties, offices, plants and other facilities and to all books and records, and shall furnish Parent with all financial, operating and other data and information as Parent through its officers, employees or agents may from time to time reasonably request.

Information obtained by Parent or Acquisition will be subject to the confidentiality agreement between the Company and Parent (the "Confidentiality Agreement").

Public Disclosures. The Merger Agreement provides that Parent and the Company will consult with each other before issuing any press release or otherwise making any public statements with respect to the Offer or the Merger and will not issue any such press release or make any such public statement prior to such consultation and without the consent of the other party, except as may be required by applicable law or any listing agreement with its securities exchange.

Indemnification and Insurance. The Merger Agreement provides that Parent will use its reasonable best efforts to cause to be maintained in effect for six years from the Effective Time the current policies of the directors' and officers' liability insurance maintained by the Company (provided that Parent may substitute therefor policies of at least the same coverage containing terms and conditions which are not materially less advantageous) with respect to matters occurring prior to the Effective Time to the extent available; provided, however, that in no event will Parent or the Company be required to expend more than an amount per year equal to 150% of current annual premiums paid by the Company (which the Company represented and warranted in the Merger Agreement to be not more than $46,000) to maintain or procure insurance coverage pursuant to the Merger Agreement.

The Merger Agreement also provides that, for six years after the Effective Time, Parent will or will cause the Surviving Corporation to indemnify and hold harmless each present and former director and officer of the Company, determined as of the Effective Time and their heirs and representatives (the "Indemnified Parties"), against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities (collectively, "Costs") (but only to the extent such Costs are not otherwise covered by insurance and paid) incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative (collectively, "Claims"), arising out of or pertaining to matters existing or occurring at or prior to the Effective Time, whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent permitted under applicable law (and Parent will, or will cause the Surviving Corporation to, also advance expenses as incurred to the fullest extent permitted under applicable law provided the person to whom expenses are advanced provides an undertaking to repay such advances if it is ultimately determined that such person is not entitled to indemnification).

The Merger Agreement further provides that any Indemnified Party wishing to claim indemnification as described above, upon learning of any such Claim, shall promptly notify Parent thereof, but the failure to so notify shall not relieve Parent of any liability it may have to such Indemnified Party if such failure does not materially prejudice Parent. In the event of any such Claim (whether arising before or after the Effective Time), (i) Parent or the Surviving Corporation shall have the right to assume the defense thereof and Parent shall not be liable to such Indemnified Parties for any legal expenses of other counsel or any other expenses subsequently incurred by such Indemnified Parties in connection with the defense thereof, except that if Parent or the Surviving Corporation elects not to assume such defense, or counsel for the Indemnified Parties advises that there are issues that raise conflicts of interest between Parent or the Surviving Corporation and the Indemnified Parties, the Indemnified Parties may retain counsel satisfactory to them, and Parent or the Surviving Corporation shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received; provided, however, that Parent shall be obligated to pay for only one firm of counsel for all Indemnified Parties in any jurisdiction unless the use of one counsel for such Indemnified Parties would present such counsel with a conflict of interest,
(ii) the Indemnified Parties will cooperate in the defense of any such matter and (iii) Parent shall not be liable for any settlement effected without its prior written consent, which consent shall not be unreasonably withheld; and provided, further, that Parent shall not have any obligation to any Indemnified Party when and if a court of competent jurisdiction shall ultimately determine, and such determination shall have become final, that the indemnification of such Indemnified Party in the manner contemplated hereby is prohibited by applicable law.

Further Assurances. The Merger Agreement provides that, subject to the other provisions of the Merger Agreement, each of the parties will use its best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to

consummate and make effective the transactions contemplated by the Merger Agreement, including, without limitation, the Offer and the Merger, which efforts shall include, without limitation, using its reasonable best efforts to promptly make all required regulatory filings and applications including, without limitation, responding promptly to requests for further information and to obtain all licenses, permits, consents, approvals, authorizations, qualifications and orders of governmental authorities and parties to contracts with the Company and its subsidiaries and Parent and its subsidiaries as are necessary for the consummation of the transactions contemplated by the Merger Agreement and to fulfill the conditions to the Offer and the Merger.

Notice of Subsequent Events. The Merger Agreement provides that each party will give the other party notice of the occurrence or non-occurrence of any event the occurrence or non-occurrence of which would be likely to cause any representation or warranty contained in the Merger Agreement to be untrue or inaccurate and any failure of a party to comply or satisfy any covenant, condition or agreement to be complied with under the Merger Agreement.

Employment; Employee Welfare. The Merger Agreement provides that Parent will maintain for a period of one year following the Effective Time employee benefit plans and programs, for the benefit of employees of the Company and its subsidiaries (other than those employees covered by collective bargaining arrangements) that are in the aggregate no less favorable than those provided to Parent's similarly situated employees, under the plans as in effect immediately prior to the Closing (the "Existing Plans"). Parent will credit the prior service of all employees of the Company and its subsidiaries for purposes of determining the eligibility, and vesting under any employee benefit plan provided by Parent for the benefit of the employees. Employees covered by collective bargaining agreements shall be provided with such benefits as shall be required under the terms of any applicable collective bargaining agreement. In addition, the Surviving Corporation will assume and honor in accordance with their terms all existing employment and severance agreements and arrangements which are set forth in the Company Disclosure Schedule.

Offer Conditions. Notwithstanding any other provision of the Offer, but subject to the terms and conditions of the Merger Agreement, Acquisition shall not be required to accept for payment or, subject to any applicable rules and regulations of the SEC, including Rule 14e-1(c) under the Exchange Act (relating to Acquisition's obligation to pay for or return tendered Shares promptly after termination or withdrawal of the Offer), pay for any Shares tendered pursuant to the Offer, and may postpone the acceptance for payment or, subject to the restriction referred to above, payment for any Shares tendered pursuant to the Offer, and may amend or terminate the Offer (whether or not any Shares have theretofore been purchased or paid for) to the extent permitted by the Merger Agreement if, (i) at the expiration of the Offer, a number of Shares which constitutes more than 66 2/3% of the Shares (determined on a fully-diluted basis) have not been validly tendered and not properly withdrawn pursuant to the Offer (the "Minimum Condition") or (ii) at any time on or after the date of this Agreement and prior to the acceptance for payment of Shares, any of the following conditions occurs or has occurred:

(a) there shall have been entered any order, preliminary or permanent injunction, decree, judgment or ruling in any action or proceeding before any court or governmental, administrative or regulatory authority or agency, or any statute, rule or regulation enacted, entered, enforced, promulgated, amended or issued that is applicable to Parent, Acquisition, the Company or any subsidiary or affiliate of Acquisition or the Company or the Offer or the Merger, by any legislative body, court, government or governmental, administrative or regulatory authority or agency that is reasonably likely to have the effect of : (i) making illegal or otherwise directly or indirectly restraining or prohibiting the making of the Offer in accordance with the terms of the Merger Agreement, the acceptance for payment of, or payment for, some of or all the Shares by Acquisition or any of its affiliates or the consummation of the Merger; (ii) prohibiting the ownership or operation by the Company or any of its subsidiaries, or Parent or any of its subsidiaries, of all or any material portion of the business or assets of the Company or any of its subsidiaries, taken as a whole, or Parent or its subsidiaries, taken as a whole, or (iii) materially limiting the ownership or operation by the Company or any of its subsidiaries, or Parent or any of its subsidiaries, of all or any material portion of the business or assets of the Company or any of its subsidiaries, taken as a whole, or Parent or its subsidiaries, taken as a whole (other than, in either case, assets or businesses of the Company or its subsidiaries that are not material (measured in relation to the combined assets or

revenues of the Company and its subsidiaries, taken as a whole)) or compelling Parent or any of its subsidiaries to dispose of or hold separate all or any portion of the businesses or assets of the Company or any of its subsidiaries or Parent or any of its subsidiaries (other than, in either case, assets or businesses of the Company or its subsidiaries that are not material (measured in relation to the combined assets or revenues of the Company and its subsidiaries, taken as a whole)), as a result of the transactions contemplated by the Offer or the Merger Agreement; (iv) imposing limitations on the ability of Parent, Acquisition or any of Parent's affiliates effectively to acquire or hold or to exercise full rights of ownership of the Shares, including without limitation the right to vote any Shares acquired or owned by Parent or Purchaser or any of its affiliates on all matters properly presented to the stockholders of the Company, including without limitation the adoption and approval of the Merger Agreement and the Merger or the right to vote any shares of capital stock of any subsidiary directly or indirectly owned by the Company; or (v) requiring divestiture by Parent or Acquisition or any of their affiliates of any Shares;

(b) there shall have occurred any event, other than events arising out of the announcement of the Offer and the transactions contemplated by the Merger Agreement, that is reasonably likely to have a Material Adverse Effect;

(c) there shall have occurred (i) any general suspension of trading in, or limitation on prices (other than suspensions or limitations triggered on the New York Stock Exchange by price fluctuations on a trading day) for, securities on any national securities exchange or in the over-the-counter market in the United States, (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, (iii) any material limitation (whether or not mandatory) by any government or governmental, administrative or regulatory authority or agency in the United States on, the extension of credit by banks or other lending institutions, (iv) a commencement of a war directly involving the United States and materially adversely affecting (or material delaying) the consummation of the Offer or (v) in the case of any of the foregoing existing at the time of commencement of the Offer, a material acceleration or worsening thereof;

(d) it shall have been publicly disclosed or Acquisition shall have otherwise learned that beneficial ownership (determined for the purposes of this paragraph as set forth in Rule 13d-3 promulgated under the Exchange Act) of more than 20% of the outstanding Shares has been acquired by any corporation (including the Company or any of its subsidiaries or affiliates), partnership, person or other entity or group (as defined in Section 13(d)(3) of the Exchange Act), other than Parent or any of its affiliates; or (ii) (A) the Board of Directors of the Company or any committee thereof shall have withdrawn or modified in a manner adverse to Parent or Acquisition the approval or recommendation of the Offer, the Merger or the Merger Agreement, or approved or recommended any takeover proposal or any other acquisition of Shares other than the Offer and the Merger, (B) any such corporation, partnership, person or other entity or group shall have entered into a definitive agreement or an agreement in principle with the Company with respect to a tender offer or exchange offer for any Shares or a merger, consolidation or other business combination with or involving the Company or any of its subsidiaries, or (C) the Board of Directors of the Company or any committee thereof shall have resolved to do any of the foregoing;

(e) any of the representations and warranties of the Company set forth in the Merger Agreement that are qualified by reference to materiality or a Material Adverse Effect shall not be true and correct, or any such representations and warranties that are not so qualified shall not be true and correct in all material respects, in each case as if such representations and warranties were made at the time of such determination;

(f) the Company shall have failed to perform in any material respect any material obligation or to comply in any material respect with any material agreement or material covenant of the Company to be performed or complied with by it under the Merger Agreement;

(g) the Merger Agreement shall have been terminated in accordance with its terms or the Offer shall have been terminated with the consent of the Company; or

(h) any waiting periods under the HSR Act applicable to the purchase of Shares pursuant to the Offer or the Merger, and any applicable waiting periods under any foreign statutes or regulations, shall not have expired or been terminated;

(i) the Company shall have terminated the employment agreement of Richard A. Stratton, without the prior written consent of Acquisition; or

(j) the Company shall not have obtained the consent of each member of the Board of Directors of the Company to the cancellation of all options held by such Directors as contemplated by the Merger Agreement;

which, in the reasonable judgment of Acquisition with respect to each and every matter referred to above and regardless of the circumstances (except for any action or inaction by Acquisition or any of its affiliates constituting a breach of the Merger Agreement) giving rise to any such condition, makes it inadvisable to proceed with the Offer or with such acceptance for payment of or payment for Shares or to proceed with the Merger.

Conditions to the Merger. The Merger Agreement provides that the respective obligations of each party to effect the Merger is subject to the satisfaction, at or prior to the Effective Time, of each of the following conditions: (i) if required by the MBCL, the Merger Agreement shall have been adopted by the affirmative vote of the stockholders of the Company by the requisite vote in accordance with the Company's articles of organization and the MBCL; (ii) no statute, rule, regulation, executive order, decree, ruling, injunction or other order (whether temporary, preliminary or permanent) shall have been enacted, entered, promulgated or enforced by any United States, foreign, federal or state court or governmental authority which prohibits, restrains, enjoins or restricts the consummation of the Merger; (iii) Acquisition shall have purchased Shares pursuant to the Offer; and (iv) any waiting period applicable to the Merger under the HSR Act shall have terminated or expired.

Termination; Fees and Expenses. The Merger Agreement provides that it may be terminated at any time and the Offer and Merger may be abandoned at any time prior to the Effective Time:

(a) by mutual written consent of Parent, Acquisition and the Company;

(b) by Parent or the Company if any court of competent jurisdiction or other governmental body located or having jurisdiction within the United States shall have issued a final order, injunction, decree, judgment or ruling or taken any other final action restraining, enjoining or otherwise prohibiting the Offer or the Merger and such order, injunction, decree, judgment, ruling or other action is or shall have become final and nonappealable;

(c) by Parent if due to an occurrence or circumstance which resulted in a failure to satisfy any of the Offer Conditions, Acquisition shall have (i) terminated the Offer or (ii) failed to pay for Shares pursuant to the Offer on or prior to the Outside Date (as defined below);

(d) by the Company (only following the Outside Date, in the case of clause (ii)(B) of this paragraph) if (i) there shall have been a material breach of any covenant or agreement on the part of Parent or Acquisition contained in the Merger Agreement which materially adversely affects Parent's or Acquisition's ability to consummate (or materially delays commencement or consummation of) the Offer, and which shall not have been cured prior to the earlier of (A) 10 business days following notice of such breach and (B) two business days prior to the date on which the Offer expires, (ii) Acquisition shall have (A) terminated the Offer or (B) failed to pay for Shares pursuant to the Offer on or prior to the Outside Date (unless such termination or failure is caused by or results from the failure of any representation or warranty of the Company to be true and correct in any material respect or the failure of the Company to perform in any material respect any of its covenants or agreements contained in the Merger Agreement) or (iii) prior to the purchase of Shares pursuant to the Offer, any person shall have made a bona fide offer to acquire the Company (A) that the Board of Directors of the Company by majority vote determines in its good faith judgment is more favorable to the Company and the Company's stockholders than the Offer and the Merger and (B) as a result of which the Board of Directors by

majority vote determines in good faith, based upon the advice of outside counsel to the Company, that it is obligated by its fiduciary obligations under applicable law to terminate the Merger Agreement, provided that such termination under this clause (iii) shall not be effective until the Company has made payment of the full fee and expense reimbursement required to be paid as described below; and

(e) by Parent prior to the purchase of Shares pursuant to the Offer, if (i) there shall have been a breach of any representation, warranty, covenant or agreement on the part of the Company contained in the Merger Agreement which is reasonably likely to have a Material Adverse Effect on the Company or which materially adversely affects (or materially delays) the consummation of the Offer, which shall not have been cured prior to the earlier of (A) 10 business days following notice of such breach and (B) two business days prior to the date on which the Offer expires, (ii) the Board shall have withdrawn or modified (including by amendment of the Schedule 14D-9) in a manner adverse to Acquisition its approval or recommendation of the Offer, the Merger Agreement or the Merger or shall have recommended another offer or transaction, or shall have resolved to effect any of the foregoing, or (iii) the Minimum Condition shall not have been satisfied by the expiration date of the Offer as it may have been extended pursuant hereto and on or prior to such date (A) any person (including the Company but not including Parent or Acquisition) shall have made a public announcement, disclosure or communication to the Company with respect to a Third Party Acquisition (as defined below) or (B) any person (including the Company or any of its affiliates or subsidiaries), other than Parent or any of its affiliates shall have become (and remain at the time of termination) the beneficial owner of 20% or more of the Shares (unless such person shall have tendered and not withdrawn such person's Shares pursuant to the Offer). The "Outside Date" is the latest to occur (but in no event later than 90 days following the date of the Merger Agreement) of (i) the date that is 60 days following the date of the Merger Agreement and (ii) provided that the Minimum Condition has been satisfied within 60 days following the date of the Merger Agreement, the date on which either (x) the applicable waiting period under the HSR Act shall have expired or been terminated or (y) the final terms of a consent decree between Parent and the appropriate governmental authority with respect to the Offer and the Merger shall have been agreed to.

The Merger Agreement provides that if:

(i) (x) Parent terminates the Merger Agreement pursuant to paragraph (e)(i) above and (y) prior to such termination a proposal or offer with respect to a Third Party Acquisition shall have been made to the Company and (z) within 12 months after such termination, the Company enters into an agreement with respect to a Third Party Acquisition, or a Third Party Acquisition occurs; or

(ii) (x) the Company terminates the Merger Agreement pursuant to paragraph (d)(iii) above or (y) the Company terminates the Merger Agreement pursuant to paragraph (d)(ii)(B) above and at such time Parent would have been permitted to terminate the Merger Agreement under paragraph (e)(ii) or (iii) above or (z) Parent terminates the Merger Agreement pursuant to paragraph (e)(ii) or (iii) above;

then the Company shall pay to Parent and Acquisition, within three business days following the execution and delivery of such agreement or such occurrence, as the case may be, or simultaneously with any termination contemplated by paragraph (a)(ii) above, a fee, in cash, of $5.5 million (less any amounts previously paid as described in the next paragraph, provided, however, that the Company in no event shall be obligated to pay more than one such fee with respect to all such agreements and occurrences and such termination. "Third Party Acquisition" means the occurrence of any of the following events: (i) the acquisition of the Company by merger or similar business combination by any person other than Parent, Acquisition or any affiliate thereof (a "Third Party"); (ii) the acquisition by a Third Party of 20% or more of the book or fair market value of the consolidated assets of the Company and its subsidiaries, taken as a whole; or (iii) the acquisition by a Third Party of 20% or more of the outstanding Shares.

The Merger Agreement provides that, upon the termination thereof (i) under circumstances in which Parent shall have been entitled to terminate the Agreement pursuant to paragraph (e)(i) above (whether or not expressly terminated on such basis) or (ii) if any of the representations and warranties of the Company

contained in the Merger Agreement were untrue or incorrect in any material respect when made and at the time of termination remained untrue or incorrect in any material respect and such misrepresentation materially adversely affected the consummation (or materially delayed commencement or consummation) of the Offer, then the Company shall reimburse Parent, Acquisition and their affiliates (not later than three business days after submission of statements therefor) for all actual documented out-of-pocket fees and expenses actually incurred by any of them or on their behalf in connection with the Offer and the Merger and the consummation of all transactions contemplated by the Merger Agreement (including, without limitation, fees and disbursements payable to financing sources, investment bankers, counsel to Acquisition or Parent or any of the foregoing, and accountants) up to a maximum amount of $1,000,000. Unless required to be paid earlier pursuant to paragraph (d) above, the Company shall in any event pay the amount requested within three business days of such request, subject to the Company's right to demand a return of any portion as to which invoices are not received in due course after request by the Company.

The Merger Agreement further provides that, except as otherwise specifically provided therein, each party shall bear its own expenses in connection with the Merger Agreement and the transactions contemplated thereby.

RECEIVABLES PURCHASE AGREEMENT

On September 16, 1999, TBS Business Services, Inc. ("TBS"), an affiliate of Parent, purchased $49,999,881.48 outstanding principal amount of land loan receivables from the Company at par pursuant to the terms of a Receivables Purchase Agreement (the "RPA") dated September 16, 1999 by and between the Company and TBS. Pursuant to a supplement to the RPA dated September 16, 1999 by and between the Company and TBS, the Company obtained to the right to repurchase the land loan receivables sold to TBS pursuant to the RPA at par at any time on or prior to December 8, 1999.

CONFIDENTIALITY AGREEMENT

In connection with negotiations relating to the Offer and as a condition to the Company providing any non-public information to Parent, the Company (through its agent, CIBC World Markets Corp.) and Parent entered into a Confidentiality Agreement, dated July 20, 1999 (the "Confidentiality Agreement"), which generally provides that Parent and its representatives will keep confidential any non-public information furnished to them by the Company. The foregoing summary of certain provisions of the Confidentiality Agreement is qualified in its entirety by reference to the Confidentiality Agreement, which is incorporated herein by reference, and a copy of which is filed herewith as Exhibit 3.

ACTUAL OR POTENTIAL CONFLICTS OF INTEREST

Indemnification of Officers and Directors and Insurance. Under the Merger Agreement, the Company will indemnify each person who at any time has been or becomes a director or officer prior to the Effective Time, and his heirs and personal representatives, against all expenses incurred in connection with any proceeding arising out of or pertaining to any action or omission occurring prior to the Effective Time to the full extent permitted under Massachusetts law and the Surviving Corporation's By-Laws in effect as of the Effective Time or under any indemnification agreement in effect as of the date of the Merger Agreement. Parent or the Surviving Corporation will, for a period of not less than six (6) years following the Effective Time, maintain directors' and officers' liability insurance covering each person presently covered by the Company's officers' and directors' liability insurance or who will be so covered at the Effective Time with respect to actions or omissions occurring prior to the Effective Time, on terms no less favorable than such insurance maintained in effect by the Company as of the date of the Merger Agreement in terms of coverage and amounts; provided that the Parent and the Surviving Corporation will not be required to pay in the aggregate an annual premium for directors' and officers' liability insurance in excess of 150% of the last annual premium paid prior to the date of the Merger Agreement; provided that the Parent and the Surviving Corporation will be obligated to provide as much coverage as may be obtained for such amount.

Certain Transactions. James Westra, a director of the Company since April 1995, is a stockholder in the law firm of Hutchins, Wheeler & Dittmar, A Professional Corporation, which provides counsel to the Company on various matters including public debt and equity offerings and the Offer and the Merger.

ITEM 4. THE SOLICITATION OR RECOMMENDATION.

(a) RECOMMENDATION OF THE BOARD OF DIRECTORS.

The Board of Directors has approved the Merger Agreement and the transactions contemplated thereby and determined that each of the Offer and the Merger is fair to, and in the best interests of, the Stockholders of the Company. The Board of Directors recommends that all holders of Shares accept the Offer and tender their Shares pursuant to the Offer.

(b) BACKGROUND; REASONS FOR THE RECOMMENDATION.

Reasons for the Transaction; Factors Considered by the Board.

In 1996, the Parent and the Company had discussions regarding a business combination. The parties determined not to pursue a transaction at such time.

In the summer of 1998, the Company was approached by an investment banker to consider an acquisition proposal from a commercial bank. After some discussions with the inquiring bank, the Company retained CIBC World Markets Corp. ("CIBC World Markets"), in July 1998, to serve as a financial advisor in that proposed transaction. After a series of meetings with the inquiring bank, it was concluded that the bank could not provide a form and level of consideration acceptable to the Company. Due to the downturn in the capital markets in the fall of 1998, the Company told its advisors that it would not entertain any additional proposals.

In the spring of 1999, while the Company was developing its five-year business plan, it decided to ask CIBC World Markets to assist in evaluating means to fund its operations. The Company was exploring (i) the formation or acquisition of an industrial loan corporation, a bank or unitary thrift; (ii) a combination with a like-size specialty financial services company; (iii) a strategic investment by a financial investor who would provide funding in exchange for a minority interest in the Company; and (iv) the potential sale of the Company.

An Offering Memorandum describing the Company was prepared in June of 1999. CIBC World Markets approached eighty-three (83) large and mid-cap financial services companies and financial investors in June and July of 1999. Of the parties contacted by CIBC World Markets, forty-six (46) received a Confidentiality Agreement, thirty-five (35) signed a Confidentiality Agreement and thirty-four (34) subsequently received information on the Company. Parent was not one of the parties to receive such information.

On June 30, 1999, Mr. David Wisen and Mr. Richard Mitterling, executive officers of Parent, spoke on the telephone with Mr. Richard Stratton, President and CEO of the Company, regarding an interest in exploring a possible business combination with, or acquisition of, the Company.

On July 6, 1999, Messrs. Wisen, Mitterling and Stratton met in Hartford, CT, to follow up their earlier telephonic discussions on the possibility of a business combination.

On July 20, 1999, Parent executed a Confidentiality Agreement with CIBC World Markets, as agent for the Company.

On July 22, 1999 Heather Sica and Ronald Rabidou met with representatives of Parent in Hartford, CT to discuss the possibility of a business combination.

During the week of July 26, 1999 CIBC World Markets asked interested parties to submit written preliminary non-binding indications of interest.

On August 10, 1999, the Company received a letter from Parent expressing Parent's interest in acquiring 100% of the Common Stock of the Company for $24 per share in cash, or alternatively, some other amount of non-cash form of consideration.

On August 18, 1999, Richard Stratton and Joseph Weingarten met with representatives of Parent in Providence, RI, to further discuss the possibility of a business combination.

On August 19, 1999, the Company's Board of Directors had discussions with representatives of CIBC World Markets, who detailed the efforts of CIBC World Markets since the spring of 1999 in exploring potential third-party transactions on behalf of the Company. The CIBC World Markets representatives advised the Board that it was their belief that the dissemination of information to interested parties, along with CIBC World Markets' subsequent negotiations with several of the recipients of that information, constituted a sufficient market check to determine whether the approximate valuation that Parent placed on the Company represented fair value to the stockholders of the Company, and that on the basis of those efforts they felt it was unlikely that a third party would offer more than the price offered by Parent. Following a discussion among the members of the Board of Directors with respect to the proposed transaction and its timing, impact on employees and relation to the market in general, the Board authorized the Company to enter into a letter of understanding with Parent (the "Letter of Understanding") providing for the conduct of a due diligence review by Parent and the concurrent negotiation of an acquisition agreement relating to a potential acquisition of the Company by Parent, and all the relevant terms of such an acquisition, including price, and further providing that, in consideration of the mutual efforts being expended in connection therewith, for the Company to agree to not solicit other indications of interest for a period beginning with the acceptance by Parent of the Letter of Understanding and ending on September 8, 1999; providing, however, that if Textron's Executive Leadership Team determined to recommend the transaction to Textron's Board of Directors, the non-solicitation period would extend to September 23, 1999.

On August 20, 1999, Parent executed the Letter of Understanding submitted by the Company. On September 7, 1999, Parent informed the Company that Textron's Executive Leadership Team had voted to recommend the proposed transaction to Textron's Board of Directors, thus extending the non-solicitation period to September 23, 1999 pursuant to the terms of the Letter of Understanding.

During the two weeks following August 20, 1999, representatives of the Parent and the Company negotiated the various aspects of the proposed offer. As a result of these negotiations, the Parent's offer was presented as a cash tender offer for all of the outstanding shares of the Company's Common Stock, followed by a merger of Acquisition, a subsidiary of Parent, with and into the Company. Pursuant to Massachusetts law, such a merger would be subject to the approval of two-thirds in interest of the holders of the Shares, or, if Parent was able to obtain at least 90% of the outstanding Shares, the approval of the Company's Board of Directors. The Parent also completed its due diligence review of the Company, thereby obviating the need to include a due diligence condition in the Merger Agreement.

On September 9, 1999, counsel for Parent presented a proposed form of merger agreement (the "Merger Agreement") to the Company and its representatives, who distributed it among the members of the Board of Directors and discussed it with them.

On September 15, 1999, the Board of Directors met with its financial and legal advisors to consider the proposed transaction. At this meeting, the Company's advisors and members of senior management reported on the progress of the proposed transaction, including the status of Parent's due diligence review, the discussions management had conducted with Parent regarding the conduct of the business following the consummation of the proposed transaction, the impact of the proposed transaction on the Company's employees, and the possible roles for members of current management following the proposed transaction. The Company's legal advisor then outlined the material provisions of the draft Merger Agreement from Parent, copies of which had been previously circulated to the members of the Board. The representatives from CIBC World Markets explained the approach CIBC World Markets would take over the upcoming week in order to assess the fairness, from a financial point of view, of the proposed transaction. A discussion followed among the members of the Board of Directors with respect to the proposed transaction and its timing, impact on employees, and relation to the market in general. In particular, they noted that the terms of the Merger Agreement permitted the Board of Directors, if required in the exercise of the Board's fiduciary duties, to withdraw its recommendation of the Merger and to accept an acquisition proposal which is more favorable to the stockholders of the Company upon payment of a break up fee and expense reimbursement.

The parties further negotiated the terms of the proposed Merger Agreement during the following seven days. During this period, the Company continued to conduct price negotiations with Parent. In addition, Parent negotiated the terms of an employment agreement with Richard A. Stratton, President and Chief

Executive Officer of the Company, covering the period following the Merger, with the understanding that such employment agreement would be signed contemporaneously with the Merger Agreement.

On September 22, 1999, the Board of Directors of the Company met to discuss the status of the offer from the Parent. The Directors discussed at length the changes which had been made to the offer, including the final offering price of $24.50 per share. CIBC World Markets also delivered to the Directors its oral opinion that the consideration offered by the Parent was fair to the Stockholders of the Company from a financial point of view. At approximately 4:45 p.m., by unanimous vote of all of the Directors present, the Board determined the Merger to be fair and in the bests interests of the Company and its stockholders, approved the Merger Agreement and the transactions contemplated thereby, including the Merger, and recommended that the stockholders vote in favor of approval and adoption of the Merger Agreement and the transactions contemplated thereby. The Company and the Parent issued a joint press release to such effect prior to the opening of the market on the following day. The Board of Directors also considered whether it was appropriate to approve a severance agreement for Joseph Weingarten. After careful consideration, the Board of Directors determined that it was in the best interest of the Stockholders to insure that all members of senior management be given appropriate assurances that they would receive severance benefits in the event that their employments were terminated following an acquisition by the Parent. Accordingly, the Board of Directors authorized the execution of the severance agreement with Mr. Weingarten pursuant to which he will be entitled to receive the same severance benefits as all other members of the Company's senior management.

The Board of Directors, by unanimous vote of all of the Directors present, approved the Merger Agreement and the transactions contemplated thereby and determined that each of the Offer and the Merger is fair to, and in the best interest of, the stockholders of the Company. The Board of Directors recommends that all stockholders tender their Shares in response to the Offer and vote their Shares in favor of the Merger.

In approving the Merger Agreement and the transactions contemplated thereunder, and recommending that all stockholders tender their Shares in response to the Offer and vote for Shares in favor of the Merger Agreement, the Board of Directors considered the following material factors:

The Board of Directors and the Company's senior management have reviewed the Company's strategic position in the specialty finance industry, the near and longer term prospects for that industry, the consolidation trends within that industry and the strategic alternatives available to the Company, all with a view to maximizing stockholder value. In conducting its review, the Board of Directors considered the Company's results of operations for the quarter ended June 30, 1999, and for the six months then ended. The Board of Directors also considered the recent trading prices of the Company's Common Stock. In light of the Board's review of the Company's competitive position, recent operating results and stock price, anticipated trends in the industry in which the Company competes, and the price per Share being offered by Parent, the Board of Directors determined that it would be in the best interest of the Company's stockholders to approve the Merger Agreement. In approving the Merger Agreement and the transactions contemplated thereby and recommending that all holders of Shares of the Company's Common Stock tender their Shares pursuant to the Offer, the Board of Directors considered the following material factors:

(i) the terms of the Merger Agreement, and the fact that they were the product of arm's length negotiations among the parties;

(ii) the trading price of shares of the Company's Common Stock since its initial public offering, recent trends and the expected trading prices for the foreseeable future;

(iii) the Company's projected financial performance, competitive position and current trends in the specialty finance industry;

(iv) the results of the Company's discussions during 1998 and 1999, and the results of the process undertaken by the Company in 1998 and 1999, with respect to a potential sale of the Company, and the low likelihood that a third party would propose a cash price higher than Parent's $24.50 per share;

(v) the fact that Textron's offer was not subject to a financing contingency or a contingency linked to the condition of the securities or financial markets generally, but rather was subject only to the usual and customary conditions;

(vi) views expressed by senior management at the meetings of the Board of Directors held on August 19, 1999, September 15, 1999 and September 22, 1999 with respect to the results of operations of the Company;

(vii) the financial presentation of CIBC World Markets to the Board in connection with the Offer and Merger, including its written opinion dated September 22, 1999, to the effect that, as of such date and based upon and subject to certain matters stated in its opinion, the $24.50 per Share cash consideration to be received in the Offer and Merger by holders (other than Parent and its affiliates) of Shares pursuant to the Merger Agreement was fair, from a financial point of view, to such holders. The full text of CIBC World Markets' written opinion dated September 22, 1999, which sets forth the assumptions made and matters considered, is attached hereto as Exhibit 5, and is incorporated herein by reference. CIBC World Markets' opinion is directed only to fairness, from a financial point of view, of the $24.50 per Share cash consideration to be received by holders of Shares (other than Parent and its affiliates) pursuant to the Offer and the Merger Agreement, and is not intended to constitute, and does not constitute, a recommendation as to whether any stockholder should tender Shares pursuant to the Offer. HOLDERS OF SHARES ARE URGED TO READ THE OPINION OF CIBC WORLD MARKETS CAREFULLY IN ITS ENTIRETY;

(viii) the fact that the terms of the Merger Agreement allow the Board of Directors, if required by the Board's fiduciary duties, to withdraw its recommendation of the Merger to accept an acquisition proposal which is more favorable to the stockholders upon payment of a reasonable breakup fee and reimbursement of expenses;

(ix) the fact that an affirmative vote of two-thirds of the outstanding shares of the Company is required to approve and adopt the Merger Agreement; and

(x) the availability of the dissenters' rights of appraisal in the Merger.

The Board of Directors did not assign relative weight to the above factors or determine that any factor was of particular importance. Rather, the Board of Directors viewed its position and recommendations as being based on the totality of the information presented to and considered by it.

ITEM 5. PERSONS RETAINED, EMPLOYED OR TO BE COMPENSATED.

For its services in connection with the Merger, the Company shall pay CIBC World Markets a total transaction fee of approximately $2,286,250 (the "Transaction Fee"). Of the Transaction Fee, $50,000 was paid upon the execution of the engagement letter with CIBC World Markets, $250,000 was paid upon delivery of CIBC World Markets' oral opinion as the fairness, from a financial point of view, of the consideration to be received by the Company's stockholders (the "Opinion Fee") and the balance becomes payable upon consummation of the Merger. The Company also has agreed to reimburse CIBC World Markets for its reasonable out-of-pocket expenses, including the fees and expenses of legal counsel and other advisors, and to indemnify CIBC World Markets and certain related persons or entities against certain liabilities, including liabilities under the federal securities laws, relating to or arising out of its engagement. In the ordinary course of its business, CIBC World Markets and its affiliates may actively trade the debt and equity securities of Parent for their own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

ITEM 6. RECENT TRANSACTIONS AND INTENT WITH RESPECT TO SECURITIES.

(a) No transactions in the Shares have been effected during the past sixty
(60) days by the Company or, to the best of the Company's knowledge, by any executive officer, director, affiliate or subsidiary of the Company, other than the following: (i) on August 19, 1999, the Company granted options for the purchase of 645 Shares, with an exercise price of $18.00 per Share, to each of James Zinn, Jim Westra, Gerald Segel, Grant Wilson and Eugene McMahon, (ii) on August 19, 1999, the Company granted an option for the purchase of 10,000 Shares, with an exercise price of $18.00 per Share, to Joseph Weingarten, and (iii) on

September 13, 1999, the Company granted an option for the purchase of 100 Shares, with an exercise price of $18.00 per Share, to Michele Bartlett.

(b) To the best of the Company's knowledge, to the extent permitted by applicable securities laws, rules or regulations, all of the Company's executive officers, directors and affiliates who own Shares presently intend to tender such Shares to Parent pursuant to the Offer.

ITEM 7. CERTAIN NEGOTIATIONS AND TRANSACTIONS BY SUBJECT COMPANY.

(a) Except as set forth herein, the Company is not engaged in any negotiation in response to the Offer which relates to or would result in (i) an extraordinary transaction, such as a merger or reorganization, involving the Company or any subsidiary of the Company; (ii) a purchase, sale or transfer of a material amount of assets by the Company or any subsidiary of the Company; (iii) a tender offer for or other acquisition of securities by or of the Company; or
(iv) any material change in the present capitalization or dividend policy of the Company.

(b) Except as set forth herein, there are no transactions, Board of Directors' resolutions, agreements in principle or signed contracts in response to the Offer that relate to or would result in one or more of the events referred to in Item 7(a) above.

ITEM 8. ADDITIONAL INFORMATION TO BE FURNISHED.

The Information Statement attached hereto as Annex A is being furnished pursuant to Rule 14f-1 under the Exchange Act in connection with the possible designation by Parent and Acquisition, pursuant to the Merger Agreement, of certain persons to be appointed to the Board of Directors other than at a meeting of the Company's stockholders.

ITEM 9. MATERIAL TO BE FILED AS EXHIBITS.

EXHIBIT NO.	
Exhibit-1	Agreement and Plan of Merger, dated as of September 22, 1999, by and among Litchfield Financial Corporation, Textron Financial Corporation and Lighthouse Acquisition Corp.
Exhibit-2	Form of Severance Agreement.
Exhibit-3	Confidentiality Agreement.
Exhibit-4	Chapter 156B, Sections 86 to 98, Massachusetts Business Corporation Law.
Exhibit-5	Opinion of CIBC World Markets Corp.*
Exhibit-6	Press Release issued by Litchfield Financial Corporation, dated September 23, 1999.
Exhibit-7	Letter to Stockholders of Litchfield Financial Corporation.*

* Included in copies mailed to Stockholders.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

LITCHFIELD FINANCIAL CORPORATION

By: /s/ RICHARD A. STRATTON

Richard A. Stratton
President and Chief Executive Officer

Dated: September 29, 1999

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
Exhibit-1	Agreement and Plan of Merger, dated as of September 22, 1999, by and among Litchfield Financial Corporation, Textron Financial Corporation and Lighthouse Acquisition Corp.
Exhibit-2	Form of Severance Agreement.
Exhibit-3	Confidentiality Agreement.
Exhibit-4	Chapter 156B, Sections 86 to 98, Massachusetts Business Corporation Law.
Exhibit-5	Opinion of CIBC World Markets Corp.*
Exhibit-6	Press Release issued by Litchfield Financial Corporation, dated September 23, 1999.
Exhibit-7	Letter to Stockholders of Litchfield Financial Corporation.*

* Included in copies mailed to Stockholders.

ANNEX A

LITCHFIELD FINANCIAL CORPORATION
430 MAIN STREET
WILLIAMSTOWN, MASSACHUSETTS 01267

INFORMATION STATEMENT PURSUANT TO
SECTION 14(F) OF THE SECURITIES

EXCHANGE ACT OF 1934 AND RULE 14F-1 THEREUNDER

This Information Statement is being mailed on or about September 29, 1999, as part of the Solicitation/Recommendation Statement on Schedule 14D-9 (the "Schedule 14D-9") to holders of the Common Stock of Litchfield Financial Corporation (the "Corporation"). Capitalized terms used and not otherwise defined herein shall have the meaning set forth in the Schedule 14D-9. You are receiving this Information Statement in connection with the possible election of persons (the "Parent Designees") designated by Textron Financial Corporation (the "Parent") to a majority of the seats on the Board of Directors of the Corporation.

Pursuant to the Merger Agreement, on September 29, 1999, Lighthouse Acquisition Corp. commenced the Offer. The Offer is scheduled to expire at 12:00 Midnight on October 27, 1999, unless otherwise extended.

The information contained in this Information Statement (including information incorporated by reference) concerning Parent and Lighthouse Acquisition Corp. and the Parent Designees has been furnished to the Corporation by Parent and Lighthouse Acquisition Corp., and the Corporation assumes no responsibility for the accuracy or completeness of such information.

GENERAL INFORMATION REGARDING THE CORPORATION

GENERAL

The common stock, $.01 par value per share ("Common Stock"), is the only class of voting securities of the Corporation outstanding. Each share of Common Stock has one vote. As of September 22, 1999, there were 6,984,601 shares of Common Stock outstanding. The Corporation does not have any treasury shares. The Board of Directors of the Corporation currently consists of eight (8) members and there are currently no vacancies on the Board. The Board of Directors has three classes and each director serves a term of three years until his successor is duly elected and qualified or until his earlier death, resignation or removal.

PARENT DESIGNEES

The Merger Agreement provides that effective upon the purchase and payment for shares by Lighthouse Acquisition Corp., the Parent shall have the right to designate that portion of the Board of Directors of the Corporation equal to the percentage of Common Stock owned by Parent and Lighthouse Acquisition Corp. combined, and such designees shall become directors of the Corporation. Lighthouse Acquisition Corp. is a wholly owned subsidiary of the Parent. At such time, certain of the current directors will resign.

DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION

DIRECTORS OF THE CORPORATION

The names of the current directors, their ages, their positions with the Corporation, the period during which they have served as directors and their principal occupations and other directorships held by them are set forth below. As indicated above, some of the current directors may resign effective immediately following the purchase of shares by Lighthouse Acquisition Corp. pursuant to the Offer.

NAME OF DIRECTOR	AGE	YEAR FIRST ELECTED A DIRECTOR	POSITION WITH THE CORPORATION
Term ending in 2002:			
James Zinn	45	1999	Formerly Chief Financial Officer of LifeMinders.com. Chief Financial Officer of Capital One Financial Corporation from 1994 to 1999. Prior to that, a financial services partner at Ernst & Young, LLP, consulting on emerging financial services, accounting, auditing and other business issues.
Gerald Segel	78	1989	Prior to his retirement in May 1990, was Chairman of Tucker Anthony Incorporated, an investment banking company, from 1987 through 1990. Also a Director of Hologic, Inc., Vivid Technologies, Inc. and Boston Communications Group, Inc. Received his AB from Harvard College.
Heather A. Sica	37	1995	Executive Vice President of the Company since 1991. Treasurer of the Company from 1991 to 1998 and Chief Financial Officer of the Company from 1991 to 1995. Vice President of the Company from 1989 to 1991. Prior to joining the Company, was an associate with the Real Estate Group of General Electric Investment Corporation and a certified public accountant with KPMG Peat Marwick. Received her BS in Business Administration from the University of Vermont and her MBA from the Wharton School of the University of Pennsylvania.
Term ending in 2001:			
Eugene McMahon	59	1999	Management consultant since 1997, specializing in financial services consulting. Retired partner from Ernst & Young, LLP after 32 years, including 21 as a partner, specializing in the financial services industry.
Grant Wilson	57	1999	Since 1978, a private investor who organized or co-founded over 30 businesses. Director of Guilford Mills, New Balance Athletic Shoes, Austin Financial Services, Inc. and Cape Air, Inc.

NAME OF DIRECTOR	AGE	YEAR FIRST ELECTED A DIRECTOR	POSITION WITH THE CORPORATION
John A. Costa	43	1995	Executive Vice-President of the Corporation since March 1999. Previously at Cardholder Management Services, a credit card servicing business since 1995, serving first as Managing Director of Planning and Business Development and then as Senior Vice President. Served as a consultant to corporate clients from 1992 to 1995 in areas that include mergers and acquisitions, financial modeling, asset securitization and lending facility development. Previously served as Director of Consumer Finance with U.S. West Financial Services Inc. in 1992 and as Director of Structured Finance for Arsht & Company, Inc. from 1990 to 1992. Received his BA from New York University.
Term ending in 2000:			
James Westra	47	1995	Stockholder of the law firm of Hutchins, Wheeler & Dittmar, A Professional Corporation, where he has practiced law since 1977. Mr. Westra graduated from Harvard College in 1973 and from Boston University Law School in 1977.
Richard A. Stratton	49	1988	Co-founder of the Company and has been the Chief Executive Officer of the Company since 1996 and President of the Company since 1988. Prior to joining the Company, served as Vice President of Finance for Patton Corporation and Vice President of Marketing for Summit Software Technology, Inc. and held senior marketing and management positions with the Gillette Company and the American Appraisal Company in Boston, Massachusetts. Graduate of The College of The Holy Cross.

There are no family relationships among any of the directors or executive officers of the Corporation.

INFORMATION CONCERNING THE BOARD OF DIRECTORS OF THE CORPORATION

During fiscal 1998, there were four (4) meetings of the Board of Directors of the Corporation and, additionally, the Board acted by unanimous written consent four (4) times. All of the directors attended at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors during which they served as director and (ii) the total number of meetings held by committees of the Board of Directors on which they served. The Board of Directors has established an Audit Committee, a Stock Option Committee and a Compensation Committee. The Board of Directors does not have a Nominating Committee.

During fiscal 1998 there was one (1) meeting of the Audit Committee of the Board of Directors. The Audit Committee of the Board of Directors reviews, with the Corporation's independent auditors, the scope of the audit for the year, the results of the audit when completed, and the independent auditors' fees for services performed. The Audit Committee also recommends independent auditors to the Board of Directors and reviews, with management, various matters related to its internal accounting controls. The present members of the Audit Committee are James Zinn, Eugene McMahon and Gerald Segel.

The Corporation also has a Stock Option Committee, whose purpose is to administer the Corporation's 1990 Stock Option Plan. The present members of the Stock Option Committee are John Costa, Gerald Segel and James Westra. The Stock Option Committee met on one occasion in 1998 and granted options to purchase an aggregate of 159,952 shares to employees of the Corporation.

The Corporation also has a Compensation Committee whose functions include reviewing and approving the compensation of directors, officers and key employees. The present members of the Compensation Committee are Gerald Segel, Grant Wilson and Richard Stratton. The Compensation Committee met one time during fiscal 1998.

EXECUTIVE OFFICERS OF THE CORPORATION

The names of the current executive officers, their ages, their positions with the Corporation and their prior business experience during the past five years are set forth below.

Richard A. Stratton, 49 years old, has been the Chief Executive Officer of the Company since 1996 and President of the Company since 1998. See "Directors of the Corporation" above.

Heather A. Sica, 37 years old, has been an Executive Vice President of the Company since 1991. See "Directors of the Corporation" above.

Ronald E. Rabidou, 48 years old, has been an Executive Vice President and Treasurer since 1998 and Chief Financial Officer of the Company since May 1995. Prior to joining the Company, Mr. Rabidou was a certified public accountant with Ernst & Young LLP from 1987 to May 1995. Mr. Rabidou received his MBA and BA from the University of Massachusetts.

Joseph S. Weingarten, 34 years old, has been an Executive Vice President of the Company since 1998. He served as a Senior Vice President of the Company from 1997 to 1998. Prior to joining the Company, Mr. Weingarten served from 1993 to 1997 in the Structured Finance Group of ING Capital, most recently a Vice President, originating and managing structured leading and asset-backed securitization transactions, with an emphasis on specialty finance companies. Previously, he served as the Manager of Portfolio Administration for US West Financial Services, Inc., and as a certified public accountant for Arthur Anderson & Company. Mr. Weingarten received his BA from New York University.

John A. Costa, 43 years old, has been an Executive Vice President of the Company since March 1999. See "Directors of the Corporation" above.

Wayne M. Greenholtz, 58 years old, has been a Senior Vice President of the Company since April 1995. Prior to joining the Company, Mr. Greenholtz was the Senior Vice President of Operations for Government Employees Financial Corporation, a subsidiary of GEICO Corporation, from 1989 to 1995. Mr. Greenholtz is a graduate of the University of Maryland.

John J. Malloy, 42 years old, has been a Senior Vice President and General Counsel of the Company since January 1998. Prior to joining the Company, Mr. Malloy was an attorney in private practice from 1986 to 1997 at Battle Fowler LLP, New York, New York, where he was a partner in the corporate department. Mr. Malloy received his BA from Carleton College and his JD from Rutgers University School of Law.

James Shippee, 38 years old, has been Senior Vice President of Mortgage Operations since 1989. Prior to joining the Company, Mr. Shippee was Vice President of Patten Financial Services from 1987 to 1989.

James Yearwood, 51 years old, has been a Senior Vice President of the Company since 1998 after joining the Company in 1992 as a Vice President in charge of vacation ownership receivable funding. He served as a First Vice President of the Company from 1996 to 1998. Prior to joining the Company, Mr. Yearwood was a Vice President with Del-Val Capital Corporation from 1989 to 1991 where he specialized in vacation ownership receivable lending. Mr. Yearwood graduated from Southern Connecticut State University.

COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

SUMMARY COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth certain information concerning compensation paid to the Company's Chief Executive Officer and each of the other Named Executive Officers.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
NAME AND POSITION	YEAR	SALARY ($)	BONUS ($)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION(A) ($)
Richard A. Stratton.....	1998	$245,000	$190,000	--	$ 8,000
Chief Executive Officer	1997	175,000	225,000	--	8,000
	1996	215,000	248,646	94,501	7,500
Ronald E. Rabidou.....	1998	$130,000	$ 70,000	32,500	$ 8,000
Executive Vice President,	1997	125,000	32,500	--	7,729
Chief Financial Officer and Treasurer	1996	115,000	30,000	5,250	6,490
Heather A. Sica.....	1998	$150,000	$ 75,000	15,000	$ 8,000
Executive Vice President	1997	150,000	50,000	--	8,000
	1996	115,000	30,000	5,250	6,400
Joseph S. Weingarten(b).....	1998	$132,500	$165,000	30,000	$ 8,000
Executive Vice President	1997	86,000	90,000	30,000	66,000
John J. Malloy(c).....	1998	$150,000	$ 35,000	35,000	$79,750
Senior Vice President, General Counsel and Clerk					

(a) Represents contributions to Litchfield Financial Corporation Employee 401(k) Plan in 1998. In the case of Mr. Weingarten, also includes $66,000 of reimbursement to Mr. Weingarten for relocation expenses in 1997. In the case of Mr. Malloy, also includes $76,000 of reimbursement to Mr. Malloy for relocation expenses in 1998.

(b) Mr. Weingarten joined the Company in April of 1997.

(c) Mr. Malloy joined the Company in January of 1998.

GRANTS OF STOCK OPTION

The following tale sets forth certain information with respect to individual grants of stock options to the Named Executive Officers during the year ended December 31, 1998.

	1998 OPTION GRANTS INDIVIDUAL GRANTS				POTENTIAL REALIZABLE VALUE AT ASSUMED PRICE APPRECIATION FOR OPTION TERM	
	NUMBER OF SECURITIES UNDERLYING GRANTED (#)	% OF TOTAL GRANTED TO EMPLOYEES IN 1998	EXERCISE PRICE ($/SH)	EXPIRATION DATE	5%($)	10%($)
Ronald E. Rabidou.....	7,500(b)	4.7%	$21.00	2/5/08	$ 99,068	$251,055
Executive Vice President, Chief Financial Officer And Treasurer	25,000(a)	15.7	12.69	10/13/08	199,511	505,597

	1998 OPTION GRANTS INDIVIDUAL GRANTS					
	NUMBER OF SECURITIES UNDERLYING GRANTED (#)	% OF TOTAL GRANTED TO EMPLOYEES IN 1998	EXERCISE PRICE ($/SH)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED PRICE APPRECIATION FOR OPTION TERM 5%($)	10%($)
Heather A. Sica..... Executive Vice President	15,000(a)	9.4	12.69	10/13/08	119,707	303,358
Joseph S. Weingarten.....	5,000(b)	3.1	21.00	2/5/08	66,045	167,370
Executive Vice President	25,000(a)	15.7	12.69	10/13/08	199,511	505,597
John J. Malloy.....	25,000(c)	15.7	19.00	1/8/08	298,775	757,150
Senior Vice President, General Counsel and Clerk	10,000(a)	6.3	12.69	10/13/08	79,804	202,239

(a) The options will vest 33.33% each year on December 31, 1999, 2000 and 2001, subject to certain performance related requirements, and in any case, ten years from the grant date. The assumed annual rates of appreciation of five and ten percent would result in the price of the Company's stock increasing to $20.67 and $32.91, respectively.

(b) The options vested 33.33% on December 31, 1998 and will best 33.33% each year on December 31, 1999 and 2000, subject to certain performance related requirements, and in any case, ten years from the grant date. The assumed annual rates of appreciation of five and ten percent would result in the price of the Company's stock increasing to $34.21 and $54.47, respectively.

(c) The options will vest 25% each year on January 1, 1999, 2000, 2001 and 2002. The assumed annual rates of appreciation of five and ten percent would result in the price of the Company's stock increasing to $30.95 and $49.29, respectively.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR END OPTION VALUE

Set forth in the table below is information concerning the value of stock options held at the end of the year ended December 31, 1998 by Named Executive Officers of the Company.

	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT DECEMBER 31, 1998		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1998	
			EXERCISABLE (#)	UNEXERCISABLE (#)	EXERCISABLE ($)	UNEXERCISABLE ($)
Richard A. Stratton..... Chief Executive Officer and President	--	--	268,393	--	$2,099,003	--
Heather A. Sica..... Executive Vice President	--	--	139,283	15,000	$1,524,663	$ 94,688
Ronald E. Rabidou..... Executive Vice President Chief Financial Officer and Treasurer	--	--	28,422	36,891	$ 192,828	$209,049
Joseph S. Weingarten..... Executive Vice President	--	--	9,167	50,833	$ 34,688	$261,875
John J. Malloy..... Senior Vice President, General Counsel and Clerk	--	--	--	35,000	--	$ 63,125

COMPENSATION OF DIRECTORS

Each outside director receives an annual retainer of $6,000, a $750 fee for each meeting attended and reimbursement of expenses. In addition, Mr. Segel has been granted options to purchase 8,682, 8,682, 1,448, 1,838, 2,000, 2,000, 2,000 and 645 shares of Common Stock at exercise prices of $4.61, $6.19, $11.23, $12.02, $20.38, $22.00, $17.25, and $18.00 per share, respectively. Mr. Westra has been granted options to purchase 5,513, 2,000, 2,000, 2,000 and 645 shares of Common Stock at exercise prices of $12.02, $20.38, $22.00, $17.25 and $18.00 per share, respectively. Mr. Costa has been granted options to purchase 5,513, 2,000 and 2,000 shares of Common Stock at exercise prices of $12.02, $20.38 and $22.00 per share, respectively. Each of Messrs. Zinn, Wilson and McMahon has been granted options to purchase 5,000 and 645 shares of Common Stock at exercise prices of $16.88 and $18.00 per share, respectively.

EMPLOYEE AGREEMENTS, CHANGE OF CONTROL SEVERANCE AGREEMENTS, STOCK OPTION PLANS

EMPLOYMENT AGREEMENTS

On July 19, 1996 the Company entered into an amended and restated employment agreement with Richard A. Stratton. The agreement provided for an annual base salary of $215,000 from January 1, 1996 to December 31, 1996, $225,000 from January 1, 1997 to December 31, 1997 and $245,000 from January 1, 1998 to December 31, 1998. By subsequent agreement with the Company, the base salary for the period January 1, 1997 to December 31, 1997 was reduced to $175,000. The agreement also provided that the Company shall pay to Mr. Stratton a bonus with respect to the year ended December 31, 1996 equal to 2.9% of the Company's pretax income (as defined therein) for that year, if the earnings per share (as defined therein) of the Company for that year was equal to at least 115% of the earnings per share of the Company for the immediately preceding year. Additionally, the employment agreement provided the Company shall pay to Mr. Stratton a bonus with respect to each of the years ended December 31, 1997 and 1998 equal to his base salary (prior to the reduction in 1997 described above), if the earnings per share of such year equal at least 118% of earnings per share of the Company for the immediately preceding year. For the year ended December 31, 1998, the maximum bonus Mr. Stratton could have received amounted to $245,000, since the earnings per share of the Company for 1998 equaled at least 118% of the earnings per share of the Company for the immediately preceding year. A bonus of $190,000 was accrued in 1998 pursuant to this agreement.

The amended and restated agreement also provided that upon election by the Company, by written notice to the employee within 30 days following termination of employment for any reason, Mr. Stratton would not engage in any business or render any services to any business in the United States with which the Company had a current relationship or pending relationship at the date of termination in any capacity for a period of the first to occur of 12 months (18 months in certain circumstances) following (i) termination or (ii) December 31, 1998 if such business is competitive with any product or service being developed, produced or marketed by the Company at the time of such termination. If the Company elected to enforce the non-competition provision, it would have paid Mr. Stratton his base salary in effect on the date of termination and one-half of the bonus paid to Mr. Stratton for the year immediately preceding the year in which termination occurred during the non-competition period. The agreement expired on December 31, 1998.

On July 19, 1996, the Company entered into an employment agreement with Heather A. Sica which called for Ms. Sica to receive a base salary of $150,000 per year through December 31, 1998. In addition, Ms. Sica received a bonus for each of the years ended December 31, 1996, 1997 and 1998 equal to one half of the aggregate base salary and bonus paid or payable to Richard A. Stratton for that year reduced by the base salary paid to her for that year. A bonus of $75,000 was accrued in 1998 pursuant to this agreement. Ms. Sica's agreement contained a non-competition provision substantially the same as Mr. Stratton's agreement. The agreement expired on December 31, 1998.

On March 17, 1997, the Company entered into an employment agreement with Joseph S. Weingarten pursuant to which Mr. Weingarten serves as an Executive Vice President of the Company. The term of Mr. Weingarten's employment under this agreement is from April 7, 1997 to March 30, 2000. The agreement

provides for an annual salary at a rate of $125,000 from April 7, 1997 to March 30, 1998, $135,000 from April 1, 1998 to March 30, 1999, and $145,000 from April 1, 1999 to March 30, 2000. In addition, Mr. Weingarten was eligible for a total bonus of $120,000 in 1997 and is eligible for total bonuses of $135,000 and $145,000 in 1998 and 1999, respectively. The bonuses are comprised of a discretionary portion based on performance versus agreed upon goals and a mandatory portion based on earnings per share growth (as defined therein) to the extent the earnings per share growth exceeds 10%. The discretionary portions are $40,000, $45,000 and $45,000 for 1997, 1998 and 1999, respectively. For each percentage increase in earnings per share over 10% but less than 15%, Mr. Weingarten will receive bonuses of $7,500, $8,500 and $9,500 in 1997, 1998 and 1999 respectively. For each percentage increase in earnings per share from 15% to 20%, Mr. Weingarten will receive bonuses of $8,500, $9,500 and $10,500, in 1997, 1998 and 1999, respectively. In 1998, a bonus of $30,000 was paid and a bonus of $135,000 was accrued pursuant to this agreement.

Mr. Weingarten's employment agreement provides that upon election by the Company, by written notice to the employee within 30 days following termination of employment for any reason, Mr. Weingarten will not engage in any business or render any services to any business in the United States with which the Company has a current relationship or pending relationship at the date of termination in any capacity for a period of the first to occur of 12 months (18 months in certain circumstances) following (i) termination or (ii) March 30, 2000 if such business is competitive with any product or service being developed, produced or marketed by the Company at the time of such termination. If the Company elects to enforce the non-competition provision, it has agreed to pay Mr. Weingarten his base salary in effect on the date of termination and one-half of the bonus paid to Mr. Weingarten for the year immediately preceding the year in which termination occurs during the non-competition period.

On January 1, 1998, the Company entered into an employment agreement with John J. Malloy, pursuant to which Mr. Malloy serves as a Senior Vice President and General Counsel of the Company. The term of Mr. Malloy's employment under this agreement is from January 1, 1998 until December 31, 2000. The agreement provides for an annual salary at a rate of $150,000 from January 1, 1998 to December 31, 1998, $155,000 from January 1, 1999 to December 31, 1999 and $160,000 from January 1, 2000 until December 31, 2000. In addition, Mr. Malloy was eligible for a total bonus of $15,000 in 1998 and is eligible for total bonuses of $20,000 and $25,000 in 1999 and 2000, respectively. The bonuses are based on earnings per share growth (as defined therein) to the extent earnings per share growth exceeds 10%. For each percentage increase in earnings per share over 10% but less than 15%, Mr. Malloy will receive bonuses of $1,250, $1,750 and $2,250 in 1998, 1999 and 2000, respectively. For each percentage increase in earnings per share from 15% to 20%, Mr. Malloy will receive bonuses of $1,500, $2,000 and $2,500 in 1998, 1999 and 2000, respectively. A bonus of $35,000 was accrued in 1998 pursuant to this agreement. Mr. Malloy's agreement contains a non-competition provision substantially the same as Mr. Weingarten's.

CHANGE OF CONTROL SEVERANCE AGREEMENTS

On July 19, 1996, the Company entered into an agreement with Ronald E. Rabidou which calls for the Company to pay Mr. Rabidou severance compensation equal to his total annual compensation including benefits in the event his position is eliminated, his responsibilities are materially altered or his compensation is diminished following a sale or change in control of the Company.

On January 1, 1999, the Company entered into Severance Agreements (the "Severance Agreements") with each of Richard A. Stratton, Heather A. Sica and Ronald E. Rabidou (the "Executives"). On March 22, 1999, the Company entered into a severance agreement with John Costa containing substantially the same terms and conditions as the Severance Agreements. Each Severance Agreement provides that if, following a Transaction (as defined in the Severance Agreement), the Executive's employment has been terminated by the Company for any reason, other than Cause (as such term is defined therein) or the death or disability of the Executive, or by the Executive for Good Reason (as such term is defined therein), then the Company will pay the Executive, a lump sum equal to the higher of (i) the Executive's total salary and bonus for the most recently completed fiscal year, and (ii) the Executive's total annualized salary and bonus, based on the partial fiscal year in which the date of termination occurs (the "Severance Payment"). In addition to such lump-sum severance payment, the Executive shall (i) be entitled to participate in the Company's medical insurance plan

for a period of twelve months following the termination date at the Company's expense, after which the Executive will have COBRA rights as provided by law and
(ii) for a period of twelve months, be permitted to participate in any of the Company's other benefit plans in which the Executive is participating as of the termination date pursuant to Company policy.

The Severance Agreements further provides that, in the event that the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any penalty or excise tax subsequently imposed by law applies to any payment or benefit received or to be received by the Executive in connection with a Transaction or the termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with the Company, any Person whose actions result in the Transaction or any Person affiliated with the Company or such Person) (all such payments and benefits, including the Severance Payments, being hereinafter called "Total Payments"), an additional amount shall be paid by the Company to the Executive such that the aggregate after-tax amount that he shall receive with respect to the Total Payments, including this section, shall have a present value equal to the aggregate after-tax amount that he would have received and retained had such excise or penalty tax (and any interest or penalties in respect thereof) not applied to him. For this purpose, the Executive shall be assumed to be subject to tax in each year relevant to the computation at the then maximum applicable combined Federal and Massachusetts income tax rate, and the present value of payments to him shall be made consistent with the principles of Section 280G of the Code.

OPTION PLANS

The Company's 1990 Stock Option Plan, as amended (the "1990 Plan"), enables a committee of the Board of Directors (the "Option Committee") to grant options to employees, directors or consultants of the Company for the purchase of up to an aggregate of 1,422,319 shares of Common Stock. The 1990 Plan is administered by the Option Committee which has complete discretion to select the eligible individuals who receive option grants. In determining the eligibility of an individual to be granted an option, as well as in determining the number of options to be granted to an individual, the Option Committee considers the position and responsibilities of the individual being considered, the nature and value to the Company of his or her service and accomplishments, his or her present and potential contribution to the success of the Company and such other factors as the Option Committee may deem relevant. The 1990 Plan provides for the issuance of either non-qualified options or incentive stock options, provided that incentive stock options must be granted with an exercise price of not less than fair market value at the time of grant. All options are non- transferable other than by will or the laws of descent and distribution. Options are exercisable for a period of up to ten years from the date of grant, provided the optionee remains an employee of the Company, or prior to the last day of the third month following the date of termination of employment. If an optionee dies or becomes disabled while in the employ of the Company, the option is exercisable prior to the last day of the twelfth month following the date of termination of employment. Any options which are exercisable following termination of employment are only exercisable to the extent the optionee was entitled to exercise the option on the date of termination. Options currently outstanding vest over a three or four-year period.

Since the inception of the 1990 Plan, options to purchase a total of 1,234,182 shares of Common Stock have been granted to certain employees and options to purchase a total of 54,306 shares have been granted to certain directors. All options to date have been granted at the fair market value of the underlying shares at the date of grant, ranging from $1.15 to $23.25 per share. As of September 22, 1999, options for an aggregate of 66,709 shares with a weighted average exercise price of $8.42 per share have been canceled due to the termination of employment of the option holder. As of September 22, 1999, options for an aggregate of 349,048 shares with a weighted average exercise price of $8.22 per share have been exercised. As of September 22, 1999, options for a total of 872,631 shares of Common Stock were outstanding. During 1999, options for an aggregate of 42,050 shares were granted with an average exercise price of $17.17 per share. Of such amount, options for an aggregate 40,000 shares were granted to executive officers.

On April 28, 1995, the Company's stockholders approved a Stock Option Plan for Non-Employee Directors (the "Non-Employee Directors' Plan") which provides for the grant of non-qualified options for the purchase of 5,513 shares of the Company's Common Stock to each non-employee director of the Company

serving on the Board at the time the Non-Employee Directors' Plan was approved, and to each new non-employee director elected in the five-year period commencing on the date of the adoption of the Non-Employee Directors' Plan. On February 5, 1998, the Board of Directors amended the Plan granting discretion to the Board or a committee consisting of two or more members of the Board to administer the Non-Employee Directors' Plan, and authorizing the Board to grant options for additional shares of the Company's common stock, $.01 par value ("Common Stock") to any non-employee director. No options have been cancelled under this plan. As of September 22, 1999, options for an aggregate of 9,188 shares with a weighted average exercise price of $12.02 per share have been exercised. During 1999, options for an aggregate of 22,225 shares were granted with an exercise price of $17.11 per share. As of September 22, 1999, 41,089 of such options were outstanding. The exercise price of the options granted under the Non-Employee Directors' Plan is the fair market value of the shares of Common Stock covered by the option on the date of grant. Options granted under the Non-Employee Directors' Plan are not exercisable prior to the first year anniversary of the date of grant, and are exercisable thereafter on a cumulative basis as to one-third of the shares covered thereby on each of the first, second and third anniversaries of the date of grant. No option is exercisable after ten years from the date of grant. Options granted under the Non-Employee Directors' Plan are not assignable or transferable by the optionee otherwise than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order. The exercise price of the options granted under the Non-Employee Directors' Plan must be paid in full, in cash or shares of Common Stock of the Company already owned for a period of at least six months by the person exercising the option, valued at fair market value on the date of exercise. In the event of death or disability of an optionee, the option may be exercised within one year after the date of death or termination of the optionee's directorship with the Company on account of disability or, if earlier, prior to the date on which the option expires by its terms. In the event the optionee ceases to be a director of the Company other than by reason of death or disability, the option may be exercised within one month after the optionee ceases to be a director of the Company, unless such termination was for cause, in which case the option shall terminate at the time the optionee ceases to be a director of the Company. In no event may an option be exercised except to the extent that the right to exercise has accrued and is in effect at the time of death or termination of service as a director.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS INTERLOCKS AND INSIDER PARTICIPATION

GENERAL

Messrs. Segel, Costa and Stratton served as members of the Compensation Committee of the Board of Directors during all of fiscal 1998 and participated in deliberations on executive compensation. Mr. Stratton served as President and Chief Executive Officer during fiscal 1998. Mr. Segel and Mr. Costa were not officers or employees of the Corporation or any of its subsidiaries during fiscal 1998. In March 1999, Mr. Costa became an Executive Vice-President of the Corporation, and resigned from the Compensation Committee.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

James Westra, who became a director of the Company in April 1995, is a stockholder in the law firm of Hutchins, Wheeler & Dittmar, A Professional Corporation, which provides counsel to the Company on various matters including public debt and equity offerings, the Offer and the Merger.

BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee has provided the following Board Compensation Committee Report:

The Company's executive compensation is supervised by the Compensation Committee of the Board of Directors. The Company seeks to provide executive compensation that will support the achievement of the Company's financial goals while attracting and retaining talented executives and rewarding superior performance.

In general, the Company compensates its executive officers through a combination of base salary, annual incentive compensation in the form of cash bonuses and long-term incentive compensation in the form of stock options. In addition, executive officers participate in benefit plans, including medical and retirement plans, that are available generally to the Company's employees.

CHIEF EXECUTIVE OFFICER AND PRESIDENT COMPENSATION

Mr. Stratton's compensation is intended to provide levels of base compensation comparable with standard market compensation practices for executive officers in other companies within the financial services industry or other companies of comparable size, taking into consideration the position's complexity, responsibility and need for special expertise.

At the same time, the Compensation Committee has sought to link a larger percentage of the salary of Mr. Stratton to annual earnings per share growth. For the years ended December 31, 1997 and 1998, the Company's bonus plan for Mr. Stratton provides for the payment of a bonus equal to his base salary for such year if the Company's earnings per share for such year equal 118% of the earnings per share of the Company for the previous year. A bonus totaling $190,000 was accrued in 1998 pursuant to this agreement.

ANNUAL COMPENSATION

The Company sets base salary levels for other executive officers comparable to the salary levels of executive officers in other companies within the financial services industry or other companies of comparable size, taking into consideration the position's complexity, responsibility and need for special expertise. Management sets targets based on growth in earnings per share, for earning incentive compensation.

LONG-TERM INCENTIVE COMPENSATION

The Company provides long-term incentive compensation through its stock option plan. The number of shares covered by a grant were determined by the Stock Option Committee considering observed market practices for similar positions in similar industries and individual performance and responsibilities.

COMPENSATION COMMITTEE

Gerald Segel
Richard Stratton
Grant Wilson

PERFORMANCE GRAPH

The Stock Price Performance Graph set forth below compares the cumulative total stockholder return to the Company's stockholders for the period commencing February 24, 1992, the date shares of common stock were first registered under Section 12 of the Securities and Exchange Act of 1934, as amended, to August 31, 1999, with the cumulative return on the NASDAQ Composite Index and a peer group index (NASDAQ Financial Stock Index):

[STOCK PERFORMANCE GRAPH]

	LITCHFIELD	NASDAQ STOCK MARKET (US)	NASDAQ FINANCIAL STOCKS
'1992'	100.00	100.00	100.00
'1993'	174.23	114.77	116.22
'1994'	175.42	112.18	116.50
'1995'	218.23	158.68	169.72
'1996'	247.61	195.23	217.88
'1997'	325.25	239.23	333.31
'1998'	318.95	337.14	323.55
'1999'	316.85	422.63	320.68

The stock performance graph assumes $100 was invested on February 25, 1992.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of shares of Common Stock of the Company, as of June 30, 1999 by all stockholders of the Company known to be beneficial owners of more than 5% of the outstanding Common Stock of the Company, by each director, each of the Named Executive Officers (as defined herein) and all directors and officers of the Company as a group:

NAME	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(A)	PERCENTAGE OF CLASS
John McStay Investments..... 5949 Sherry Lane Dallas, TX 75225	777,813	11.1%
JP Morgan..... 522 Fifth Avenue -- 14th Floor New York, NY 10036	719,900	10.3%
Arthur D. Charpentier..... 660 White Plains Road, Suite 400 Tarrytown, NY 10591	592,779	8.5%
Munder Capital Management..... 480 Pierce Street Birmingham, MI 48009	387,580	5.6%
Wellington Management Co. ..... 75 State Street Boston, MA 02109	361,200	5.2%
Richard A. Stratton(b)..... Chief Executive Officer, President and Director	383,556(c)	5.3%
Heather A. Sica(b)..... Executive Vice President and Director	141,598(d)	2.0%
Ronald E. Rabidou(b)..... Executive Vice President, Chief Financial Officer and Treasurer	35,313(e)	*
Gerald Segel..... Director Tucker Anthony One Beacon Street Boston, MA 02108	21,983(f)	*
Joseph S. Weingarten(b)..... Executive Vice President	16,667(g)	*

NAME	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP(A)	PERCENTAGE OF CLASS
James Westra..... Director Hutchins, Wheeler & Dittmar, A Professional Corporation 101 Federal Street	8,582(h)	*
John Costa(b)..... Executive Vice President and Director	7,840(h)	*
John J. Malloy(b)..... Senior Vice President, General Counsel and Clerk	6,250(i)	*
All directors and executive officers as a group (11 persons).....	687,246(j)	9.1%

* Less than one percent.

(a) Beneficial ownership is determined in accordance with rules of the Securities and Exchange Commission and includes general voting power and/or investment power with respect to securities. Shares of commons stock subject to options currently exercisable or exercisable within 60 days of June 30, 1999 are deemed outstanding for computing the percentage of a person holding such options but are not deemed outstanding for computing the percentage of any other person. The persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

(b) Address: 430 Main Street, Williamstown, Massachusetts, 01267.

(c) Includes 268,393 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(d) Includes 139,283 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(e) Includes 35,313 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(f) Includes 21,983 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(g) Includes 16,667 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(h) Includes 6,847 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(i) Includes 6,250 shares of Common Stock issuable upon exercise of options. Such options are exercisable within 60 days.

(j) In addition to the shares of Common Stock and options to purchase Common Stock deemed to be beneficially owned by the directors and officers, as set forth above, includes options to purchase Common Stock held by the following executive officers in the following amounts: James Shippee -- 35,279 shares; Wayne M. Greenholtz -- 16,608 shares; and James Yearwood -- 13,570 shares. Such options are exercisable currently or within 60 days.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Officers and Directors and persons owning more than 10% of the outstanding common stock of the Company to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, Directors and greater than 10% holders of common stock are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on copies of such forms furnished as provided above, or written representations that no such forms were required, the Company believes that during the fiscal year ended December 31, 1998, all Section 16(a) filing requirements applicable to its officers, Directors and owners of greater than 10% of its common stock were met.

INFORMATION WITH RESPECT TO PARENT DESIGNEES

PURCHASER DESIGNEES

The Company has been advised by Parent that Acquisition will choose the Parent Designees from among the directors and officers of Parent and Acquisition listed in Schedule I of the Offer to Purchase, a copy of which is being mailed to stockholders of the Company together with this Schedule 14D-9. The information on such Schedule I with respect to such directors and officers is incorporated herein by reference. Parent has advised the Company that all such persons have consented to serve as director if so designated. Parent has informed the Company that none of the Parent Designees (i) is currently a director of, or holds any position with, the Company, (ii) has a familial relationship with any of the directors or executive officers of the Company, or
(iii) to the best knowledge of Parent and Acquisition, beneficially owns any securities (or rights to acquire any securities) of the Company. The Company has been advised by Parent that, to the best knowledge of Parent and Acquisition, none of the Parent Designees has been involved in any transactions with the Company or any of its directors, executive officers or affiliates which are required to be disclosed pursuant to the rules and regulations of the Commission except as may be disclosed herein or in the Schedule 14D-9.

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

Among

TEXTRON FINANCIAL CORPORATION,

LIGHTHOUSE ACQUISITION CORP.

and

LITCHFIELD FINANCIAL CORPORATION

Dated as of September 22, 1999

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AGREEMENT AND PLAN OF MERGER, dated as of September 22, 1999 (the "Agreement"), among TEXTRON FINANCIAL CORPORATION, a Delaware corporation ("Parent"), LIGHTHOUSE ACQUISITION CORP., a Massachusetts corporation and a wholly owned subsidiary of Parent ("Purchaser"), and LITCHFIELD FINANCIAL CORPORATION, a Massachusetts corporation (the "Company").

WHEREAS, the Board of Directors of the Company has determined that it is in the best interests of the Company and the stockholders of the Company to enter into this Agreement with Parent and Purchaser, providing for the merger (the "Merger") of Purchaser with the Company in accordance with the Massachusetts Business Corporation Law ("MBCL"), upon the terms and subject to the conditions set forth herein; and

WHEREAS, the Board of Directors of Parent and Purchaser have each approved the Merger of Purchaser with the Company in accordance with the MBCL upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, Parent, Purchaser and the Company hereby agree as follows:

ARTICLE I

THE OFFER

SECTION 1.1 The Offer. (a) Provided that this Agreement shall not have been terminated in accordance with Section 8.1 and no event shall have occurred and no circumstance shall exist which would result in a failure to satisfy any of the conditions or events set forth in Annex A hereto (the "Offer Conditions"), Purchaser shall, as soon as reasonably practicable after the date hereof (and in any event within five business days from the date of initial public announcement of the execution hereof), commence an offer (the "Offer") to purchase for cash all of the issued and outstanding shares of Common Stock, par value $0.01 per share (referred to herein as either the "Shares" or "Company Common Stock"), of the Company at a price of $24.50 per Share, net to the seller in cash. The obligation of Purchaser to accept for payment Shares tendered pursuant to the Offer shall be subject only to the satisfaction or waiver by Purchaser of the Offer Conditions. Purchaser expressly reserves the right, in its sole discretion, to waive any such condition (other than the Minimum Condition as defined in the Offer Conditions) and make any other changes in the terms and conditions of the Offer, provided that, unless previously approved by the Company in writing, no change may be made which changes the Minimum Condition or decreases the price per Share payable in the Offer, changes the form of consideration payable in the Offer (other than by adding consideration), reduces the maximum number of Shares to be purchased in the Offer, or amends the terms or Offer Conditions in a manner which, in the Company's reasonable judgment, is adverse to the holders of the Shares or the Company, or which imposes conditions or terms to the Offer in addition to those set forth herein. Purchaser covenants and agrees that, subject to the terms and conditions of this Agreement, including but not limited to the Offer Conditions, it will accept for payment and pay for Shares as soon as it is permitted to do so under applicable law; provided that

Purchaser shall have the right, in its sole discretion, to extend the Offer for up to five business days, notwithstanding the prior satisfaction of the Offer, solely if necessary in order to attempt to satisfy the requirements of Section 82 of the MBCL. It is agreed that the Offer Conditions are for the benefit of Purchaser and may be asserted by Purchaser regardless of the circumstances giving rise to any such condition (except for any action or inaction by Purchaser or Parent constituting a breach of this Agreement) or, except with respect to the Minimum Condition, may be waived by Purchaser, in whole or in part at any time and from time to time, in its sole discretion. Subject to the terms and conditions of the Offer, Parent and Purchaser will each use reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the Offer.

(b) As soon as reasonably practicable on the date the Offer is commenced, Purchaser shall file a Tender Offer Statement on Schedule 14D-1 (the "Schedule 14D-1") with respect to the Offer with the Securities and Exchange Commission (the "SEC"). The Schedule 14D-1 shall contain an Offer to Purchase and forms of the related letter of transmittal (which Schedule 14D-1, Offer to Purchase and other documents, together with any supplements or amendments thereto, are referred to herein collectively as the "Offer Documents"). Parent and Purchaser agree that the Company and its counsel shall be given an opportunity to review the Schedule 14D-1 before it is filed with the SEC. Parent, Purchaser and the Company each agrees promptly to correct any information provided by it for use in the Offer Documents that shall have become false or misleading in any material respect, and Parent and Purchaser further agree to take all steps necessary to cause the Schedule 14D-1 as so corrected to be filed with the SEC and the other Offer Documents as so corrected to be disseminated to holders of Shares, in each case as and to the extent required by applicable federal securities laws.

SECTION 1.2 Company Action. (a) The Company hereby approves of and consents to the Offer and represents and warrants that: (i) its Board of Directors, at a meeting duly called and held on September 22, 1999, has unanimously (A) determined that this Agreement and the transactions contemplated hereby, including the Offer and the Merger, are advisable and are fair to and in the best interests of the holders of Shares and the Company, (B) approved this Agreement and the transactions contemplated hereby, including each of the Offer and the Merger, and (C) resolved to recommend that the stockholders of the Company accept the Offer, tender their Shares to Purchaser thereunder and approve this Agreement and the transactions contemplated hereby (it being understood that, notwithstanding anything in this Agreement to the contrary, if the Company's Board of Directors by majority vote shall have determined in good faith, based upon the advice of outside counsel to the Company, that failure to modify or withdraw its recommendation would constitute a breach of the Board's fiduciary duty under applicable law, the Board of Directors may so modify or withdraw its recommendation); and (ii) CIBC World Markets (the "Financial Advisor") has delivered to the Board of Directors of the Company its written opinion that, subject to the limitations and qualifications stated therein, the consideration to be received by holders of Shares, other than Parent and Purchaser, pursuant to the Offer and the Merger is fair to such holders from a financial point of view. The Company has been authorized by the Financial Advisor to permit, subject to prior review by such Financial Advisor, the inclusion of such fairness opinion (or a reference thereto with the consent of the Financial Adviser) in the Schedule 14D-9 referred to below and the Proxy Statement referred to in Section 3.12. The Company hereby consents to the inclusion in the Offer

Documents of the recommendations of the Company's Board of Directors described in this Section 1.2(a).

(b) The Company shall file with the SEC, contemporaneously with the commencement of the Offer pursuant to Section 1.1, a Solicitation/Recommendation Statement on Schedule 14D-9 (together with all amendments and supplements thereto, the "Schedule 14D-9"), containing the recommendations of the Company's Board of Directors described in Section 1.2(a)(i) and shall promptly mail the Schedule 14D-9 to the stockholders of the Company. The Schedule 14D-9 and all amendments thereto will comply in all material respects with the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder. The Company, Parent and Purchaser each agrees promptly to correct any information provided by it for use in the Schedule 14D-9 that shall have become false or misleading in any material respect, and the Company further agrees to take all steps necessary to cause the Schedule 14D-9 as so corrected to be filed with the SEC and disseminated to holders of Shares, in each case as and to the extent required by applicable federal securities laws.

(c) In connection with the Offer, if requested by Purchaser, the Company shall promptly furnish Purchaser with mailing labels, security position listings, any non-objecting beneficial owner lists and any available listings or computer files containing the names and addresses of the record holders of Shares, each as of a recent date, and shall promptly furnish Purchaser with such additional information (including but not limited to updated lists of stockholders, mailing labels, security position listings and non-objecting beneficial owner lists) and such other assistance as Parent, Purchaser or their agents may reasonably require in communicating the Offer to the record and beneficial holders of Shares. Subject to the requirements of law, and except for such steps as are necessary to disseminate the Offer Documents and any other documents necessary to consummate the Offer and the Merger, Parent, Purchaser and each of their affiliates and associates shall hold in confidence the information contained in any of such lists, labels or additional information and, if this Agreement is terminated, shall promptly deliver to the Company all copies and extracts of such information then in their possession or under their control.

ARTICLE II

THE MERGER

SECTION 2.1 The Merger. Upon the terms and subject to the conditions of this Agreement and in accordance with the MBCL, at the Effective Time (as defined in Section 2.2), Purchaser shall be merged with and into the Company. As a result of the Merger, the separate corporate existence of Purchaser shall cease and the Company shall continue as the surviving corporation of the Merger (the "Surviving Corporation"). At Parent's election, any direct or indirect subsidiary of Parent other than Purchaser may be merged with and into the Company instead of the Purchaser. In the event of such an election, the parties agree to execute an appropriate amendment to this Agreement in order to reflect such election.

SECTION 2.2 Closing; Effective Time. Subject to the provisions of Article VII, the closing of the Merger (the "Closing") shall take place in New York City at the offices of Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York, as soon as practicable but in no event later than the first business day after the satisfaction or waiver of the conditions set forth in Article VII, or at such other place or at such other date as Parent and the Company may mutually agree. The date on which the Closing actually occurs is hereinafter referred to as the "Closing Date." At the Closing, the parties hereto shall cause the Merger to be consummated by filing this Agreement or articles of merger (the "Certificate of Merger") with the Secretary of State of the Commonwealth of Massachusetts, in such form as required by and executed in accordance with the relevant provisions of the MBCL (the date and time of the filing of the Certificate of Merger with the Secretary of State of the Commonwealth of Massachusetts (or such later time as is specified in the Certificate of Merger) being the "Effective Time").

SECTION 2.3 Effects of the Merger. The Merger shall have the effects set forth in the applicable provisions of the MBCL. Without limiting the generality of the foregoing and subject thereto, at the Effective Time all the property, rights, privileges, immunities, powers and franchises of the Company and Purchaser shall vest in the Surviving Corporation, and all debts, liabilities and duties of the Company and Purchaser shall become the debts, liabilities and duties of the Surviving Corporation.

SECTION 2.4 Articles of Organization; By-Laws. (a) At the Effective Time and without any further action on the part of the Company and Purchaser, the Amended and Restated Articles of Organization of the Company (as amended, the "Articles of Organization"), as in effect immediately prior to the Effective Time, shall be the articles of organization of the Surviving Corporation until thereafter and further amended as provided therein and under the MBCL.

(b) At the Effective Time and without any further action on the part of the Company and Purchaser, the By-Laws of Purchaser, as in effect immediately prior to the Effective Time, shall be the By-Laws of the Surviving Corporation and thereafter may be amended or repealed in accordance with their terms or the Articles of Organization of the Purchaser and as provided by law.

SECTION 2.5 Directors and Officers. The directors of Purchaser immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the Articles of Organization and By-Laws of the Surviving Corporation (directors of the Company shall tender their resignations effective upon the Effective Time), and the officers of the Company immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation, in each case until their respective successors are duly elected or appointed (as the case may be) and qualified. Nothing herein shall be deemed to limit the ability of Parent to cause the Surviving Corporation to elect or appoint different or additional officers.

SECTION 2.6 Conversion of Securities. At the Effective Time, by virtue of the Merger and without any action on the part of Purchaser, the Company or the holders of any of the following securities:

(a) Each Share issued and outstanding immediately prior to the Effective Time (other than any Shares to be canceled pursuant to Section 2.6(b) and any Dissenting Shares (as defined in Section 2.8(a))) shall be canceled, extinguished and converted into the right to receive $24.50 in cash or any higher price that may be paid pursuant to the Offer (the "Merger Consideration") payable to the holder thereof, without interest, upon surrender of the certificate formerly representing such Share in the manner provided in Section 2.9, less any required withholding taxes.

(b) Each share of Company Common Stock held in the treasury of the Company and each Share owned by Parent, Purchaser or any other direct or indirect subsidiary of Parent or of the Company, in each case immediately prior to the Effective Time, shall be canceled and retired without any conversion thereof and no payment or distribution shall be made with respect thereto.

(c) Each share of common stock of Purchaser issued and outstanding immediately prior to the Effective Time shall be converted into and become one validly issued, fully paid and nonassessable share of common stock of the Surviving Corporation.

SECTION 2.7 Treatment of Options. Immediately prior to the Effective Time, each outstanding stock option and any related stock appreciation right granted to employees and non-employee directors of the Company and its subsidiaries (together, an "Option"), whether or not then exercisable or vested, shall be canceled by the Company, and the holder thereof shall be entitled to receive at the Effective Time or as soon as practicable thereafter from the Company in consideration for such cancellation an amount in cash equal to the product of (a) the number of Shares previously subject to such Option and (b) the excess, if any, of the Merger Consideration over the exercise price per Share previously subject to such Option (such payment to be net of applicable withholding taxes).

SECTION 2.8 Dissenting Shares. (a) Notwithstanding anything in this Agreement to the contrary, shares of Company Common Stock that are issued and outstanding immediately prior to the Effective Time and which are held by stockholders who have not voted in favor of or consented to the Merger and shall have delivered a written demand for appraisal of such shares of Company Common Stock in the time and manner provided in Section 89 of the MBCL and shall not have failed to perfect or shall not have effectively withdrawn or lost their rights to appraisal and payment under the MBCL (the "Dissenting Shares") shall not be converted into the right to receive the Merger Consideration, but shall be entitled to receive the consideration as shall be determined pursuant to Sections 89 and 90 of the MBCL; provided, however, that if such holder shall have failed to perfect or shall have effectively withdrawn or lost his, her or its right to appraisal and payment under the MBCL, such holder's shares of Company Common Stock shall thereupon be deemed to have been converted, at the Effective Time, into the right to receive the Merger Consideration set forth in
Section 2.6(a) of this Agreement, without any interest thereon.

(b) The Company shall give Parent (i) prompt notice of any demands for appraisal pursuant to Section 85 of the MBCL received by the Company, withdrawals of such demands, and any other instruments served pursuant to the MBCL and received by the Company and (ii) the

opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the MBCL. The Company shall not, except with the prior written consent of Parent, make any payment with respect to any such demands for appraisal or offer to settle or settle any such demands.

SECTION 2.9 Surrender of Shares; Stock Transfer Books. (a) Prior to the Effective Time, Purchaser shall designate a bank or trust company to act as agent for the holders of Shares in connection with the Merger (the "Paying Agent") to receive the Merger Consideration to which holders of Shares shall become entitled pursuant to Section 2.6(a). When and as needed, Parent or Purchaser will make available to the Paying Agent sufficient funds to make all payments pursuant to Section 2.9(b). Such funds shall be invested by the Paying Agent as directed by Purchaser or, after the Effective Time, the Surviving Corporation, provided that such investments shall be in obligations of or guaranteed by the United States of America, in commercial paper obligations rated A-1 or P-1 or better by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively, or in certificates of deposit, bank repurchase agreements or banker's acceptances of commercial banks with capital exceeding $500 million. Any net profit resulting from, or interest or income produced by, such investments will be payable to the Surviving Corporation or Parent, as Parent directs.

(b) Promptly after the Effective Time, the Surviving Corporation shall cause to be mailed to each record holder, as of the Effective Time, of an outstanding certificate or certificates which immediately prior to the Effective Time represented Shares (the "Certificates"), a form of letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Paying Agent) and instructions for use in effecting the surrender of the Certificates for payment of the Merger Consideration therefor. Upon surrender to the Paying Agent of a Certificate, together with such letter of transmittal, duly completed and validly executed in accordance with the instructions thereto, and such other documents as may be required pursuant to such instructions, the holder of such Certificate shall be entitled to receive in exchange therefor the Merger Consideration for each Share formerly represented by such Certificate, and such Certificate shall then be canceled. No interest shall be paid or accrued for the benefit of holders of the Certificates on the Merger Consideration payable upon the surrender of the Certificates. If payment of the Merger Consideration is to be made to a person other than the person in whose name the surrendered Certificate is registered, it shall be a condition of payment that the Certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer and that the person requesting such payment shall have paid any transfer and other taxes required by reason of the payment of the Merger Consideration to a person other than the registered holder of the Certificate surrendered or shall have established to the satisfaction of the Surviving Corporation that such tax either has been paid or is not applicable.

(c) At any time following one year after the Effective Time, the Surviving Corporation shall be entitled to require the Paying Agent to deliver to it any funds (including any interest received with respect thereto) which had been made available to the Paying Agent and which have not been disbursed to holders of Certificates, and thereafter such holders shall be entitled to look to the Surviving Corporation (subject to abandoned property, escheat or other similar laws) only as general creditors thereof with respect to the Merger Consideration payable upon due surrender of their Certificates. Notwithstanding the foregoing, neither the Surviving Corporation nor the Paying

Agent shall be liable to any holder of a Certificate for Merger Consideration delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(d) At the Effective Time, the stock transfer books of the Company shall be closed and thereafter there shall be no further registration of transfers of shares of Company Common Stock on the records of the Company. From and after the Effective Time, the holders of Certificates evidencing ownership of Shares outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such Shares except as otherwise provided for herein or by applicable law.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Parent and Purchaser that, except as set forth in the disclosure schedule delivered by the Company to Purchaser prior to the date of execution of this Agreement (the "Company Disclosure Schedule"):

SECTION 3.1 Organization and Qualification; Subsidiaries. Except as set forth in Section 3.1 of the Company Disclosure Schedule, each of the Company and each of its subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the requisite corporate power and authority and any necessary governmental approvals to own, lease and operate its properties and to carry on its business as it is now being conducted, except where the failure to be so organized, existing and in good standing or to have such power, authority and governmental approvals is not reasonably likely, individually or in the aggregate, to have a Material Adverse Effect (as defined below). Each of the Company and each of its subsidiaries is duly qualified or licensed as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of its properties owned, leased or operated by it or the nature of its activities makes such qualification or licensing necessary, except for such failures to be so duly qualified or licensed and in good standing as are not reasonably likely, individually or in the aggregate, to have a Material Adverse Effect. When used in connection with the Company or any of its subsidiaries, the term "Material Adverse Effect" means any change or effect that would (i) be materially adverse to the business, financial condition or results of operations of the Company and its subsidiaries taken as a whole or (ii) prevent or materially delay the consummation of the Offer or the Merger; provided, however, that a decline in the price of the Company's Common Stock as traded on the Nasdaq National Market as a result of changes in the accounting practices or business practices set forth in Section 5.1 of the Company Disclosure Schedule shall not be deemed to have a Material Adverse Effect unless it is otherwise a result of an event or occurrence that is materially adverse to the business, financial condition or results of operations of the Company and its subsidiaries taken as a whole.

SECTION 3.2 Articles of Organization and By-Laws. The Company has heretofore furnished to Parent a complete and correct copy of the Articles of Organization and the By-Laws of the Company as currently in effect. Such Articles of Organization and By-Laws are in full force and

effect and no other organizational documents are applicable to or binding upon the Company. The Company is not in violation of any of the provisions of its Articles of Organization or By-Laws.

SECTION 3.3 Capitalization. The authorized capital stock of the Company consists of 12,000,000 shares of Company Common Stock and 1,000,000 shares of Preferred Stock, par value $0.01 per share ("Company Preferred Stock"). As of September 22, 1999, (i) 6,984,601 shares of Company Common Stock were issued and outstanding, all of which were duly authorized, validly issued, fully paid and nonassessable and were issued free of preemptive (or similar) rights, (ii) no shares of Company Common Stock were held in the treasury of the Company and (iii) an aggregate of 913,720 shares of Company Common Stock were reserved for issuance and issuable upon or otherwise deliverable in connection with the exercise of outstanding Options issued pursuant to the Company Plans (as defined in Section 3.10). Since September 22, 1999, no options to purchase shares of Company Common Stock have been granted and no shares of Company Common Stock have been issued except for shares issued pursuant to the exercise of Options outstanding as of September 22, 1999. As of the date hereof, no shares of Company Preferred Stock are issued and outstanding. Except (i) as set forth above or (ii) as a result of the exercise of Options outstanding as of September 22, 1999, there are outstanding (a) no shares of capital stock or other voting securities of the Company, (b) no securities of the Company convertible into or exchangeable for shares of capital stock or voting securities of the Company,
(c) no options or other rights to acquire from the Company, and no obligation of the Company to issue, any capital stock, voting securities or securities convertible into or exchangeable for capital stock or voting securities of the Company and (d) no equity equivalents, interests in the ownership or earnings of the Company or other similar rights (collectively, "Company Securities"). Except as set forth in Section 3.3 of the Company Disclosure Schedule, there are no outstanding obligations of the Company or any of its subsidiaries to repurchase, redeem or otherwise acquire any Company Securities. Except as set forth in
Section 3.3 of the Company Disclosure Schedule, there are no other options, calls, warrants or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock of the Company or any of its subsidiaries to which the Company or any of its subsidiaries is a party. All shares of Company Common Stock subject to issuance as aforesaid, upon issuance on the terms and conditions specified in the instruments pursuant to which they are issuable, shall be duly authorized, validly issued, fully paid and nonassessable and free of preemptive (or similar) rights. Except as set forth in Section 3.3 of the Company Disclosure Schedule, there are no outstanding contractual obligations of the Company or any of its subsidiaries to repurchase, redeem or otherwise acquire any shares of Company Common Stock or the capital stock of any subsidiary or to provide funds to or make any investment (in the form of a loan, capital contribution or otherwise) in any such subsidiary or any other entity. Except as set forth in Section 3.3 of the Company Disclosure Schedule, each of the outstanding shares of capital stock of each of the Company's subsidiaries is duly authorized, validly issued, fully paid and nonassessable and all such shares are owned by the Company or another wholly owned subsidiary of the Company and are owned free and clear of all security interests, liens, claims, pledges, agreements, limitations in voting rights, charges or other encumbrances of any nature whatsoever, except where the failure to own such shares free and clear is not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect. The Company has delivered to Parent prior to the date hereof a list of the subsidiaries and associated entities of the Company which evidences, among other things, the percentage of capital stock or other equity interests owned by the Company, directly or indirectly,

in such subsidiaries or associated entities. No entity in which the Company owns, directly or indirectly, less than a 50% equity interest is, individually or when taken together with all such other entities, material to the business of the Company and its subsidiaries taken as a whole.

SECTION 3.4 Authority Relative to This Agreement. The Company has all necessary corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or to consummate the transactions so contemplated (other than, with respect to the Merger, the approval of this Agreement by the holders of two-thirds of the outstanding shares of Company Common Stock if and to the extent required by applicable law, and the filing of appropriate merger documents as required by the MBCL). This Agreement has been duly and validly executed and delivered by the Company and, assuming the due authorization, execution and delivery hereof by Parent and Purchaser, constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms. The Board of Directors of the Company has approved this Agreement and the transactions contemplated hereby (including but not limited to the Offer and the Merger) so as to render inapplicable hereto and thereto the limitation on business combinations contained in Chapter 110D and Chapter 110F, Section 1, of the Massachusetts Corporation-Related Laws. As a result of the foregoing actions, subject to
Section 82 of the MBCL, the only vote required to authorize the Merger is the affirmative vote of two-thirds of the outstanding Shares.

SECTION 3.5 No Conflict; Required Filings and Consents. (a) Except as set forth in Section 3.5(a) of the Company Disclosure Schedule, the execution, delivery and performance of this Agreement by the Company do not and will not:
(i) conflict with or violate the Articles of Organization or By-Laws of the Company or the equivalent organizational documents of any of its subsidiaries;
(ii) assuming that all consents, approvals and authorizations contemplated by clauses (i), (ii) and (iii) of subsection (b) below have been obtained and all filings described in such clauses have been made, conflict with or violate any law, rule, regulation, order, judgment or decree applicable to the Company or any of its subsidiaries or by which its or any of their respective properties are bound or affected; or (iii) result in any breach or violation of or constitute a default (or an event which with notice or lapse of time or both could become a default) or result in the loss of a material benefit under, or give rise to any right of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the properties or assets of the Company or any of its subsidiaries pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or its or any of their respective properties are bound or affected, except, in the case of clauses (ii) and (iii), for any such conflicts, violations, breaches, defaults or other occurrences which are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect.

(b) Except as set forth in Section 3.5(b) of the Company Disclosure Schedule, the execution, delivery and performance of this Agreement by the Company and the consummation of

the Merger by the Company do not and will not require any consent, approval, authorization or permit of, action by, filing with or notification to, any governmental or regulatory authority, domestic or foreign, or any other person, except for (i) applicable requirements, if any, of the Exchange Act and the rules and regulations promulgated thereunder, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), or other foreign filings or approvals, state securities, takeover and "blue sky" laws, (ii) the filing and recordation of appropriate merger or other documents as required by the MBCL and (iii) such consents, approvals, authorizations, permits, actions, filings or notifications the failure of which to make or obtain are not, individually or in the aggregate, reasonably likely to (x) prevent or materially delay the Company from performing its obligations under this Agreement or (y) have a Material Adverse Effect.

(c) if the adoption of this Agreement and the approval of the Merger by the stockholders of the Company is required by the MBCL, such adoption and approval may be accomplished in accordance with the Company's Articles of Organization and the MBCL solely by the affirmative vote of two-thirds of the outstanding Shares.

SECTION 3.6 Compliance. Neither the Company nor any of its subsidiaries is in conflict with, or in default or violation of, (i) any law, rule, regulation, order, judgment or decree applicable to the Company or any of its subsidiaries or by which its or any of their respective properties are bound or affected, or (ii) any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or its or any of their respective properties are bound or affected, except, in the case of each of clauses (i) and (ii), for any such conflicts, defaults or violations which are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect.

SECTION 3.7 SEC Filings; Financial Statements. (a) The Company and, to the extent applicable, each of its then or current subsidiaries, has filed all forms, reports, statements and documents required to be filed with the SEC since January 1, 1996 (collectively, the "SEC Reports"), each of which has complied in all material respects with the applicable requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations promulgated thereunder, or the Exchange Act, and the rules and regulations promulgated thereunder, each as in effect on the date so filed. None of the SEC Reports (including but not limited to any financial statements or schedules included or incorporated by reference therein) contained when filed, or (except to the extent revised or superseded by a subsequent filing with the SEC) contains, any untrue statement of a material fact or omitted or omits to state a material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) Each of the audited and unaudited consolidated financial statements of the Company (including any related notes thereto) included in its Annual Reports on Form 10-K for each of the two fiscal years ended December 31, 1997 and 1998 filed with the Commission has been prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods involved (except as may be indicated in the notes thereto) and fairly presents

the consolidated financial position of the Company and its subsidiaries at the respective date thereof and the consolidated results of its operations and changes in cash flows for the periods indicated.

(c) Except as and to the extent set forth on the consolidated balance sheet of the Company and its subsidiaries at December 31, 1998, including the notes thereto, neither the Company nor any of its subsidiaries has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) which would be required to be reflected on a balance sheet or in the notes thereto prepared in accordance with generally accepted accounting principles, except for liabilities or obligations incurred since December 31, 1998 (i) in the ordinary course of business consistent with past practice and
(ii) which are not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect.

(d) The Company has heretofore furnished or made available to Parent a complete and correct copy of any amendments or modifications which have not yet been filed with the SEC to agreements, documents or other instruments which previously had been filed by the Company with the SEC pursuant to the Securities Act and the rules and regulations promulgated thereunder or the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 3.8 Absence of Certain Changes or Events. Since December 31, 1998, except as contemplated by this Agreement or disclosed in the SEC Reports filed and publicly available prior to the date of this Agreement, the Company and its subsidiaries have conducted their businesses only in the ordinary course and in a manner consistent with past practice and, since such date, there has not been: (i) any changes in the business, financial condition or results of operations of the Company or any of its subsidiaries having or reasonably likely to have a Material Adverse Effect; (ii) any damage, destruction or loss (whether or not covered by insurance) with respect to any assets of the Company or any of its subsidiaries which is reasonably likely, individually or in the aggregate, to have a Material Adverse Effect; (iii) any material change by the Company in its accounting methods, principles or practices; (iv) any revaluation by the Company of any of its material assets, including but not limited to writing down the value of inventory or writing off notes or accounts receivable other than in the ordinary course of business; (v) any entry by the Company or any of its subsidiaries into any commitment or transactions material to the Company and its subsidiaries taken as a whole (other than commitments or transactions entered into in the ordinary course of business); (vi) any declaration, setting aside or payment of any dividends or distributions in respect of the Shares; (vii) any increase in or establishment of any bonus, insurance, severance, deferred compensation, pension, retirement, profit sharing, stock option (including without limitation the granting of stock options, stock appreciation rights, performance awards, or restricted stock awards), stock purchase or other employee benefit plan or agreement or arrangement, or any other increase in the compensation payable or to become payable to any present or former directors, officers or key employees of the Company or any of its subsidiaries, except for increases in base compensation in the ordinary course of business consistent with past practice, or pursuant to any employment, consulting or severance agreement or arrangement previously entered into with any such present or former directors, officers or key employees; or (viii) any other action which, if it had been taken after the date hereof, would have required the consent of Parent under Section 5.1 (except for the actions described in Sections 5.1(e)(iii), 5.1(e)(iv), 5.1(h), 5.1(l) and 5.1(p) hereof).

SECTION 3.9 Absence of Litigation. Except as disclosed in the SEC Reports filed and publicly available prior to the date of this Agreement, there are no suits, claims, actions, proceedings or investigations pending or, to the knowledge of the Company, threatened against the Company or any of its subsidiaries, or any properties or rights of the Company or any of its subsidiaries, before any court, arbitrator or administrative, governmental or regulatory authority or body, domestic or foreign, that, individually or in the aggregate, is reasonably likely to have a Material Adverse Effect. As of the date hereof, neither the Company nor any of its subsidiaries nor any of their respective properties is or are subject to any order, writ, judgment, injunction, decree, determination or award having, or which, insofar as can be reasonably foreseen, is reasonably likely to have a Material Adverse Effect.

SECTION 3.10 Employee Benefit Plans. Except (i) as set forth in the SEC Reports filed and publicly available prior to the date of this Agreement,
(ii) as set forth in Section 3.10 of the Company Disclosure Schedule, or (iii) with respect to subsections (b) through (g) of this Section 3.10, as is not, individually or in the aggregate, reasonably likely to have a Material Adverse Effect:

(a) Section 3.10 of the Company Disclosure Schedule contains a true and complete list of each "employee benefit plan" (within the meaning of section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including, without limitation, multiemployer plans within the meaning of ERISA section 3(37)), stock purchase, stock option, severance, employment, change-in-control, fringe benefit, collective bargaining, bonus, incentive, deferred compensation and all other employee benefit plans, agreements, programs, policies or other arrangements, whether or not subject to ERISA (including any funding mechanism therefor now in effect), whether formal or informal, oral or written, legally binding or not, under which any employee or former employee of the Company or any of its subsidiaries, has any present or future right to benefits or under which the Company or any of its subsidiaries has any present or future liability. All such plans, agreements, programs, policies and arrangements shall be collectively referred to as the "Company Plans".

(b) With respect to each Company Plan, the Company has delivered or made available to Parent a current, accurate and complete copy (or, to the extent no such copy exists, an accurate description) thereof and, to the extent applicable: (i) any related trust agreement or other funding instrument; (ii) the most recent determination letter, if applicable; (iii) any summary plan description and other written communications by the Company or any of its subsidiaries to their employees concerning the extent of the benefits provided under a Company Plan; and (iv) for the three most recent years (A) the Form 5500 and attached schedules, (B) audited financial statements and (C) actuarial valuation reports.

(c) (i) Each Company Plan has been established and administered in accordance with its terms, and in compliance with the applicable provisions of ERISA, the Internal Revenue Code of 1986, as amended (the "Code"), and other applicable laws, rules and regulations; (ii) each Company Plan which is intended to be qualified within the meaning of Code section 401(a) has received a favorable determination letter as to its qualification, and nothing has occurred, whether by action or failure to act, that would cause the revocation of such

determination letter; (iii) no event has occurred and no condition exists that would subject the Company or any of its subsidiaries, either directly or by reason of their affiliation with any member of their "Controlled Group" (defined as any organization which is a member of a controlled group of organizations within the meaning of Code sections 414(b), (c), (m) or (o)), to any tax, fine, lien or penalty imposed by ERISA, the Code or other applicable laws, rules and regulations; (iv) for each Company Plan with respect to which a Form 5500 has been filed, no material change has occurred with respect to the matters covered by the most recent Form since the date thereof; and (v) no "reportable event" (as such term is defined in ERISA section 4043), "prohibited transaction" (as such term is defined in ERISA section 406 and Code section 4975) or "accumulated funding deficiency" (as such term is defined in ERISA section 302 and Code section 412 (whether or not waived)) has occurred with respect to any Company Plan.

(d) With respect to each of the Company Plans that is not a multiemployer plan within the meaning of section 4001(a)(3) of ERISA but is subject to Title IV of ERISA, as of the Effective Time, the assets of each such Company Plan are at least equal in value to the present value of the accrued benefits (vested and unvested) of the participants in such Company Plan on a termination basis, based on the actuarial methods and assumptions indicated in the most recent actuarial valuation reports.

(e) With respect to any multiemployer plan (within the meaning of ERISA section 4001(a)(3)): (i) none of the Company, any of its subsidiaries or any member of their Controlled Group has incurred any withdrawal liability under Title IV of ERISA or would be subject to such liability if, as of the Effective Time, the Company, any of its subsidiaries or any member of their Controlled Group were to engage in a complete withdrawal (as defined in ERISA section 4203) or partial withdrawal (as defined in ERISA section 4205) from any such multiemployer plan; and (ii) no multiemployer plan to which the Company, any of its subsidiaries or any member of their Controlled Group has any liabilities or contributes, is in reorganization or insolvent (as those terms are defined in ERISA sections 4241 and 4245, respectively).

(f) With respect to any Company Plan, (i) no actions, suits or claims (other than routine claims for benefits in the ordinary course) are pending or, to the knowledge of the Company, threatened, and (ii) no facts or circumstances exist, to the knowledge of the Company, that are likely to give rise to any such actions, suits or claims.

(g) No Company Plan exists that could result in the payment to any present or former employee of the Company or any of its subsidiaries of any money or other property or accelerate or provide any other rights or benefits to any present or former employee of the Company or any of its subsidiaries as a result of the transaction contemplated by this Agreement, whether or not such payment would constitute a parachute payment within the meaning of Code section 280G.

SECTION 3.11 Tax Matters. The Company and each of its subsidiaries, and any consolidated, combined, unitary or aggregate group for tax purposes of which the Company or any

of its subsidiaries is or has been a member has timely filed all Tax Returns required to be filed by it in the manner provided by law, has paid all Taxes (including interest and penalties) owed (whether or not shown on any Tax Returns) other than Taxes that (i) are being contested in good faith, (ii) have not been finally determined and (iii) for which an adequate reserve has been provided in its financial statements according to generally accepted accounting principles. All such Tax Returns were true, correct and complete in all material respects. No claim has been made in writing by any Taxing authority in a jurisdiction where any of the Company or its Subsidiaries does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. Except as has been disclosed to Parent in Section 3.11 of the Company Disclosure Schedule: (i) no material claim for unpaid Taxes has become a lien or encumbrance of any kind against the property of the Company or any of its subsidiaries or is being asserted against the Company or any of its subsidiaries; (ii) as of the date hereof there are no audits or disputes for Taxes upon the Company or any of its subsidiaries; and (iii) none of the payments required by this Agreement would be non-deductible under Code Section 162(m). Proper and accurate amounts have been withheld by the Company and its subsidiaries from their employees in compliance with the tax withholding provisions of applicable federal, state and local laws and have been paid over to the appropriate taxing authorities. None of the Company and its subsidiaries has filed a consent under Code Section 341(f) concerning collapsible corporations. None of the Company and its subsidiaries has been required to include in income any adjustment pursuant to Code Section 481 (or any similar provision of state, local or foreign tax law) by reason of a voluntary change in accounting method initiated by the Company or any of its subsidiaries, and, to the Company's best knowledge, the IRS has not initiated or proposed any such adjustment or change in accounting method. Except as set forth in Section 3.11 of the Company Disclosure Schedule, neither the Company nor any of its subsidiaries (i) has been a member of an affiliated group filing consolidated federal income tax return (other than a group the common parent of which was the Company), (ii) is a party to a Tax allocation or Tax sharing agreement (other than an agreement solely among members of a group the common parent of which is the Company), or (iii) has any liability for the Taxes of any person (other than any of the Company or its subsidiaries) under Treasury Regulation section 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor, by contract or otherwise. As used herein, "Taxes" shall mean any taxes of any kind, including but not limited to those on or measured by or referred to as income, gross receipts, capital, sales, use, ad valorem, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, value added, property or windfall profits taxes, customs, duties or similar fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any governmental authority, domestic or foreign. As used herein, "Tax Return" shall mean any return, report or statement required to be filed with any governmental authority with respect to Taxes, including any schedule or attachment thereto or amendment thereof.

SECTION 3.12 Offer Documents; Proxy Statement. Neither the Schedule 14D-9, nor any of the information supplied by the Company for inclusion in the Offer Documents, shall, at the respective times such Schedule 14D-9, the Offer Documents or any amendments or supplements thereto are filed with the SEC or are first published, sent or given to stockholders, as the case may be, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Neither the proxy statement to be sent to the

stockholders of the Company in connection with the Stockholders Meeting (as defined in Section 6.1) or the information statement to be sent to such stockholders, as appropriate (such proxy statement or information statement, as amended or supplemented, is herein referred to as the "Proxy Statement"), shall, at the date the Proxy Statement (or any amendment thereof or supplement thereto) is first mailed to stockholders and at the time of the Stockholders Meeting and at the Effective Time, be false or misleading with respect to any material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Stockholders Meeting which has become false or misleading. Notwithstanding the foregoing, the Company makes no representation or warranty with respect to any information supplied by Parent or Purchaser or any of their respective representatives which is contained in the Schedule 14D-9 or the Proxy Statement. The Schedule 14D-9 and the Proxy Statement will comply in all material respects as to form with the requirements of the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 3.13 Environmental Matters. (a) Except as disclosed in SEC Reports filed and publicly available prior to the date of this Agreement and to the extent that the inaccuracy of any of the following (or the circumstances giving rise to such inaccuracy), individually or in the aggregate, is not reasonably likely to have a Material Adverse Effect:

(i) (A) the Company and its subsidiaries are, and within the period of all applicable statutes of limitation have been, in compliance with all applicable Environmental Laws; and (B) the Company and each of its subsidiaries believes that each of them will, and will not incur material expense in excess of the amounts reflected in the Company's financial statements and capital budgets to, timely attain or maintain compliance with any Environmental Laws applicable to any of their current operations or properties or to any of their planned operations over the next three years;

(ii) (A) the Company and its subsidiaries hold all Environmental Permits (each of which is in full force and effect) required for any of their current operations and for any property owned, leased, or otherwise operated by any of them, and are, and within the period of all applicable statutes of limitation have been, in compliance with all such Environmental Permits; and (B) neither the Company nor any of its subsidiaries has knowledge that over the next three years: any of their Environmental Permits will not be, or will entail material expense to be, timely renewed or complied with; any additional Environmental Permits required of any of them for current operations or for any property owned, leased, or otherwise operated by any of them, or for any of their planned operations, will not be timely granted or complied with; or any transfer or renewal of, or reapplication for, any Environmental Permit required as a result of the Merger will not be, timely effected;

(iii) no review by, or approval of, any Governmental Authority or other person is required under any Environmental Law in connection with the execution or delivery of this Agreement or the consummation of the transactions contemplated hereby;

(iv) neither the Company nor any of its subsidiaries has received any Environmental Claim (as hereinafter defined) against any of them, and neither the Company nor any of its subsidiaries has knowledge of any such Environmental Claim being threatened;

(v) Hazardous Materials are not present on any property owned, leased, or operated by the Company or any of its subsidiaries, that is reasonably likely to form the basis of any Environmental Claim against any of them; and neither the Company nor any of its subsidiaries has reason to believe that Hazardous Materials are present on any other property that is reasonably likely to form the basis of any Environmental Claim against any of them;

(vi) neither the Company nor any of its subsidiaries has knowledge of any material Environment Claim pending or threatened, or of the presence or suspected presence of any Hazardous Materials that is reasonably likely to form the basis of any Environmental Claim, in any case against any person or entity (including without limitation any predecessor of the Company or any of its subsidiaries) whose liability the Company or any of its subsidiaries has or may have retained or assumed either contractually or by operation of law or against any real or personal property which the Company or any of its subsidiaries formerly owned, leased, or operated, in whole or in part; and

(vii) the Company has informed the Parent and the Purchaser of: all material facts which the Company or any of its subsidiaries reasonably believes could form the basis of a material Environmental Claim against the Company or any of its subsidiaries arising out of the non-compliance or alleged non-compliance with any Environmental Law, or the presence or suspected presence of Hazardous Materials at any location; all material costs the Company reasonably expects it and any of its subsidiaries to incur to comply with Environmental Laws during the next three years; and all material costs the Company and any of its subsidiaries expect to incur for ongoing, and reasonably anticipated, investigation and remediation of Hazardous Materials (including, without limitation, any payments to resolve any threatened or asserted Environmental Claim for investigation and remediation costs).

(b) For purposes of this Agreement, the terms below shall have the following meanings:

"Environmental Claim" means any claim, demand, action, suit, complaint, proceeding, directive, investigation, lien, demand letter, or notice (written or oral) of noncompliance, violation, or liability, by any person or entity asserting liability or potential liability (including without limitation liability or potential liability for enforcement, investigatory costs, cleanup costs, governmental response costs, natural resource damages, property damage, personal injury, fines or penalties) arising out of, based on or resulting from (i) the presence, discharge, emission, release or threatened release of any Hazardous Materials at any location, (ii) circumstances forming the basis of any violation or alleged violation of any Environmental Laws or Environmental Permits, or (iii) otherwise relating to obligations or liabilities under any Environmental Law.

"Environmental Laws" means any and all laws, rules, orders, regulations, statutes, ordinances, guidelines, codes, decrees, or other legally enforceable requirement (including, without limitation, common law) of any foreign government, the United States, or any state, local, municipal or other governmental authority, regulating, relating to or imposing liability or standards of conduct concerning protection of human health as affected by the environment or Hazardous Materials (including without limitation employee health and safety) or the environment (including without limitation indoor air, ambient air, surface water, groundwater, land surface, subsurface strata, or plant or animal species).

"Environmental Permits" means all permits, licenses, registrations, approvals, exemptions and other filings with or authorizations by any Governmental Authority under any Environmental Law.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity (including, without limitation, a court) exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Hazardous Materials" means all hazardous or toxic substances, wastes, materials or chemicals, petroleum (including crude oil or any fraction thereof), petroleum products, asbestos, asbestos-containing materials, pollutants, contaminants, radioactivity, electromagnetic fields and all other materials, whether or not defined as such, that are regulated pursuant to any Environmental Laws or that could result in liability under any applicable Environmental Laws.

SECTION 3.14 Real Estate Matters. (a) Except as set forth in Section 3.14 of the Company Disclosure Schedule, the Company or its subsidiaries has good, valid, and, in the case of Owned Properties (as defined below), marketable fee title to: (i) all of the material real property and interests in real property owned by the Company or its subsidiaries and used by the Company or its subsidiaries in the conduct of their business, except for properties hereafter sold or otherwise disposed of in the ordinary course of business (the "Owned Properties"), and (ii) all of the material leasehold estates in all real properties leased by the Company or its subsidiaries, except leasehold interests hereafter terminated in the ordinary course of business (the "Leased Properties"; the Owned Properties and Leased Properties being sometimes referred to herein as the "Real Properties"), in each case free and clear of all mortgages, liens, security interests, easements, covenants, rights-of-way, subleases and other similar restrictions and encumbrances ("Encumbrances"), except for Encumbrances which, (i) individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect or (ii) are disclosed in
Section 3.14(a) of the Company Disclosure Schedule.

(b) Except as disclosed in Section 3.14 of the Company Disclosure Schedule, and except to the extent that the inaccuracy of any of the following (or the circumstances giving rise to such inaccuracy), individually or in the aggregate, are not reasonably likely to have a Material Adverse Effect: (i) each of the agreements by which the Company has obtained a leasehold interest in each Leased Property (individually, a "Lease" and collectively, the "Leases") is in full force and effect in accordance with its respective terms and the Company or its subsidiary is the holder of the

lessee's or tenant's interest thereunder; to the knowledge of the Company, there exists no default under any Lease and no circumstance exists which, with the giving of notice, the passage of time or both, is reasonably likely to result in such a default; the Company and its subsidiaries have complied with and timely performed all conditions, covenants, undertakings and obligations on their parts to be complied with or performed under each of the Leases; the Company and its subsidiaries have paid all rents and other charges to the extent due and payable under the Leases; (ii) there are no leases, subleases, licenses, concessions or any other contracts or agreements granting to any person or entity other than the Company or any of its subsidiaries any right to the possession, use, occupancy or enjoyment of any Real Property or any portion thereof; (iii) the current operation and use of the Real Properties does not violate any statute, law, regulation, rule, ordinance, permit, requirement, order or decree now in effect; (iv) the use being made of each Real Property at present is in conformity with the certificate of occupancy issued for such Real Property; (v) there are no existing, or to the knowledge of the Company, threatened, condemnation or eminent domain proceedings (or proceedings in lieu thereof) affecting the Real Properties or any portion thereof and (vi) no default or breach exists under any of the covenants, conditions, restrictions, rights-of-way, or easements, if any, affecting all or any portion of a Real Property, which are to be performed or complied with by the Company or any of its subsidiaries.

(c) Neither the Company nor any of its subsidiaries is obligated under or bound by any option, right of first refusal, purchase contract, or other contractual right to sell or dispose of any Owned Property or any portions thereof or interests therein which property, portions and interests, individually or in the aggregate, are material to the Company and its subsidiaries.

SECTION 3.15 Loans; Investments. (a) The following terms shall have the meaning ascribed to them below:

(i) "Investor" means any person or entity who has acquired a Loan from the Company or any of its subsidiaries, other than the Parent or any of its subsidiaries.

(ii) "Investor Requirements" means any outstanding contractual, legal and regulatory obligation of the Company or any of its subsidiaries to any Investor, including but not limited to, the representations, warranties and covenants made by the Company or any of its subsidiaries to any Investor.

(iii) "Loan" means any loan or lease at any time held, serviced or sold by the Company or any of its subsidiaries to the extent that the Company or any of its subsidiaries could have any liability, obligation or duties with respect thereto.

(iv) "Loan Documents" means the note, mortgage, deed of trust, security agreement, or other instrument securing the note and the related documents for each Loan.

(v) "Mortgage Loan" shall mean a Loan secured by a mortgage.

(vi) "Serviced Loans" means all Loans serviced by the Company or its subsidiaries for its own account or for others.

(vii) "Servicing Requirements" means prudent practice and industry standards together with any contractual, legal or regulatory obligation of the Company or any of its subsidiaries relating to the Serviced Loans.

(b) Except as would not have a material adverse effect on the Company's portfolio of Loans, the Loan Documents evidencing each Loan (other than Serviced Loans serviced for the account of others that have never been owned by the Company or its subsidiaries) that is currently outstanding constitute the legal, valid and binding obligations of the parties thereto and are enforceable against such parties in accordance with their terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting the rights of lending institutions or creditors generally and by general equitable principles. Expect as would not have a material adverse effect on the Company's portfolio of Loans, no Loan is subject to any legally enforceable right of rescission, set-off, counterclaim or defense, including the defense of usury or, to the knowledge of the Company, lack of legal capacity of any borrower or guarantor, nor will the operation of any of the terms of any Loan, or the exercise of any legally enforceable right thereunder, render any Loan or any of the Loan Documents unenforceable, in whole or in part, or subject to any right of rescission, setoff, counterclaim or defense, including the defense of usury or, to the knowledge of the Company, lack of legal capacity of any borrower or guarantor, and no such right of rescission, set-off, counterclaim or defense has been asserted with respect to any Loan for which there is any recourse against, or responsibility or exposure of, the Company or any of its subsidiaries.

(c) Except as would not have a material adverse effect on the Company's portfolio of Loans, the Loan Documents for each Loan (other than Serviced Loans serviced for the account of others that have never been owned by the Company or its subsidiaries) have been duly executed and recorded, or are in the process of being recorded, and are in due and proper form. Except as would not have a material adverse effect on the Company's portfolio of Loans, the Company has at all times maintained the Loan Documents in all material respects in accordance with Investor Requirements, Servicing Requirements and otherwise in accordance with all legal and regulatory requirements and contractual obligations applicable to the Company and its subsidiaries.

(d) Except as would not have a material adverse effect on the Company's portfolio of Loans, all outstanding Loans sold by the Company or any of its subsidiaries complied in all material respects with Investor Requirements on the date of sale.

(e) Except as would not have a material adverse effect on the Company's portfolio of Loans, the Company and its subsidiaries have at all times been and are in compliance in all material respects with the Servicing Requirements relating to the Serviced Loans and Loans previously serviced by any of them.

(f) Except as would not have a material adverse effect on the Company's portfolio of Loans, each advance outstanding with respect to any Loan has been made in accordance with all material requirements of the Loan Documents.

(g) Except as would not have a material adverse effect on the Company's portfolio of Loans, neither the Company nor any of its subsidiaries is in material default with respect to any of its obligations under any Loan.

(h) Neither the Company nor any of its subsidiaries is in violation in any material respect of any federal, state, or local law, statute, ordinance, rule, regulation, order or guideline applicable to the Company or its subsidiaries pertaining to the Loans or otherwise relating to its purchase or sale of Loans or its lending business.

(i) Except as would not have a material adverse effect on the Company's portfolio of Loans, all Loans securitized in a pool, at the time of inclusion in the pool, and at the time of any pool certification or any recertification, met all applicable guidelines for such pool. The principal balance outstanding and owing on the Serviced Loans in each pool equals or exceeds the principal amount owing to the corresponding security holder of such pool.

(j) Set forth in Section 3.15(j) of the Company Disclosure Schedule is a list, as of the date hereof, of all interest rate swaps, caps, floors, and option agreements and other interest rate risk management arrangements to which the Company or any of its subsidiaries is a party or by which any of their properties or assets may be bound. Except as would not have a material adverse effect on the Company's portfolio of Loans, all interest rate swaps, caps, floors and option agreements and other interest rate risk management arrangements to which the Company or any of its subsidiaries is a party or by which any of their properties or assets may be bound were entered into in the ordinary course of business and, to the best knowledge of the Company, in accordance with then-customary practice and all applicable rules and regulations and with counterparties believed to be financially responsible at the time and are legal, valid and binding obligations and are in full force and effect, except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, reorganization, receivership, conservatorship or similar laws relating to or affecting the enforcement of creditors' rights generally, and by general principles of equity, whether applied by a court of law or equity. The Company and its subsidiaries have duly performed in all material respects all of their respective obligations thereunder to the extent that such obligations to perform have accrued, and to the best knowledge of the Company, there are no material breaches, violations or defaults or allegations or assertions of such by any party thereunder. Except as set forth in Section 3.15(l), of the Company Disclosure Schedule, none of the transactions contemplated by this Agreement would permit: (i) a counterparty under any interest rate swap, cap, floor and option agreement or any other interest rate risk management agreement or (ii) any party to any financing arrangement, including, but not limited to mortgage-backed financing, to accelerate, discontinue, terminate or otherwise modify any such agreement or arrangement or would require the Company or any of its subsidiaries to recognize any gain or loss with respect to such arrangement.

(k) Except as set forth in Section 3.15(k) of the Company Disclosure Schedule, the Company has not received notice from any governmental, quasi-governmental or private agency of pending or threatened actions or investigations relating to the Company's activities in respect of the Loans.

(l) Except as would not have a material adverse effect on the Company's portfolio of Loans, the terms of each Loan have not been impaired, waived, altered or modified in any material respect from the date of its origination except by a written instrument, which written instrument has been recorded if recordation is necessary to protect the interests of the owner thereof. The substance of any such waiver, alteration or modification has been communicated to and approved in writing by: (i) the relevant Investor, to the extent required by the relevant Investor Requirements; and (ii) the title insurer, to the extent required by the relevant policies, and its terms are reflected in the Loan Documents. Where the Investor's authorization is required, neither the Company nor any of its subsidiaries has, without the Investor's knowledge: (i) subordinated the lien of any Mortgage Loan to any other mortgage or lien or given any other mortgage or lien equal priority with the lien of a mortgage loan; or (ii) executed any instrument of release, cancellation or satisfaction with, in whole or in part, respect to any Mortgage Loan.

(m) Except as would not have a material adverse effect on the Company's portfolio of Loans and except as set forth in Section 3.15(o) of the Company Disclosure Schedule, as of the date hereof, neither the Company nor any of its subsidiaries is subject to any repurchase obligation under any Loan.

(n) Except as would not have a material adverse effect on the Company's portfolio of Loans, neither the Company nor any of its subsidiaries has received notice of a servicing default for any Loan, and each Loan serviced by the Company or its subsidiaries has been properly serviced and accounted for in all material respects in accordance with the applicable Servicing Requirements. All pools for which the Company or any of its subsidiaries is responsible are in compliance in all material respects with all applicable Investor Requirements, procedures, rules, regulations and guidelines.

(o) To the knowledge of the Company, no facts currently exist with respect to existing securitizations heretofore undertaken by the Company that would be reasonably likely to materially and adversely affect the ability of the Company or any of its subsidiaries to continue to do securitizations in the future in accordance with existing practices.

SECTION 3.16 Licenses. Section 3.16 of the Company Disclosure Schedule sets forth all licenses, permits, franchises and other authorizations of any governmental authority (collectively, "Licenses") that are material to the operation of its business as currently conducted. Except as set forth in Section 3.16 of the Company Disclosure Schedule, the Company has been granted and possesses all such Licenses, all such Licenses are in full force and effect and no proceeding is pending or threatened seeking the revocation or limitation of any such License. Except as set forth in Section 3.16 of the Company Disclosure Schedule, none of such Licenses will be subject to revocation or other limitation as a result of this Agreement or the transactions contemplated hereby.

SECTION 3.17 Allowance for Possible Loan Losses. The reserve for losses shown on the audited consolidated financial statements as of December 31, 1998 was adequate in all material respects to provide for possible or specific losses, and contained an additional amount of unallocated reserves for unanticipated future losses, at a level considered adequate under generally

accepted accounting principles and standards applied to the specialty finance business conducted by the Company and its subsidiaries. To the knowledge of the Company, the aggregate principal amount of all receivables including, but not limited to, Loans and leases contained in the Loan and lease portfolio of the Company and its subsidiaries as of December 31, 1998, arose in the ordinary course of business and are not the subject of any asserted claim or set off, except to the extent reserves have been taken against such receivables.

SECTION 3.18 Brokers. No broker, finder or investment banker (other than the Financial Adviser) is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of the Company. The Company has heretofore furnished to Parent a complete and correct copy of all agreements between the Company and the Financial Adviser pursuant to which such firm would be entitled to any payment relating to the transactions contemplated hereby.

SECTION 3.19 Sole Representations and Warranties. The representations and warranties set forth in this Article III and elsewhere in this Agreement, as modified by the Company Disclosure Schedule, are the only representations and warranties of the Company in connection with this Agreement and the transactions contemplated hereby, and supersede any and all previous written and oral statements made to Parent.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PARENT AND PURCHASER

Parent and Purchaser hereby, jointly and severally, represent and warrant to the Company that:

SECTION 4.1 Corporate Organization. Each of Parent and Purchaser is a corporation duly organized, validly existing and in good standing under the laws of its respective jurisdiction of organization and has the requisite corporate power and authority and any necessary governmental approval to own, operate or lease its properties and to carry on its business as it is now being conducted, except where the failure to be so organized, existing and in good standing or to have such power, authority and governmental approvals is not, individually or in the aggregate, reasonably likely to prevent or materially delay the consummation of the Offer or the Merger.

SECTION 4.2 Authority Relative to This Agreement. Each of Parent and Purchaser has all necessary corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by each of Parent and Purchaser and the consummation by each of Parent and Purchaser of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Parent and Purchaser other than filing and recordation of appropriate merger documents as required by the MBCL. This Agreement has been duly executed and delivered by Parent and Purchaser and, assuming due authorization, execution and delivery by

the Company, constitutes a legal, valid and binding obligation of each such corporation enforceable against such corporation in accordance with its terms.

SECTION 4.3 No Conflict; Required Filings and Consents. (a) The execution, delivery and performance of this Agreement by Parent and Purchaser do not and will not: (i) conflict with or violate the respective certificates of incorporation or by-laws of Parent or Purchaser; (ii) assuming that all consents, approvals and authorizations contemplated by clauses (i), (ii) and (iii) of subsection (b) below have been obtained and all filings described in such clauses have been made, conflict with or violate any law, rule, regulation, order, judgment or decree applicable to Parent or Purchaser or by which either of them or their respective properties are bound or affected; or (iii) result in any breach or violation of or constitute a default (or an event which with notice or lapse of time or both could become a default) or result in the loss of a material benefit under, or give rise to any right of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the property or assets of Parent or Purchaser pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Parent or Purchaser is a party or by which Parent or Purchaser or any of their respective properties are bound or affected, except, in the case of clauses (ii) and (iii), for any such conflicts, violations, breaches, defaults or other occurrences which are not, individually or in the aggregate, reasonably likely to prevent or materially delay the consummation of the Offer or the Merger.

(b) Except for the Licenses identified in Section 3.16 of the Company Disclosure Schedule and any other consents, approvals, authorizations, permits or filings as may be required by any governmental authority in order for the Surviving Corporation to operate after the Effective Time the business of the Company as currently conducted, including, without limitation, the filing of applications and notices with federal and state regulatory authorities governing consumer finance, commercial finance, mortgage lending and insurance in the states in which the Company and its subsidiaries operate their respective businesses, the execution, delivery and performance of this Agreement by Parent and Purchaser do not and will not require any consent, approval, authorization or permit of, action by, filing with or notification to, any governmental or regulatory authority, domestic or foreign, except (i) for applicable requirements, if any, of the Exchange Act and the rules and regulations promulgated thereunder, the HSR Act or other foreign filings or approvals, state securities, takeover and "blue sky" laws, (ii) the filing and recordation of appropriate merger or other documents as required by the MBCL, and (iii) such consents, approvals, authorizations, permits, actions, filings or notifications the failure of which to make or obtain are not, individually or in the aggregate, reasonably likely to prevent or materially delay the consummation of the Offer or the Merger.

SECTION 4.4 Offer Documents; Proxy Statement. The Offer Documents, as filed pursuant to Section 1.1, will not, at the time such Offer Documents are filed with the SEC or are first published, sent or given to stockholders, as the case may be, contain any untrue statement of a material fact or omit to state any material fact required to be stated or incorporated by reference therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The information supplied by Parent for inclusion in the Proxy Statement shall not, on the date the Proxy Statement is first mailed to stockholders, at the time

of the Stockholders Meeting (as defined in Section 6.1), if any, or at the Effective Time, contain any statement which, at such time and in light of the circumstances under which it shall be made, is false or misleading with respect to any material fact, or shall omit to state a material fact required to be stated therein or necessary in order to make the statements therein not false or misleading or necessary to correct any statement in any earlier communication with respect to the solicitation of proxies for the Stockholders Meeting which has become false or misleading. Notwithstanding the foregoing, Parent and Purchaser make no representation or warranty with respect to any information supplied by the Company or any of its representatives which is contained in or incorporated by reference in any of the foregoing documents or the Offer Documents. The Offer Documents, as amended and supplemented, will comply in all material respects as to form with the requirements of the Exchange Act and the rules and regulations promulgated thereunder.

SECTION 4.5 Brokers. No broker, finder or investment banker (other than Donaldson, Lufkin & Jenrette, Inc.) is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by and on behalf of Parent or Purchaser.

SECTION 4.6 Funds. Parent or Purchaser, at the expiration date of the Offer and at the Effective Time, will have the funds necessary to consummate the Offer and the Merger, respectively.

ARTICLE V

CONDUCT OF BUSINESS PENDING THE MERGER

SECTION 5.1 Conduct of Business of the Company Pending the Merger. The Company covenants and agrees that, during the period from the date hereof to the Effective Time, unless Parent shall otherwise agree in writing, the businesses of the Company and its subsidiaries shall be conducted only in, and the Company and its subsidiaries shall not take any action except in, the ordinary course of business and in a manner consistent with past practice; and the Company and its subsidiaries shall each use its commercially reasonable efforts to preserve substantially intact the business organization of the Company and its subsidiaries, to keep available the services of the present officers, employees and consultants of the Company and its subsidiaries and to preserve the present relationships of the Company and its subsidiaries with customers, suppliers and other persons with which the Company or any of its subsidiaries has significant business relations. By way of amplification and not limitation, except as set forth in Section 5.1 of the Company Disclosure Schedule, neither the Company nor any of its subsidiaries shall, between the date of this Agreement and the Effective Time, directly or indirectly do, or commit to do, any of the following without the prior written consent of Parent:

(a) amend or otherwise change its Articles of Organization or by-laws or equivalent organizational documents;

(b) issue, deliver, sell, pledge, dispose of or encumber, or authorize or commit to the issuance, sale, pledge, disposition or encumbrance of, (i) any shares of capital stock of any class, or any options, warrants, convertible securities or other rights of any kind to acquire any shares of capital stock, or any other ownership interest (including but not limited to stock appreciation rights or phantom stock), of the Company or any of its subsidiaries (except for the issuance of up to 913,720 shares of Company Common Stock required to be issued pursuant to the terms of Options outstanding as of September 22, 1999 or (ii) any assets of the Company or any of its subsidiaries, except in the ordinary course of business and in a manner consistent with past practice;

(c) declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its capital stock;

(d) reclassify, combine, split, subdivide or redeem, purchase or otherwise acquire, directly or indirectly, any of its capital stock;

(e) (i) acquire (by merger, consolidation, or acquisition of stock or assets) any corporation, partnership or other business organization or division thereof; (ii) incur any indebtedness for borrowed money or issue any debt securities or assume, guarantee or endorse, or otherwise as an accommodation become responsible for, the obligations of any person, or make any loans, advances or capital contributions to, or investments in, any other person (other than in the ordinary course of business consistent with past practice and other than existing committed facilities); (iii) enter into any contract or agreement other than in the ordinary course of business consistent with past practice; or (iv) authorize capital expenditures (during any three month period) which are, in the aggregate, in excess of $25,000 for the Company and its subsidiaries taken as a whole;

(f) except to the extent required under existing employee and director benefit plans, agreements or arrangements as in effect on the date of this Agreement or as provided under Section 2.7, increase the compensation or fringe benefits of any of its directors, officers or employees, except for increases in salary or wages of employees of the Company or its subsidiaries who are not officers of the Company in the ordinary course of business in accordance with past practice, or grant any severance or termination pay not currently required to be paid under existing severance plans to or enter into any employment, consulting or severance agreement or arrangement with any present or former director, officer or other employee of the Company or any of its subsidiaries, or establish, adopt, enter into or amend or terminate any collective bargaining agreement or Company Plan, including, but not limited to, bonus, profit sharing, thrift, compensation, stock option, restricted stock, pension, retirement, deferred compensation, employment, termination, severance or other plan, agreement, trust, fund, policy or arrangement for the benefit of any directors, officers or employees;

(g) except as may be required as a result of a change in law or in generally accepted accounting principles, change any of the accounting practices or principles used by it, other than discontinuance of the gain on sale method;

(h) make any material Tax election, change any annual Tax accounting period, change any method of Tax accounting, file any amended Tax Return or settle or compromise any material federal, state, local or foreign Tax liability;

(i) settle or compromise any pending or threatened suit, action or claim which is material or which relates to the transactions contemplated hereby;

(j) adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its subsidiaries not constituting an inactive subsidiary (other than the Merger);

(k) pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction (i) in the ordinary course of business and consistent with past practice of liabilities reflected or reserved against in the financial statements of the Company or incurred in the ordinary course of business and consistent with past practice and (ii) of liabilities required to be paid, discharged or satisfied pursuant to the terms of any contract in existence on the date hereof;

(l)(i) make or commit to make any financial services Loan;

(ii) make or commit to make any other Loan except as specifically provided in clauses (iii) through (ix) of this paragraph (l);

(iii) purchase or commit to purchase consumer land Loans from a single dealer exceeding an aggregate amount of (y) $1,000,000 in the case of a dealer that is an approved dealer as of the date of this Agreement or (z) $2,500,000 in the case of a dealer that becomes an approved dealer on or after the date of this agreement;

(iv) purchase or commit to purchase consumer timeshare Loans from a single seller exceeding an aggregate amount of (y) $500,000 in the case of a seller that is an approved seller as of the date of this Agreement or (z) $1,000,000 in the case of a seller that becomes an approved seller on or after the date of this Agreement;

(v) make or commit to make Loans for the acquisition and/or construction of timeshare units that exceed (y) $2,500,000 in the case of a new Loan to an approved borrower (or group of affiliated borrowers) as of the date of this Agreement; provided however, that any increase in an existing commitment shall not exceed $1,000,000, and provided, further, that any additional Loans or increases as described in this clause (y) shall not cause the aggregate commitments to such borrower to exceed $2,500,000 or (z) $2,000,000 in the case of a borrower (or group of affiliated borrowers) which becomes an approved borrower on or after the date of this Agreement;

(vi) make or commit to make Loans for the acquisition and/or development of landlots that exceed (y) $500,000 in the case of a new Loan to an approved borrower (or group of

affiliated borrowers) as of the date of this Agreement; provided however, that any increase in an existing commitment shall not exceed $100,000, and provided, further, that any additional Loans or increases as described in this clause (y) shall not cause the aggregate commitments to such borrower to exceed $1,500,000 or (z) $1,000,000 in the case of a borrower (or group of affiliated borrowers) which becomes an approved borrower on or after the date of this Agreement;

(vii) make or commit to make Loans for the finance or purchase of land
(not including consumer Loans as provided in clause (iii) of Section 5.1(l) above) that exceed (y) $1,000,000 in the case of a new Loan to an approved borrower (or group of affiliated borrowers) as of the date of this Agreement; provided however, that any increase in an existing commitment shall not exceed $250,000, and provided, further, that any additional Loans or increases as described in this clause (y) shall not cause the aggregate commitments to such borrower to exceed $2,500,000 or (z) $500,000 in the case of a borrower (or group of affiliated borrowers) which becomes an approved borrower on or after the date of this Agreement;

(viii) make or commit to make Loans for the finance or purchase of timeshare units (not including consumer Loans as provided in clause (iv) of

Section 5.1(l) above) that exceed (y) $5,000,000 in the case of a new Loan to an approved borrower (or group of affiliated borrowers) as of the date of this Agreement; provided however, that any increase in an existing commitment shall not exceed $2,500,000, and provided, further, that any additional Loans or increases as described in this clause (y) shall not cause the aggregate commitments to such borrower to exceed $5,000,000 or (z) $5,000,000 in the case of a borrower (or group of affiliated borrowers) which becomes an approved borrower on or after the date of this Agreement; or

(ix) purchase or commit to purchase any tax lien certificate greater than $500,000;

provided, that nothing in this Section 5.1(l) shall prohibit the Company from honoring any contractual obligation in existence on the date of this Agreement.

(m) refinance or restructure any existing Loan, except in the ordinary course of business consistent with past practice and prudent lending practices;

(n) make any material changes in its polices or practices concerning Loan underwriting and credit scoring, or which persons may approve Loans or credit scoring;

(o) except in the ordinary course of business consistent with past practice and prudent business practices, enter into any securities transaction for its own account or purchase or otherwise acquire any investment security for its own account other than (A) securities backed by the full faith and credit of the United States or an agency thereof and (B) other readily marketable securities not in excess of $100,000.

(p) foreclose upon or otherwise take title to or possession or control of any real property (other than residential property) without first obtaining a phase one environmental report thereon;

(q) enter into any new, or modify, amend or extend the terms of any existing, contracts relating to the purchase or sale of financial or other futures, or any put or call option relating to cash, securities or commodities or any interest rate swap agreements or other agreements relating to the hedging of interest rate risk, except in the ordinary course of business consistent with past practices and prudent business practices; or

(r) take, or offer or propose to take, or agree to take in writing or otherwise, any of the actions described in Sections 5.1(a) through 5.1(q) or any action which would make any of the representations or warranties of the Company contained in this Agreement untrue and incorrect as of the date when made if such action had then been taken, or would result in any of the conditions set forth in Annex A not being satisfied.

ARTICLE VI

ADDITIONAL AGREEMENTS

SECTION 6.1 Stockholders Meeting. (a) If adoption of this Agreement is required by applicable law, the Company, acting through its Board of Directors, shall in accordance with and subject to applicable law and the Company's Articles of Organization and By-Laws, (i) duly call, give notice of, convene and hold a meeting of its stockholders as soon as practicable following consummation of the Offer for the purpose of adopting this Agreement and the transactions contemplated hereby (the "Stockholders Meeting") and except if the Board of Directors by majority vote determines in good faith, based on the advice of outside legal counsel to the Company that to do so would constitute a breach of fiduciary duty under applicable law, (A) include in the Proxy Statement the unanimous recommendation of the Board of Directors that the stockholders of the Company vote in favor of the adoption of this Agreement and the approval of the transactions contemplated hereby and the written opinion of the Financial Adviser that the consideration to be received by the stockholders of the Company pursuant to the Offer and the Merger is fair to such stockholders and (B) use its reasonable best efforts to obtain the necessary adoption of this Agreement and the approval of the transactions contemplated hereby by its stockholders. At the Stockholders Meeting, Parent and Purchaser shall cause all Shares then owned by them and their subsidiaries to be voted in favor of adoption of this Agreement and the approval of the transactions contemplated hereby.

(b) Notwithstanding the foregoing, in the event that Purchaser shall acquire at least 90% of the outstanding Shares, the Company agrees, at the request of Purchaser, subject to Article VII, to take all necessary and appropriate action to cause the Merger to become effective as soon as reasonably practicable after such acquisition, without a meeting of the Company's stockholders, in accordance with Section 82 of the MBCL.

SECTION 6.2 Proxy Statement. If required by applicable law, as soon as practicable following Parent's request, the Company shall file with the SEC under the Exchange Act and the rules and regulations promulgated thereunder, and shall use its reasonable best

efforts to have cleared by the SEC, the Proxy Statement with respect to the Stockholders Meeting. Parent, Purchaser and the Company will cooperate with each other in the preparation of the Proxy Statement; without limiting the generality of the foregoing, each of Parent and Purchaser will furnish to the Company the information relating to it required by the Exchange Act and the rules and regulations promulgated thereunder to be set forth in the Proxy Statement. The Company agrees to use its reasonable best efforts, after consultation with the other parties hereto, to respond promptly to any comments made by the SEC with respect to the Proxy Statement and any preliminary version thereof filed by it and cause such Proxy Statement to be mailed to the Company's stockholders at the earliest practicable time.

SECTION 6.3 Company Board Representation; Section 14(f). (a) Promptly upon the purchase by Purchaser of Shares pursuant to the Offer, and from time to time thereafter, Purchaser shall be entitled to designate up to such number of directors, rounded up to the next whole number, on the Board of Directors of the Company as shall give Purchaser representation on the Board of Directors equal to the product of the total number of directors on such Board (giving effect to the directors elected pursuant to this sentence and including any vacancies or unfilled newly-created directorships) multiplied by the percentage that the aggregate number of Shares beneficially owned by Purchaser or any affiliate of Purchaser bears to the total number of Shares then outstanding, and the Company shall amend, or cause to be amended, its by-laws to provide for each of the matters set forth in this Section 6.3 and shall, at such time, promptly take all action necessary to cause Purchaser's designees to be so elected, including either increasing the size of the Board of Directors or securing the resignations of incumbent directors or both. At such times, the Company will use its reasonable best efforts to cause persons designated by Purchaser to constitute the same percentage as is on the board of (i) each committee of the Board of Directors, (ii) each board of directors of each subsidiary of the Company and (iii) each committee of each such board, in each case only to the extent permitted by law. Until Purchaser acquires 662/3% of the outstanding Shares on a fully diluted basis, the Company shall use its commercially reasonable efforts to ensure that all the members of the Board of Directors and such boards and committees as of the date hereof who are not employees of the Company shall remain members of the Board of Directors and such boards and committees.

(b) The Company's obligations to appoint designees to its Board of Directors shall be subject to Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder. The Company shall promptly take all actions required pursuant to Section 14(f) and Rule 14f-1 in order to fulfill its obligations under this Section 6.3 and shall include in the Schedule 14D-9 or a separate Rule 14f-1 information statement provided to stockholders such information with respect to the Company and its officers and directors as is required under Section 14(f) and Rule 14f-1 to fulfill its obligations under this Section 6.3. Parent or Purchaser will supply to the Company and be solely responsible for any information with respect to either of them and their nominees, officers, directors and affiliates required by Section 14(f) and Rule 14f-1.

(c) Following the election or appointment of Purchaser's designees pursuant to this Section 6.3 and prior to the Effective Time, any amendment, or waiver of any term or condition of this Agreement or the Articles of Organization or By-Laws of the Company, any termination of this Agreement by the Company, any extension by the Company of the time for

the performance of any of the obligations or other acts of Purchaser or waiver or assertion of any of the Company's rights hereunder, and any other consent or action by the Board of Directors with respect to this Agreement, will require only the concurrence of a majority of the directors of the Company then in office who are neither designated by Purchaser nor are employees of the Company (the "Disinterested Directors") and such concurrence shall constitute the authorization of the Board of Directors of the Company and no other action by the Company, including any action by any other director of the Company, shall be required for purposes of this Agreement. Notwithstanding the foregoing, the number of Disinterested Directors shall be not less than two.

SECTION 6.4 Access to Information; Confidentiality. (a) From the date hereof to the Effective Time, the Company shall, and shall cause its subsidiaries, officers, directors, employees, auditors and other agents to, afford the officers, employees, auditors and other agents of Parent, and financing sources who shall agree to be bound by the provisions of this Section 6.4 as though a party hereto, complete access, consistent with applicable law, at all reasonable times to its officers, employees, agents, properties, offices, plants and other facilities and to all books and records, and shall furnish Parent and such financing sources with all financial, operating and other data and information as Parent, through its officers, employees or agents, or such financing sources may from time to time reasonably request. Parent, Purchaser and their respective officers, employees, agents and financing sources shall exercise such right of access in a manner which does not unduly interfere with the conduct by the Company of its business.

(b) Each of Parent and Purchaser will hold and will cause its officers, employees, auditors and other agents to hold in confidence all documents and information concerning the Company and its subsidiaries furnished to Parent or Purchaser in connection with the transactions contemplated in this Agreement pursuant to the terms and provisions of that Confidentiality Agreement dated July 20, 1999 between Parent and the Company (the "Confidentiality Agreement").

(c) No investigation or information provided pursuant to this Section 6.4 shall affect any representations or warranties of the parties herein or the conditions to the obligations of the parties hereto.

SECTION 6.5 No Solicitation of Transactions. The Company, its affiliates and their respective officers, directors, employees, representatives and agents shall immediately cease any existing discussions or negotiations, if any, with any parties conducted heretofore with respect to any acquisition or exchange of all or any material portion of the assets of, or any equity interest in, the Company or any of its subsidiaries or any business combination with or involving the Company or any of its subsidiaries. At any time prior to consummation of the Offer, the Company may, directly or indirectly, furnish information and access, in each case only in response to a request for such information or access to any person made after the date hereof which was not encouraged, solicited or initiated by the Company or any of its affiliates or any of its or their respective officers, directors, employees, representatives or agents after the date hereof, pursuant to appropriate confidentiality agreements, and may participate in discussions and negotiate with such person concerning any merger, sale of assets, sale of shares of capital stock or similar transaction (including an exchange of stock or assets) involving the Company or any

subsidiary or division of the Company, in each case (whether furnishing information and access or participating in discussions and negotiations) only if such person has submitted a written proposal to the Board of Directors of the Company relating to any such transaction and the Board by majority vote determines in good faith, based upon the advice of outside counsel to the Company, that failing to take such action would constitute a breach of the Board's fiduciary duty under applicable law. The Board shall provide a copy of any such written proposal to Parent immediately after receipt thereof, shall notify Parent immediately if any proposal (oral or written) is made and shall in such notice, indicate in reasonable detail the identity of the offeror and the terms and conditions of any proposal and shall keep Parent promptly advised of all developments which could reasonably be expected to culminate in the Board of Directors withdrawing, modifying or amending its recommendation of the Offer, the Merger and the other transactions contemplated by this Agreement. Except as set forth in this Section 6.5, neither the Company or any of its affiliates, nor any of its or their respective officers, directors, employees, representatives or agents, shall, directly or indirectly, encourage, solicit, participate in or initiate discussions or negotiations with, or provide any information to, any corporation, partnership, person or other entity or group (other than Parent and Purchaser, any affiliate or associate of Parent and Purchaser or any designees of Parent or Purchaser) concerning any merger, sale of any material portion or assets, sale of any of the shares of capital stock or similar transactions (including an exchange of stock or assets) involving the Company or any subsidiary or division of the Company; provided, however, that nothing herein shall prevent the Board from taking, and disclosing to the Company's stockholders, a position contemplated by Rules 14d-9 and 14e-2 promulgated under the Exchange Act with regard to any tender offer; provided, further, that the Board shall not recommend that the stockholders of the Company tender their Shares in connection with any such tender offer unless the Board by majority vote shall have determined in good faith, based upon the advice of outside counsel to the Company, that failing to take such action would constitute a breach of the Board's fiduciary duty under applicable law. The Company agrees not to release any third party from, or waive any provisions of, any confidentiality or standstill agreement to which the Company is a party, unless the Board by majority vote shall have determined in good faith, based upon the advice of outside counsel to the Company, that failing to release such third party or waive such provisions would constitute a breach of the fiduciary duties of the Board of Directors under applicable law.

SECTION 6.6 Employee Benefits Matters. (a) Subject to paragraphs (b) and (d) below, on and after the Effective Time, Parent shall cause the Surviving Corporation and its subsidiaries to promptly pay or provide when due all compensation and benefits earned through or prior to the Effective Time as provided pursuant to the terms of any compensation arrangements, employment agreements and employee or director benefit plans, programs and policies in existence as of the date hereof for all employees (and former employees) and directors (and former directors) of the Company and its subsidiaries (unless superseded by an employment agreement between such employee and the Parent or Purchaser). Parent and the Company agree that the Surviving Corporation and its subsidiaries shall pay promptly or provide when due all compensation and benefits required to be paid pursuant to the terms of any individual agreement with any employee, former employee, director or former director in effect as of the date hereof and disclosed in Section 3.10(a) of the Company Disclosure Schedule.

(b) Parent shall cause the Surviving Corporation, for the period commencing at the Effective Time and ending on the first anniversary thereof, to provide employee benefits under plans, programs and arrangements which, in the aggregate, will provide benefits to the employees of the Surviving Corporation and its subsidiaries (other than employees covered by a collective bargaining agreement) which are no less favorable in the aggregate than those provided to Parent's similarly situated employees pursuant to the plans, programs and arrangements (other than those related to the equity securities of the Company) of the Parent and its subsidiaries in effect on the date hereof and employees covered by collective bargaining agreements shall be provided with such benefits as shall be required under the terms of any applicable collective bargaining agreement; provided, however, that nothing herein shall prevent the amendment or termination of any specific plan, program or arrangement, require that the Surviving Corporation provide or permit investment in the securities of Parent, the Company or the Surviving Corporation or interfere with the Surviving Corporation's right or obligation to make such changes as are necessary to conform with applicable law. Employees of the Surviving Corporation shall be given credit for all service with the Company and its subsidiaries, to the same extent as such service was credited for such purpose by the Company, under each employee benefit plan, program, or arrangement of the Parent in which such employees are eligible to participate for purposes of eligibility and vesting; provided, however, that in no event shall the employees be entitled to any credit to the extent that it would result in a duplication of benefits with respect to the same period of service.

(c) If employees of the Surviving Corporation and its subsidiaries become eligible to participate in a medical, dental or health plan of Parent or its subsidiaries, Parent shall cause such plan to (i) waive any preexisting condition limitations for conditions covered under the applicable medical, health or dental plans of the Company and its subsidiaries and (ii) honor any deductible and out of pocket expenses incurred by the employees and their beneficiaries under such plans during the portion of the calendar year prior to such participation.

(d) Nothing in this Section 6.6 shall require the continued employment of any person or, with respect to clauses (a), (b) and (c) hereof, prevent the Company and/or the Surviving Corporation and their subsidiaries from taking any action or refraining from taking any action which the Company and its subsidiaries prior to the Effective Time, could have taken or refrained from taking.

SECTION 6.7 Directors' and Officers' Indemnification and Insurance.
(a) The Articles of Organization and By-Laws of the Surviving Corporation shall contain provisions no less favorable with respect to indemnification than are set forth in the Articles of Organization and By-laws of the Company, which provisions shall not be amended, repealed or otherwise modified for a period of six years from the Effective Time in any manner that would adversely affect the rights thereunder of individuals who at the Effective Time were directors, officers or employees of the Company.

(b) Parent shall use its reasonable best efforts to cause to be maintained in effect for six years from the Effective Time the current policies of the directors' and officers' liability insurance maintained by the Company (provided that Parent may substitute therefor policies of at

least the same coverage containing terms and conditions which are not materially less advantageous) with respect to matters occurring prior to the Effective Time to the extent available; provided, however, that in no event shall Parent or the Company be required to expend more than an amount per year equal to 150% of current annual premiums paid by the Company (which the Company represents and warrants to be not more than $46,000) to maintain or procure insurance coverage pursuant hereto.

(c) For six years after the Effective Time, Parent agrees that it will or will cause the Surviving Corporation to indemnify and hold harmless each present and former director and officer of the Company, determined as of the Effective Time and their heirs and representatives (the "Indemnified Parties"), against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities (collectively, "Costs") (but only to the extent such Costs are not otherwise covered by insurance and paid) incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative (collectively, "Claims"), arising out of or pertaining to matters existing or occurring at or prior to the Effective Time, whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent permitted under applicable law (and Parent shall ,or shall cause the Surviving Corporation to, also advance expenses as incurred to the fullest extent permitted under applicable law provided the person to whom expenses are advanced provides an undertaking to repay such advances if it is ultimately determined that such person is not entitled to indemnification).

(d) Any Indemnified Party wishing to claim indemnification under paragraph (c) of this Section 6.7, upon learning of any such Claim, shall promptly notify Parent thereof, but the failure to so notify shall not relieve Parent of any liability it may have to such Indemnified Party if such failure does not materially prejudice Parent. In the event of any such Claim (whether arising before or after the Effective Time), (i) Parent or the Surviving Corporation shall have the right to assume the defense thereof and Parent shall not be liable to such Indemnified Parties for any legal expenses of other counsel or any other expenses subsequently incurred by such Indemnified Parties in connection with the defense thereof, except that if Parent or the Surviving Corporation elects not to assume such defense, or counsel for the Indemnified Parties advises that there are issues that raise conflicts of interest between Parent or the Surviving Corporation and the Indemnified Parties, the Indemnified Parties may retain counsel satisfactory to them, and Parent or the Surviving Corporation shall pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements therefor are received; provided, however, that Parent shall be obligated pursuant to this paragraph (d) to pay for only one firm of counsel for all Indemnified Parties in any jurisdiction unless the use of one counsel for such Indemnified Parties would present such counsel with a conflict of interest, (ii) the Indemnified Parties will cooperate in the defense of any such matter and (iii) Parent shall not be liable for any settlement effected without its prior written consent, which consent shall not be unreasonably withheld; and provided, further, that Parent shall not have any obligation hereunder to any Indemnified Party when and if a court of competent jurisdiction shall ultimately determine, and such determination shall have become final, that the indemnification of such Indemnified Party in the manner contemplated hereby is prohibited by applicable law.

SECTION 6.8 Intentionally Omitted.

SECTION 6.9 Notification of Certain Matters. The Company shall give prompt notice to Parent, and Parent shall give prompt notice to the Company, of
(i) the occurrence or non-occurrence of any event the occurrence or non-occurrence of which would, if such representation or warranty were required to be made at such time, be likely to cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect and (ii) any failure of the Company, Parent or Purchaser, as the case may be, to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 6.8 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

SECTION 6.10 Further Action; Commercially Reasonable Efforts. (a) Upon the terms and subject to the conditions hereof, each of the parties hereto shall use commercially reasonable efforts to take, or cause to be taken, all appropriate action, and to do or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement as soon as practicable, including but not limited to (i) cooperation in the preparation and filing of the Offer Documents, the Schedule 14D-9, the Proxy Statement, any required filings under the HSR Act and any amendments to any thereof and (ii) using commercially reasonable efforts to promptly make all required regulatory filings and applications including, without limitation, responding promptly to requests for further information and to obtain all licenses, permits, consents, approvals, authorizations, qualifications and orders of governmental authorities and parties to contracts with the Company and its subsidiaries and Parent and its subsidiaries as are necessary for the consummation of the transactions contemplated by this Agreement and to fulfill the conditions to the Offer and the Merger, including, without limitation, those listed in Section 3.16 of the Company Disclosure Schedule. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of each party to this Agreement shall use commercially reasonable efforts to take all such necessary action.

(b) The Company and Parent each shall keep the other apprised of the status of matters relating to completion of the transactions contemplated hereby, including promptly furnishing the other with copies of notices or other communications received by Parent or the Company, as the case may be, or any of their subsidiaries, from any Governmental Authority with respect to the Offer or the Merger or any of the other transactions contemplated by this Agreement. The parties hereto will consult and cooperate with one another, and consider in good faith the views of one another in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party hereto in connection with proceedings under or relating to the HSR Act or any other antitrust law.

(c) Each party shall timely and promptly make all filings which are required under the HSR Act. Each party will furnish to the other such necessary information and

reasonable assistance as it may request in connection with its preparation of such filings. Each party will supply the other with copies of all correspondence, filings or communications between such party or its representatives and the Federal Trade Commission, the Antitrust Division of the United States Department of Justice or any other governmental agency or authority or members of their respective staffs with respect to this Agreement or the transactions contemplated hereby.

SECTION 6.11 Public Announcements. Parent and the Company shall consult with each other before issuing any press release or otherwise making any public statements with respect to the Offer or the Merger and shall not issue any such press release or make any such public statement prior to such consultation and without the consent of the other party, except as may be required by law or any listing agreement with its securities exchange.

SECTION 6.12 Disposition of Litigation. (a) The Company agrees that it will not settle any litigation currently pending, or commenced after the date hereof, against the Company or any of its directors by any stockholder of the Company relating to the Offer or this Agreement, without the prior written consent of Parent (which shall not be unreasonably withheld).

(b) The Company will not voluntarily cooperate with any third party which has sought or may hereafter seek to restrain or prohibit or otherwise oppose the Offer or the Merger and will cooperate with Parent and Purchaser to resist any such effort to restrain or prohibit or otherwise oppose the Offer or the Merger.

ARTICLE VII

CONDITIONS OF MERGER

SECTION 7.1 Conditions to Obligation of Each Party to Effect the Merger. The respective obligations of each party to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following conditions:

(a) If required by the MBCL, this Agreement shall have been adopted by the affirmative vote of the stockholders of the Company by the requisite vote in accordance with the Company's Articles of Organization and the MBCL.

(b) No statute, rule, regulation, executive order, decree, ruling, injunction or other order (whether temporary, preliminary or permanent) shall have been enacted, entered, promulgated or enforced by any United States, foreign, federal or state court or governmental authority which prohibits, restrains, enjoins or restricts the consummation of the Merger; provided, however, that prior to invoking this condition the invoking party shall have complied with Section 6.10.

(c) Purchaser shall have purchased Shares pursuant to the Offer.

(d) Any waiting period applicable to the Merger under the HSR Act shall have terminated or expired.

ARTICLE VIII

TERMINATION, AMENDMENT AND WAIVER

SECTION 8.1 Termination. This Agreement may be terminated and the Merger contemplated hereby may be abandoned at any time prior to the Effective Time, notwithstanding approval thereof by the stockholders of the Company:

(a) By mutual written consent of Parent, Purchaser and the Company;

(b) By Parent or the Company if any court of competent jurisdiction or other governmental body located or having jurisdiction within the United States shall have issued a final order, injunction, decree, judgment or ruling or taken any other final action restraining, enjoining or otherwise prohibiting the Offer or the Merger and such order, injunction, decree, judgment, ruling or other action is or shall have become final and nonappealable; provided, however, that prior to invoking this right of termination the invoking party shall have complied with Section 6.10;

(c) By Parent if due to an occurrence or circumstance which resulted in a failure to satisfy any of the Offer Conditions, Purchaser shall have (i) terminated the Offer or (ii) failed to pay for Shares pursuant to the Offer on or prior to the Outside Date (as defined below);

(d) By the Company (only following the Outside Date, in the case of clause (ii)(B) below) if (i) there shall have been a material breach of any covenant or agreement on the part of Parent or the Purchaser contained in this Agreement which materially adversely affects Parent's or Purchaser's ability to consummate (or materially delays commencement or consummation of) the Offer, and which shall not have been cured prior to the earlier of (A) 10 business days following notice of such breach and (B) two business days prior to the date on which the Offer expires, (ii) Purchaser shall have (A) terminated the Offer or (B) failed to pay for Shares pursuant to the Offer on or prior to the Outside Date (unless such termination or failure is caused by or results from the failure of any representation or warranty of the Company to be true and correct in any material respect or the failure of the Company to perform in any material respect any of its covenants or agreements contained in this Agreement) or (iii) prior to the purchase of Shares pursuant to the Offer, any person shall have made a bona fide offer to acquire the Company (A) that the Board of Directors of the Company by majority vote determines in its good faith judgment is more favorable to the Company and the Company's stockholders than the Offer and the Merger and (B) as a result of which the Board of Directors by majority vote determines in good faith, based upon the advice of outside counsel to the Company, that it is obligated by its fiduciary obligations under applicable

law to terminate this Agreement, provided that such termination under this clause (iii) shall not be effective until the Company has made payment of the full fee and expense reimbursement required by Section 8.3; or

(e) By Parent prior to the purchase of Shares pursuant to the Offer, if (i) there shall have been a breach of any representation, warranty, covenant or agreement on the part of the Company contained in this Agreement which is reasonably likely to have a Material Adverse Effect on the Company or which materially adversely affects (or materially delays) the consummation of the Offer, which shall not have been cured prior to the earlier of (A) 10 business days following notice of such breach and (B) two business days prior to the date on which the Offer expires, (ii) the Board shall have withdrawn or modified (including by amendment of the Schedule 14D-9) in a manner adverse to Purchaser its approval or recommendation of the Offer, this Agreement or the Merger or shall have recommended another offer or transaction, or shall have resolved to effect any of the foregoing, or (iii) the Minimum Condition shall not have been satisfied by the expiration date of the Offer as it may have been extended pursuant hereto and on or prior to such date (A) any person (including the Company but not including Parent or Purchaser) shall have made a public announcement, disclosure or communication to the Company with respect to a Third Party Acquisition or (B) any person (including the Company or any of its affiliates or subsidiaries), other than Parent or any of its affiliates shall have become (and remain at the time of termination) the beneficial owner of 20% or more of the Shares (unless such person shall have tendered and not withdrawn such person's Shares pursuant to the Offer). As used herein, the "Outside Date" shall mean the latest to occur (but in no event later than 90 days following the date hereof) of (i) the date that is 60 days following the date hereof and (ii) provided that the Minimum Condition has been satisfied within 60 days following the date hereof, the date on which either (x) the applicable waiting period under the HSR Act shall have expired or been terminated or (y) the final terms of a consent decree between Parent and the appropriate governmental authority with respect to the Offer and the Merger shall have been agreed to.

SECTION 8.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 8.1, this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto except as set forth in Section 8.3 and Section 9.1; provided, however, that nothing herein shall relieve any party from liability for any wilful breach hereof.

SECTION 8.3 Fees and Expenses.

(a) If:

(i) (x) Parent terminates this Agreement pursuant to Section 8.1(e)(i) hereof and (y) prior to such termination a proposal or offer with respect to a Third Party Acquisition shall have been made to the Company and (z) within 12 months after such termination, the Company enters into an agreement with respect to a Third Party Acquisition, or a Third Party Acquisition occurs; or

(ii) (x) the Company terminates this Agreement pursuant to 8.1(d)(iii) or (y) the Company terminates this Agreement pursuant to Section 8.1(d)(ii)(B) hereof and at such time Parent would have been permitted to terminate this Agreement under Section 8.1(e)(ii) or (iii) hereof or (z) Parent terminates this Agreement pursuant to Section 8.1(e)(ii) or (iii) hereof;

then the Company shall pay to Parent and Purchaser, within three business days following the execution and delivery of such agreement or such occurrence, as the case may be, or simultaneously with any termination contemplated by Section 8.3(a)(ii) above, a fee, in cash, of $5.5 million (less any amounts previously paid pursuant to Section 8.3(b)), provided, however, that the Company in no event shall be obligated to pay more than one such fee with respect to all such agreements and occurrences and such termination.

"Third Party Acquisition" means the occurrence of any of the following events: (i) the acquisition of the Company by merger or similar business combination by any person other than Parent, Purchaser or any affiliate thereof (a "Third Party"); (ii) the acquisition by a Third Party of 20% or more of the book or fair market value of the consolidated assets of the Company and its subsidiaries, taken as a whole; or (iii) the acquisition by a Third Party of 20% or more of the outstanding Shares.

(b) Upon the termination of this Agreement (i) under circumstances in which Parent shall have been entitled to terminate this Agreement pursuant to
Section 8.1(e)(i) hereof (whether or not expressly terminated on such basis) or
(ii) if any of the representations and warranties of the Company contained in this Agreement were untrue or incorrect in any material respect when made and at the time of termination remained untrue or incorrect in any material respect and such misrepresentation materially adversely affected the consummation (or materially delayed commencement or consummation) of the Offer, then the Company shall reimburse Parent, Purchaser and their affiliates (not later than three business days after submission of statements therefor) for all actual documented out-of-pocket fees and expenses actually incurred by any of them or on their behalf in connection with the Offer and the Merger and the consummation of all transactions contemplated by this Agreement (including, without limitation, fees and disbursements payable to financing sources, investment bankers, counsel to Purchaser or Parent or any of the foregoing, and accountants) up to a maximum amount of $1,000,000. Unless required to be paid earlier pursuant to Section 8.1(d), the Company shall in any event pay the amount requested within three business days of such request, subject to the Company's right to demand a return of any portion as to which invoices are not received in due course after request by the Company.

(c) Except as otherwise specifically provided herein, each party shall bear its own expenses in connection with this Agreement and the transactions contemplated hereby.

SECTION 8.4 Amendment. Subject to Section 6.3, this Agreement may be amended by the parties hereto by action taken by or on behalf of their respective Boards of Directors at any time prior to the Effective Time; provided, however, that, after approval of the Merger by the stockholders of the Company, no amendment may be made which would reduce

the amount or change the type of consideration into which each Share shall be converted upon consummation of the Merger. This Agreement may not be amended except by an instrument in writing signed by the parties hereto.

SECTION 8.5 Waiver. Subject to Section 6.3, at any time prior to the Effective Time, any party hereto may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (c) waive compliance with any of the agreements or conditions contained herein. Any such extension or waiver shall be valid only if set forth in an instrument in writing signed by the party or parties to be bound thereby.

ARTICLE IX

GENERAL PROVISIONS

SECTION 9.1 Non-Survival of Representations, Warranties and Agreements. The representations, warranties and agreements in this Agreement shall terminate at the Effective Time or upon the termination of this Agreement pursuant to Section 8.1, as the case may be, except that the agreements set forth in Article II, Section 6.6, Section 6.7 and Article IX shall survive the Effective Time and those set forth in Section 6.4, Section 8.3 and Article IX shall survive termination of this Agreement.

SECTION 9.2 Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by delivery in person, by cable, telecopy, telegram or telex or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to Parent or Purchaser:

Textron Financial Corporation
40 Westminster Street
P.O. Box 6687
Providence, RI 02940-6687
Attention: David Wisen

with an additional copy to:

Simpson Thacher & Bartlett 425 Lexington Avenue New York, NY 10017
Attention: Mario A. Ponce, Esq.

if to the Company:

Litchfield Financial Corporation
430 Main Street
Williamstown, MA 02167
Attention: Richard A. Stratton

with a copy to:

Hutchins, Wheeler & Dittmar, A Professional Corporation 101 Federal Street
Boston, MA, 02110
Attention: James Westra, Esq.

SECTION 9.3 Certain Definitions. For purposes of this Agreement, the term:

(a) "affiliate" of a person means a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned person;

(b) "beneficial owner" with respect to any Shares means a person who shall be deemed to be the beneficial owner of such Shares (i) which such person or any of its affiliates or associates beneficially owns, directly or indirectly, (ii) which such person or any of its affiliates or associates (as such term is defined in Rule 12b-2 of the Exchange Act) has, directly or indirectly, (A) the right to acquire (whether such right is exercisable immediately or subject only to the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of consideration rights, exchange rights, warrants or options, or otherwise, or (B) the right to vote pursuant to any agreement, arrangement or understanding or (iii) which are beneficially owned, directly or indirectly, by any other persons with whom such person or any of its affiliates or person with whom such person or any of its affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares; provided, however, that no person nor any affiliate or associate of such person shall be deemed to be the beneficial owner of any securities by reason of a revocable proxy granted for a particular meeting of stockholders, pursuant to a public solicitation of proxies for such meeting, and with respect to which shares neither such person nor any such affiliate or associate is otherwise deemed the beneficial owner;

(c) "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management policies of a person, whether through the ownership of stock, as trustee or executor, by contract or credit arrangement or otherwise;

(d) "generally accepted accounting principles" shall mean the generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession in the United States, in each case applied on a basis consistent with the manner in which the audited financial statements for the fiscal year of the Company ended December 31, 1998 were prepared;

(e) "person" means an individual, corporation, partnership, association, trust, unincorporated organization, other entity or group (as defined in Section 13(d)(3) of the Exchange Act); and

(f) "subsidiary" or "subsidiaries" of the Company, the Surviving Corporation, Parent or any other person means any corporation, partnership, joint venture or other legal entity of which the Company, the Surviving Corporation, Parent or such other person, as the case may be (either alone or through or together with any other subsidiary), owns, directly or indirectly, 50% or more of the stock or other equity interests the holder of which is generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity.

SECTION 9.4 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the fullest extent possible.

SECTION 9.5 Entire Agreement; Assignment. This Agreement, together with the Confidentiality Agreement, constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior agreements and undertakings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof. This Agreement shall not be assigned by operation of law or otherwise, except that Parent and Purchaser may assign all or any of their respective rights and obligations hereunder to any direct or indirect wholly owned subsidiary or subsidiaries of Parent, provided that no such assignment shall relieve the assigning party of its obligations hereunder if such assignee does not perform such obligations.

SECTION 9.6 Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, except for the provisions of Section 6.7, is intended to or shall confer upon any other

person any rights, benefits or remedies of any nature whatsoever under or by reason of this Agreement.

SECTION 9.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Massachusetts, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

SECTION 9.8 Headings. The descriptive headings contained in this Agreement are included for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

SECTION 9.9 Counterparts. This Agreement may be executed in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement.

SECTION 9.10 Specific Performance. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the Commonwealth of Massachusetts or in any court of the Commonwealth of Massachusetts, this being in addition to any other remedy to which such party is entitled at law or in equity. In addition, each of the parties hereto (i) consents to submit itself to the personal jurisdiction of any Federal court located in the Commonwealth of Massachusetts or any court of the Commonwealth of Massachusetts in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement, (ii) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, (iii) agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court other than a Federal or state court sitting in the Commonwealth of Massachusetts, and (iv) consents to service being made through the notice procedures set forth in Section 9.2.

IN WITNESS WHEREOF, Parent, Purchaser and the Company have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

TEXTRON FINANCIAL CORPORATION

By:

Name:

Title:

LIGHTHOUSE ACQUISITION CORP.

By:

Name:

Title: President

By:

Name:

Title: Treasurer

LITCHFIELD FINANCIAL CORPORATION

By:

Name:

Title:

By:

Name:

Title: Treasurer

ANNEX A

Offer Conditions

The capitalized terms used in this Annex A have the meanings set forth in the attached Agreement.

Notwithstanding any other provision of the Offer, but subject to the terms and conditions of the Merger Agreement, Purchaser shall not be required to accept for payment or, subject to any applicable rules and regulations of the SEC, including Rule 14e-1(c) under the Exchange Act (relating to Purchaser's obligation to pay for or return tendered Shares promptly after termination or withdrawal of the Offer), pay for any Shares tendered pursuant to the Offer, and may postpone the acceptance for payment or, subject to the restriction referred to above, payment for any Shares tendered pursuant to the Offer, and may amend or terminate the Offer (whether or not any Shares have theretofore been purchased or paid for) to the extent permitted by the Merger Agreement if, (i) at the expiration of the Offer, a number of shares of Company Common Stock which, together with any Shares owned by Parent or Purchaser, constitutes more than 66-% of the voting power (determined on a fully-diluted basis), on the date of purchase, of all the securities of the Company entitled to vote generally in the election of directors or in a merger shall not have been validly tendered and not properly withdrawn prior to the expiration of the Offer, the ("Minimum Condition") or (ii) at any time on or after the date of this Agreement and prior to the acceptance for payment of Shares, any of the following conditions occurs or has occurred:

(a) there shall have been entered any order, preliminary or permanent injunction, decree, judgment or ruling in any action or proceeding before any court or governmental, administrative or regulatory authority or agency, or any statute, rule or regulation enacted, entered, enforced, promulgated, amended or issued that is applicable to Parent, Purchaser, the Company or any subsidiary or affiliate of Purchaser or the Company or the Offer or the Merger, by any legislative body, court, government or governmental, administrative or regulatory authority or agency that is reasonably likely to have the effect of: (i) making illegal or otherwise directly or indirectly restraining or prohibiting the making of the Offer in accordance with the terms of the Merger Agreement, the acceptance for payment of, or payment for, some of or all the Shares by Purchaser or any of its affiliates or the consummation of the Merger; (ii) prohibits the ownership or operation by the Company or any of its subsidiaries, or Parent or any of its subsidiaries, of all or any material portion of the business or assets of the Company or any of its subsidiaries, taken as a whole, or Parent or its subsidiaries, taken as a whole, or (iii) materially limits the ownership or operation by the Company or any of its subsidiaries, or Parent or any of its subsidiaries, of all or any material portion of the business or assets of the Company or any of its subsidiaries, taken as a whole, or Parent or its subsidiaries, taken as a whole (other than, in either case, assets or businesses of the Company or its subsidiaries that are not material (measured in relation to the combined assets or revenues of the Company and its subsidiaries, taken as a whole)) or compels Parent or any of its subsidiaries to dispose of or hold separate all or any portion of the businesses or assets of the Company or any of its subsidiaries or Parent or any of its subsidiaries (other than, in either case, assets or

businesses of the Company or its subsidiaries that are not material (measured in relation to the combined assets or revenues of the Company and its subsidiaries, taken as a whole)), as a result of the transactions contemplated by the Offer or the Merger Agreement; (iv) imposes limitations on the ability of Parent, Purchaser or any of Parent's affiliates effectively to acquire or hold or to exercise full rights of ownership of the Shares, including without limitation the right to vote any Shares acquired or owned by Parent or Purchaser or any of its affiliates on all matters properly presented to the stockholders of the Company, including without limitation the adoption and approval of the Merger Agreement and the Merger or the right to vote any shares of capital stock of any subsidiary directly or indirectly owned by the Company; or (v) requires divestiture by Parent or Purchaser or any of their affiliates of any Shares;

(b) since the date hereof, there shall have occurred any event, other than events arising out of the announcement of the Offer and the transactions contemplated hereby, that is reasonably likely to have a Material Adverse Effect;

(c) there shall have occurred (i) any general suspension of trading in, or limitation on prices (other than suspensions or limitations triggered on the New York Stock Exchange by price fluctuations on a trading day) for, securities on any national securities exchange or in the over-the-counter market in the United States, (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, (iii) any material limitation (whether or not mandatory) by any government or governmental, administrative or regulatory authority or agency in the United States on the extension of credit by banks or other lending institutions, (iv) a commencement of a war directly involving the United States and materially adversely affecting (or materially delaying) the consummation of the Offer or (v) in the case of any of the foregoing existing at the time of commencement of the Offer, a material acceleration or worsening thereof;

(d) (i) it shall have been publicly disclosed or Purchaser shall have otherwise learned that beneficial ownership (determined for the purposes of this paragraph as set forth in Rule 13d-3 promulgated under the Exchange Act) of more than 20% of the outstanding Shares has been acquired by any corporation (including the Company or any of its subsidiaries or affiliates), partnership, person or other entity or group (as defined in Section 13(d)(3) of the Exchange Act), other than Parent or any of its affiliates or (ii) (A) the Board of Directors of the Company or any committee thereof shall have withdrawn or modified in a manner adverse to Parent or Purchaser the approval or recommendation of the Offer, the Merger or the Merger Agreement, or approved or recommended any takeover proposal or any other acquisition of Shares other than the Offer and the Merger, (B) any such corporation, partnership, person or other entity or group shall have entered into a definitive agreement or an agreement in principle with the Company with respect to a tender offer or exchange offer for any Shares or a merger, consolidation or other business combination with or involving the Company or any of its subsidiaries, or (C) the Board of Directors of the Company or any committee thereof shall have resolved to do any of the foregoing;

(e) any of the representations and warranties of the Company set forth in the Merger Agreement that are qualified by reference to materiality or a Material Adverse Effect shall not be true and correct, or any such representations and warranties that are not so qualified shall not be true and correct in all material respects, in each case as if such representations and warranties were made at the time of such determination;

(f) the Company shall have failed to perform in any material respect any material obligation or to comply in any material respect with any material agreement or material covenant of the Company to be performed or complied with by it under the Merger Agreement;

(g) the Merger Agreement shall have been terminated in accordance with its terms or the Offer shall have been terminated with the consent of the Company; or

(h) any waiting periods under the HSR Act applicable to the purchase of Shares pursuant to the Offer or the Merger, and any applicable waiting periods under any foreign statutes or regulations, shall not have expired or been terminated;

(i) the Company shall have terminated the employment agreement of Richard A. Stratton without the prior written consent of the Purchaser; and

(k) the Company shall not have obtained the consent of each member of the Board of Directors of the Company to the cancellation of all Options held by such Directors as contemplated by Section 2.7 of the Merger Agreement.

which, in the reasonable judgment of Purchaser with respect to each and every matter referred to above and regardless of the circumstances (except for any action or inaction by Purchaser or any of its affiliates constituting a breach of the Merger Agreement) giving rise to any such condition, makes it inadvisable to proceed with the Offer or with such acceptance for payment of or payment for Shares or to proceed with the Merger.

The foregoing conditions are for the sole benefit of Purchaser and may be asserted by Purchaser regardless of the circumstances giving rise to any such condition (except for any action or inaction by Purchaser or any of its affiliates constituting a breach of the Merger Agreement) or (other than the Minimum Condition) may be waived by Purchaser in whole or in part at any time and from time to time in its sole discretion (subject to the terms of the Merger Agreement). The failure by Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right, the waiver of any such right with respect to particular facts and other circumstances shall not be deemed a waiver with respect to any other facts and circumstances, and each such right shall be deemed an ongoing right that may be asserted at any time and from time to time.

Exhibit 2

FORM OF SEVERANCE AGREEMENT

This AGREEMENT dated as of [ ], is made by and between Litchfield Financial Corporation, a Massachusetts corporation ("Litchfield") and [ ](the "Executive").

WHEREAS, Litchfield considers it essential to the best interests of Litchfield and its current stockholders (hereinafter known as "Shareholders", which term shall include Affiliates of the current stockholders to foster the continuous employment of key management personnel; and

WHEREAS, Litchfield recognizes that, as is the case with many corporations, the possibility of undertaking a Transaction (as defined in the last Section hereof) with respect to Litchfield exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of Litchfield and the Shareholders; and

WHEREAS, Litchfield has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of Litchfield's management, including the Executive, to their assigned duties with Litchfield, without distraction in the face of circumstances arising from the possibility of a Transaction;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, and for other valuable consideration, Litchfield and the Executive hereby agree as follows:

1. DEFINED TERMS. The definitions of capitalized terms used in this Agreement are provided in the last Section hereof.

2. TERM OF AGREEMENT. This Agreement shall commence on the date hereof and shall continue in effect through December 31, 1999, provided that commencing on January 1, 2000, and each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, not later than October 31 of the previous year, either Litchfield or the Executive shall have given notice to the other not to extend this Agreement. Notwithstanding the foregoing, if a Transaction shall have occurred during the term of this Agreement, this Agreement shall continue in effect for a period of one (1) year beyond the date on which the closing for such Transaction occurred, provided, however, that if a notice not to extend this Agreement was given before closing of the Transaction, this Agreement shall not continue unless the Executive consents in writing.

3. LITCHFIELD'S COVENANTS SUMMARIZED. In order to induce the Executive to remain in the employ of Litchfield and in consideration of the Executive's covenants set forth in Sections 4 hereof, Litchfield agrees, under the conditions described herein, to pay the Executive the Severance Payments described in Section 6 hereof and the other payments and benefits described in Section 5 hereof in the event (i) that during the term of this Agreement following a Transaction either (x) the employment of the Executive is terminated by Litchfield for reasons other than Cause, death or disability, or (y) the Executive terminates his employment by Litchfield for Good Reason, and (ii) the Executive has fulfilled his covenants set forth in Section 4. No amount or benefit shall be payable under this Agreement unless there shall have been a

termination of the Executive's employment by Litchfield for reasons other than Cause or the death or disability of the Executive or by the Executive for Good Reason within one year following a Transaction. This Agreement shall not be construed as creating an express or implied contract of employment, and except as otherwise agreed in writing between the Executive and Litchfield, the Executive shall not have any right to be retained in the employ of Litchfield. No benefits shall be payable hereunder in the event of termination of Executive's employment prior to a Potential Transaction.

4. EXECUTIVE'S COVENANTS. The Executive agrees that, subject to the terms and conditions of this Agreement, in the event of a Potential Transaction during the term of this Agreement, the Executive will in good faith use all reasonable efforts, consistent with his duties and authority as an employee of Litchfield to consummate a Transaction which has been approved by the Board of Directors of Litchfield. Notwithstanding the foregoing, the Executive shall in all events be entitled to terminate his employment with or without Good Reason, and shall have no liability to Litchfield as a result of such termination.

5. COMPENSATION OTHER THAN SEVERANCE PAYMENTS.

5.1 PAYMENT OF SALARY UPON TERMINATION. If the Executive's employment shall be terminated for any reason following a Transaction and during the term of this Agreement, Litchfield shall pay the Executive's full salary to the Executive through the Date of Termination at the rate in effect at the time the Notice of Termination is given.

5.2 PAYMENT OF BENEFITS UPON TERMINATION. If the Executive's employment shall be terminated for any reason following a Transaction during the term of this Agreement, Litchfield shall pay or make available to the Executive any rights, compensation, and benefits which are vested in the Executive or which the Executive has or is otherwise entitled to receive under any plan or program of Litchfield, as such rights, compensation or benefits become due. Such rights, compensation and benefits shall be determined under, and paid or made available in accordance with, Litchfield's applicable insurance and other compensation or benefit plans, programs and arrangements, and shall include all amounts by which the Executive's contractual entitlement to salary and bonus in any prior years exceeded the Executive's actual salary and bonus paid in such years.

6. SEVERANCE PAYMENTS.

6.1 DETERMINATION OF SEVERANCE PAYMENTS. In addition to the payments and benefits under Section 5, Litchfield shall pay the Executive the payments described in this Section 6.1 (the "Severance Payments") upon the termination of the Executive's employment, during the term of this Agreement, following a Transaction in the event (i) the employment of the Executive is terminated by Litchfield for reasons other than Cause, death or disability or the Executive terminates his employment by Litchfield for Good Reason, and (ii) the Executive has fulfilled his covenants set forth in Section 4. In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination and in lieu of any severance benefits otherwise payable to the Executive under any then existing broad-based employee severance plan, Litchfield shall pay to the Executive a lump-sum severance payment, in cash, equal to the higher of (i) the Executive's total salary and bonus for the most recently completed

fiscal year, and (ii) the Executive's total annualized salary and bonus, based on the partial fiscal year in which the Date of Termination occurs. In addition to such lump-sum severance payment, the Executive shall (i) be entitled to participate in the Company's medical insurance plan for a period of twelve months following the Termination Date at the Company's expense, after which the Executive will have COBRA rights as provided by law and (ii) for a period of twelve months, be permitted to participate in any of the Company's other benefit plans in which the Executive is participating as of the Termination Date pursuant to Company policy.

6.2 GROSS-UP PAYMENT. In the event that the excise tax imposed by
Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any penalty or excise tax subsequently imposed by law applies to any payment or benefit received or to be received by the Executive in connection with a Transaction or the termination of the Executive's employment (whether pursuant to the terms of this Agreement or any other plan, arrangement, or agreement with Litchfield, any Person whose actions result in the Transaction or any Person affiliated with Litchfield or such Person) (all such payments and benefits, including the Severance Payments, being hereinafter called "Total Payments"), an additional amount shall be paid by Litchfield to the Executive such that the aggregate after-tax amount that he shall receive with respect to the Total Payments, including this Section, shall have a present value equal to the aggregate after-tax amount that he would have received and retained had such excise or penalty tax (and any interest or penalties in respect thereof) not applied to him. For this purpose, the Executive shall be assumed to be subject to tax in each year relevant to the computation at the then maximum applicable combined Federal and Massachusetts income tax rate, and the present value of payments to him shall be made consistent with the principles of Section 280G of the Code.

6.3 TIMING OF PAYMENTS. The payments provided for in Section 6.1 hereof shall be made not later than the tenth business day following the Date of Termination. The payment provided for by Section 6.2 shall be paid not later than the tenth business day following the date the gross-up amount is computed, but in no event later than the date any excise tax is due and payable.

7. TERMINATION PROCEDURES.

7.1 NOTICE OF TERMINATION. After a Transaction and during the term of this Agreement, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance will
Section 10 hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances, if any, claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

7.2 DATE OF TERMINATION. "Date of Termination," with respect to any purported termination of the Executive's employment after a Transaction and during the term of this Agreement, shall mean the date specified in the Notice of Termination (which, in the case of a termination by Litchfield, shall not be less than thirty (30) days (except in the case of a termination for Cause) and, in the case of a termination by the Executive, shall not be less than

fifteen (15) days or more than sixty (60) days, respectively, from the date such Notice of Termination is given).

8. NO MITIGATION. If the Executive's employment by Litchfield is terminated during the term of this Agreement, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by Litchfield pursuant to Section 6 hereof. Further, the amount of any payment or benefit provided for in Section 6 hereof shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to Litchfield, or otherwise.

9. SUCCESSORS; BINDING AGREEMENT.

9.1 SUCCESSORS OF LITCHFIELD. The provisions of this Agreement shall be binding upon, and shall inure to the benefit of the successors and assigns of Litchfield.

9.2 SUCCESSORS OF THE EXECUTIVE. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives, or administrators of the Executive's estate.

10. NOTICES. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To Litchfield:	To the Executive:
Litchfield Financial Corporation	_____
430 Main Street	_____
Williamstown, MA 01267	_____
Attn: _____	

11. MISCELLANEOUS. No provision of this Agreement may be modified, waived, or discharged unless such waiver, modification, or discharge is agreed to in writing and signed by the Executive and by Litchfield. Except as expressly provided herein, no waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this

Agreement. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the Commonwealth of Massachusetts, and this Agreement shall be an instrument under seal. All references to sections of the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state, or local law and any additional withholding to which the Executive has agreed. The obligations of Litchfield and the Executive under Sections 6, 7, 8, and 14 hereof shall survive the expiration of the term of this Agreement.

12. VALIDITY. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

13. COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same instrument.

14. SETTLEMENT OF DISPUTES; ARBITRATION. All claims by the Executive for benefits under this Agreement shall be in writing. Any denial by the Litchfield of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. Any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Boston, Massachusetts, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Executive shall, however, be entitled to seek specific performance of the Executive's right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

15. DEFINITIONS. For purposes of this Agreement, the following terms shall have the meanings indicated below:

(A) "Affiliate" with respect to any Person shall mean one who controls, is controlled by, or is under common control with, such Person.

(B) "Cause" for termination by Litchfield of the Executive's employment, after any Transaction, shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with Litchfield (other than any such failure resulting from the Executive's incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the Executive by Litchfield, which demand identifies with reasonable specificity the manner in which Litchfield believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in misconduct which is materially and adversely injurious to Litchfield or its parent company or any subsidiaries or affiliates thereof, monetarily or otherwise, or (iii) the conviction of the Executive of, or the plea by the Executive of guilty or NOLO CONTENDERE to, a felony; provided, however,

that "Cause" shall not exist under clauses (i) and (ii) unless Litchfield has complied with the following terms and conditions:

(A) the Executive is provided with written notice of the proposed termination;

(B) the Executive is given the opportunity to appear with his counsel, and to present evidence and a defense to the alleged acts or omissions constituting "Cause", at a duly called and held meeting of the Board of Directors of Litchfield, the purpose of which shall be to determine whether "Cause" exists under clause (i) or (ii) and the Executive should be terminated; and

(C) if the Executive avails himself of the opportunity set forth in clause (B), following such meeting not less than two-thirds of the members of the Board of Directors determine that "Cause" exists under clause
(i) or (ii) and the Executive should be terminated. For purposes of clauses (i) and (ii) of this definition, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of Litchfield.

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

(D) "Date of Termination" shall have the meaning stated in
Section 7.2 hereof.

(E) "Litchfield" shall mean Litchfield Financial Corporation and any successor to its business and/or assets. Payments or benefits from Litchfield shall include those from any of its stockholders.

(F) "Good Reason" shall mean termination by the Executive of his employment following a Transaction for any one or more of the following reasons: (i) the responsibility and authority of the Executive shall be materially altered following the Transaction; (ii) the compensation of the Executive (taking into account base salary, bonus and benefits) shall be diminished following the Transaction; or (iii) following a Transaction Litchfield shall require the Executive to relocate to a location more than 25 miles distant.

(G) "Notice of Termination" shall have the meaning stated in
Section 7.1 hereof.

(H) "Person" shall mean an individual, partnership, corporation, trust or other business entity; however, a Person shall not include current stockholders and/or directors of Litchfield or any company owned, directly or indirectly, by any shareholder.

(I) "Potential Transaction" shall be deemed to have occurred if the conditions set forth in any one of the following paragraphs shall have been satisfied:

(i) Litchfield enters into an agreement, the consummation of which would result in the occurrence of a Transaction; or

(ii) Litchfield or any Person (with the approval of Litchfield) publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Transaction.

(J) "Severance Payments" shall mean those payments described in Section 6.1 hereof.

(K) "Total Payments" shall mean those payments described in Section 6.2 hereof.

(L) A "Transaction" shall be deemed to have occurred upon (i) a sale, conveyance, lease or other transfer of all or substantially all of the assets of Litchfield, (ii) a consolidation or merger of Litchfield with or into another corporation in which Litchfield is not the surviving or resulting corporation or after which more than 50% of the issued and outstanding shares of voting capital stock of the surviving or resulting corporation is thereafter owned of record or beneficially by any single Person or Group of affiliated Persons, (iii) a sale or transfer in a single transaction of shares of the voting capital stock of Litchfield, which results in more than 50% of the issued and outstanding shares of the voting capital stock of Litchfield being thereafter owned of record or beneficially by any single Person or Group of affiliated Persons, (iv) any other transaction or series of transactions involving the issuance, sale or transfer of shares of the capital stock of Litchfield, which results in more than fifty percent (50%) of the issued and outstanding shares of the voting capital stock of Litchfield being thereafter owned of record or beneficially by any single Person or Group of affiliated Persons, or (v) a majority of the Board of Directors of Litchfield ceasing to consist of individuals (A) who are currently members of the Board or (B) for whose nomination for such membership a majority of such current members voted in favor.

(M) "Group of affiliated Persons" shall mean a group of two (2)

or more Persons (i) in which one (1) or more of such Persons controls, is controlled by, or is under common control with, another of such Persons, or (ii)

which is associated by agreement for the purpose of controlling Litchfield or any successor corporation thereof.

Executed as of the date first above written.

LITCHFIELD FINANCIAL CORPORATION

By:

Name:

Title:

(Executive)

EXHIBIT 3

CIBC CIBC World Markets Corp. World Markets One World Financial Center 200 Liberty Street New York, NY 10281 Tel: 212-667-7000

CONFIDENTIAL

July 19, 1999

Mr. David Wisen
Textron Financial Corporation
40 Westminster Street
Providence, RI 02903

Dear Mr. Wisen:

CONFIDENTIALITY AGREEMENT

1. You have requested, or may request in the future, certain information from Litchfield Financial Corporation (the "Company") or CIBC World Markets Corp. ("CIBC World Markets") (collectively, the "Disclosing Parties"), the Company's financial advisor, regarding the Company's business, operations and financial condition (the "Information") for the sole purpose of determining whether you wish to pursue a transaction involving the Company (a "Transaction"). You hereby agree, subject to the further provisions hereof, for a period of two years from the date of this letter to treat confidentially the Information the Disclosing Parties furnishes to you or your officers, directors, agents, representatives (including, without limitation, attorneys, accountants, experts, consultants, financial advisors and persons contemplating providing financing for any Transaction) or employees (collectively, "Representatives").

2. The term "Information" shall include any and all reports, analyses, compilations, studies and information developed or prepared by the Disclosing Parties (including the Confidential Memorandum), or by or for you that include, incorporate, refer to, reflect or are based (in whole or in part) upon the Information, but shall not include information, if any, that (a) becomes generally available to the public in a manner other than as a result of a disclosure by you or your Representatives; (b) was available to you on a non-confidential basis prior to its disclosure to you by the Disclosing Parties; or (c) becomes available to you on a non-confidential basis from a source other than the Disclosing Parties if you have no reason to believe such source is bound by or subject to a confidentiality agreement with the Company, or is otherwise prohibited from transmitting the information to you.

3. You agree that the Information supplied by the Disclosing Paries will not be used by you or your Representatives in any way directly or indirectly except to evaluate or implement a Transaction, that the Information supplied by the Disclosing Parties shall be kept strictly confidential for the term set forth above by you and your Representatives and that the information shall not be used in any manner that is detrimental or adverse to the Company; provided, however, that (a) any of the Information supplied by the Disclosing Parties may be disclosed to such of your Representatives who need to know the Information for the purpose of evaluating or implementing a Transaction, who shall be informed by you of the confidential and proprietary nature of the Information and who shall agree to be bound by the confidentiality provisions of this letter, and
(b) any disclosure of the Information may be made upon the prior written consent of the Company. You further agree to be fully responsible for any breach of this letter by your Representatives.

4. If you or anyone to whom you transmit the Information pursuant to this letter becomes compelled by applicable law or securities exchange regulation to disclose any of the Information, you will provide the Company with prompt notice of such requirement so that the Company may seek a protective order or other appropriate remedy or waive compliance with the provisions of this letter. In the event that such protective order or other remedy is not obtained, or that the Company waives compliance with the provisions of this letter, you will furnish only that portion of the Information that you are advised by written opinion of legal counsel at the Disclosing Parties' sole cost is required by applicable law or securities exchange regulation, and such disclosure will not result in any liability hereunder unless such disclosure was caused by or resulted from a previous disclosure by you or by your Representatives that was not permitted by this letter. Additionally, you will exercise your best efforts to obtain a protective order or other reliable assurance that confidential treatment will be accorded any such Information that is disclosed.

5. Until the earlier of (i) the consummation by you of a Transaction, or (ii) one year from the date of this letter, those to whom you have furnished Information agree not to initiate or maintain contact (except for those contacts made in the ordinary course of business or during course of agreed upon "due diligence") with any officer, director, or employee of the Company regarding the business, operations, prospects or finances of the Company or solicit (apart from a general solicitation undertaken in the ordinary course of business) the employment of any officer or director, except with the express permission of the Company. CIBC World Markets will be informed of all communications with the Company regarding any possible Transaction.

6. In consideration of your being furnished the Information and in view of the fact that the Information consists and will consist of confidential, non-public and proprietary information, you agree that for a period of two (2) years from the date of this agreement, that, without the prior written consent of the Company, you will not, directly or indirectly, (unless following an attempted solicitation by unrelated third parties to purchase assets or securities of the Company) (i) purchase, offer or agree to purchase, or announce an intention to purchase any securities or assets of the Company or any subsidiary or rights or options to acquire the same (excluding any purchase in the

ordinary course of business by your pension plan or funds held by your pension plan); (ii) make, or in any way participate in any "solicitation" of "proxies" to vote or "consents" (as such terms are used in the rules and regulations of the Securities and Exchange Commission), or seek to advise or influence any person with respect to the voting of any voting securities of the Company; (iii) initiate or support any stockholder proposal with respect to the Company; (iv) make any public statements and/or announcement with respect to, or submit a proposal for, or offer of (with or without conditions) any extraordinary transaction involving the Company or its securities, assets or business or any subsidiary or division thereof, or of any successor thereto or any controlling person thereof; (v) seek or propose to influence or control the Company's management, board of directors, policies or affairs; (vi) disclose any intention, plan or arrangement inconsistent with the foregoing; (vii) form, join or in any way participate in a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act") in connection with any of the foregoing; (viii) take any action that, is the sole judgement of the Company, may require the Company to make a public announcement concerning any of the foregoing, or (ix) encourage any of the foregoing.

7. If you determine that you do not wish to proceed with the Transaction, you will promptly advise us of that decision. In that case or in the event that the Transaction is not consummated by you or upon the request of the Disclosing Parties, all of the Information will immediately be destroyed or returned to CIBC World Markets, and no copies shall be retained by you or your Representatives; provided, however, that, notwithstanding the foregoing, any portion of the Information that consists of reports, analyses, compilations, studies or information developed or prepared by or for you or your Representatives that include, incorporate, refer to, reflect or are based upon (in whole or in part) the information will be destroyed immediately.

8. You agree and will cause your Representatives not to disclose to any person either the fact that discussions or negotiations are taking place concerning a possible Transaction between the Company and you, or any of the terms, conditions or other facts with respect to any such possible Transaction, including the status thereof and the fact that the Information has been made available to you; provided, however, that you may make such a disclosure upon written notice to the Company, if it is advised by written opinion of legal counsel that you are required to make such a disclosure by applicable law or securities exchange regulation.

9. You understand that the Disclosing Parties make no representation or warranty as to the accuracy or completeness of any information furnished by the Disclosing Parties to you or your Representatives. You agree that the Disclosing Parties shall not have any liability to you or any of your Representatives resulting from the use of the Information by you or by them. Solely for the purposes of this paragraph, the term "information" is deemed to include all information furnished by the Disclosing Parties to you or your Representatives, regardless of whether such information is or continues to be subject to the confidentiality provisions hereof.

10. This letter sets forth the entire understanding and agreement of the parties hereto and supersedes

all previous communications, negotiations and agreements, whether oral or written, with respect to the subject matter hereof. The parties hereto further agree that unless and until a definitive agreement containing mutually satisfactory provisions has been executed and delivered, neither the Company nor you have any legal obligation of any kind whatsoever with respect to any such Transaction by virtue of this letter or any other written or oral expression with respect to such Transaction, except, in the case of this letter, for the matters specifically agreed to herein. For purposes of this paragraph, the term "definitive agreement" does not include an executed letter of intent or any other preliminary written agreement, nor does it include any written or oral acceptance of an offer or bid by any party hereto.

11. You acknowledge that the Company would not have an adequate remedy at law for money damages if any of the covenants in this letter were not performed in accordance with its terms and therefore agree that the Company may be entitled to specific enforcement of such covenants in addition to any other remedy to which it may be entitled, at law or in equity. The Company shall not be required to post a bond or other security in connection therewith.

12. You understand and agree that no failure or delay by the Disclosing Parties in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege hereunder.

13. This agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to principles of conflicts-of-law.

14. This agreement represents the entire understanding and agreement of the parties hereto and may be modified or waived only by a separate letter executed by the Company and you expressly so modifying or waiving such agreement.

CIBC World Markets Corp.

If you are in agreement with the foregoing, please so indicate by signing, dating and returning one copy of this letter to CIBC World Markets (World Financial Center, New York, NY 10281, Attn: Christopher DeWinter, Telephone:
(212) 667-7978, Facsimile: (212) 571-4663), which will constitute our agreement with respect to the matters set forth herein.

Very truly yours,

By: /s/ Michael R. McClintock

Michael R. McClintock
Managing Director

Agreed to and Accepted by:

TEXTRON FINANCIAL CORPORATION

By: /s/ David Wisen

Date: 7/20/99

Exhibit 4

156B:86. SECTIONS APPLICABLE TO APPRAISAL; PREREQUISITES.

Section 86. If a corporation proposes to take a corporate action as to which any section of this chapter provides that a stockholder who objects to such action shall have the right to demand payment for his shares and an appraisal thereof, sections eighty-seven to ninety-eight, inclusive, shall apply except as otherwise specifically provided in any section of this chapter. Except as provided in sections eighty-two and eighty-three, no stockholder shall have such right unless (1) he files with the corporation before the taking of the vote of the shareholders on such corporate action, written objection to the proposed action stating that he intends to demand payment for his shares if the action is taken and (2) his shares are not voted in favor of the proposed action.

156B:87. STATEMENT OF RIGHTS OF OBJECTING STOCKHOLDERS IN NOTICE OF MEETING; FORM.

Section 87. The notice of the meeting of stockholders at which the approval of such proposed action is to be considered shall contain a statement of the rights of objecting stockholders. The giving of such notice shall not be deemed to create any rights in any stockholder receiving the same to demand payment for his stock, and the directors may authorize the inclusion in any such notice of a statement of opinion by the management as to the existence or non-existence of the right of the stockholders to demand payment for their stock on account of the proposed corporate action. The notice may be in such form as the directors or officers calling the meeting deem advisable, but the following form of notice shall be sufficient to comply with this section:

"If the action proposed is approved by the stockholders at the meeting and effected by the corporation, any stockholder (1) who files with the corporation before the taking of the vote on the approval of such action, written objection to the proposed action stating that he intends to demand payment for his shares if the action is taken and (2) whose shares are not voted in favor of such action has or may have the right to demand in writing from the corporation (or, in the case of a consolidation or merger, the name of the resulting or surviving corporation shall be inserted), within twenty days after the date of mailing to him of notice in writing that the corporate action has become effective, payment for his shares and an appraisal of the value thereof. Such corporation and any such stockholder shall in such cases have the rights and duties and shall follow the procedure set forth in sections 88 to 98, inclusive, of chapter 156B of the General Laws of Massachusetts."

156B:88. NOTICE OF EFFECTIVENESS OF ACTION OBJECTED TO.

Section 88. The corporation taking such action, or in the case of a merger or consolidation the surviving or resulting corporation, shall, within ten days after the date on which such corporate action became effective, notify each stockholder who filed a written objection meeting the requirements of section eighty-six and whose shares were not voted in favor of the approval of such action, that the action approved at the meeting of the corporation of which he is a stockholder has become effective. The giving of such notice shall not be deemed to create any rights in any stockholder receiving the same to demand payment for his stock. The notice shall be sent by registered or certified mail, addressed to the stockholder at his last known address as it appears in the records of the corporation.

156B:89. DEMAND FOR PAYMENT; TIME FOR PAYMENT.

Section 89. If within twenty days after the date of mailing of a notice under subsection (c) of section eighty-two, subsection (f) of section eighty-three, or section eighty-eight, any stockholder to whom the corporation was required to give such notice shall demand in writing from the corporation taking such action, or in the case of a consolidation or merger from the resulting or surviving corporation, payment for his stock, the corporation upon which such demand is made shall pay to him the fair value of his stock within thirty days after the expiration of the period during which such demand may be made.

156B:90. DEMAND FOR DETERMINATION OF VALUE; BILL IN EQUITY; VENUE.

Section 90. If during period of thirty days provided for in section eighty-nine the corporation upon which such demand is made and any such objecting stockholder fail to agree as to the value of such stock,

such corporation or any such stockholder may within four months after the expiration of such thirty-day period demand a determination of the value of the stock of all such objecting stockholders by a bill in equity filed in the superior court in the county where the corporation in which such objecting stockholder held stock had or has its principal office in the commonwealth.

156B:91. PARTIES TO SUIT TO DETERMINE VALUE; SERVICE.

Section 91. If the bill is filed by the corporation, it shall name as parties respondent all stockholders who have demanded payment for their shares and with whom the corporation has not reached agreement as to the value thereof. If the bill is filed by a stockholder, he shall bring the bill in his own behalf and in behalf of all other stockholders who have demanded payment for their shares and with whom the corporation has not reached agreement as to the value thereof and service of the bill shall be made upon the corporation by subpoena with a copy of the bill annexed. The corporation shall file with its answer a duly verified list of all such other stockholders, and such stockholders shall thereupon be deemed to have been added as parties to the bill. The corporation shall give notice in such form and returnable on such date as the court shall order to each stockholder party to the bill by registered or certified mail, addressed to the last known address of such stockholder as shown in the records of the corporation, and the court may order such additional notice by publication or otherwise as it deems advisable. Each stockholder who makes demand as provided in section eighty-nine shall be deemed to have consented to the provisions of this section relating to notice, and the giving of notice by the corporation to any such stockholder in compliance with the order of the court shall be a sufficient service of process on him. Failure to give notice to any stockholder making demand shall not invalidate the proceedings as to other stockholders to whom notice was properly given, and the court may at any time before the entry of a final decree make supplementary orders of notice.

156B:92. DECREE DETERMINING VALUE AND ORDERING PAYMENT; VALUATION DATE.

Section 92. After hearing the court shall enter a decree determining the fair value of the stock of those stockholders who have become entitled to the valuation of and payment for their shares, and shall order the corporation to make payment of such value, together with interest, if any, as hereinafter provided, to the stockholders entitled thereto upon the transfer by them to the corporation of the certificates representing such stock if certificated or, if uncertificated, upon receipt of an instruction transferring such stock to the corporation. For this purpose, the value of the shares shall be determined as of the day preceding the date of the vote approving the proposed corporate action and shall be exclu-

sive of any element of value arising from the expectation or accomplishment of the proposed corporate action.

156B:93. REFERENCE TO SPECIAL MASTER.

Section 93. the court in its discretion may refer the bill or any question arising thereunder to a special master to hear the parties, make findings and report the same to the court, all in accordance with the usual practice in suits in equity in the superior court.

156B:94. NOTATION ON STOCK CERTIFICATES OF PENDENCY OF BILL.

Section 94. On motion the court may order stockholder parties to the bill to submit their certificates of stock to the corporation for the notation thereon of the pendency of the bill and may order the corporation to note such pendency in its records with respect to any uncertificated shares held by such stockholder parties, and may on motion dismiss the bill as to any stockholder who fails to comply with such order.

156B:95. COSTS; INTEREST.

Section 95. The costs of the bill, including the reasonable compensation and expenses of any mater appointed by the court, but exclusive of fees of counsel or of experts retained by any party, shall be determined by the court and taxed upon the parties to the bill, or any of them, in such manner as appears to be equitable, except that all costs of giving notice to stockholders as provided in this chapter shall be paid by the corporation. interest shall be paid upon any award from the date of the vote approving the proposed corporate action, and the court may on application of any interested party determine the amount of interest to be paid in the case of any stockholder.

156B:96. DIVIDENDS AND VOTING RIGHTS AFTER DEMAND FOR PAYMENT.

Section 96. Any stockholder who has demanded payment for his stock as provided in this chapter shall not thereafter be entitled to notice of any meeting of stockholders or to vote such stock for any purpose and shall not be entitled to the payment of dividends or other distribution on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the date of the vote approving the proposed corporate action) unless:

(1) A bill shall not be filed within the time provided in section ninety;

(2) A bill, if filed, shall be dismissed as to such stockholder; or

(3) Such stockholder shall with the written approval of the corporation, or in the case of a consolidation or merger, the resulting or surviving corporation, deliver to it a written withdrawal of his objections to and an acceptance of such corporate action.

Notwithstanding the provisions of clauses (1) to (3), inclusive, said stockholder shall have only the rights of a stockholder who did not so demand payment for his stock as provided in this chapter:

156B:97. STATUS OF SHARES PAID FOR.

Section 97. The shares of the corporation paid for by the corporation pursuant to the provisions of this chapter shall have the status of treasury stock, or in the case of a consolidation or merger the shares or the securities of the resulting or surviving corporation into which the shares of such objecting stockholder would have been converted had he not objected to such consolidation or merger shall have the status of treasury stock or securities.

156B:98. EXCLUSIVE REMEDY; EXCEPTION.

Section 98. The enforcement by a stockholder of his right to receive payment for his shares in the manner provided in this chapter shall be an exclusive remedy except that this chapter shall not exclude the right of such stockholder to bring or maintain an appropriate proceeding to obtain relief on the ground that such corporate action will be or is illegal or fraudulent as to him.

EXHIBIT 5

[LETTERHEAD OF CIBC WORLD MARKETS]

SEPTEMBER 22, 1999

CONFIDENTIAL

The Board of Directors
Litchfield Financial Corporation
430 Main Street
Williamstown, MA 01267

Members of the Board:

You have asked CIBC World Markets Corp. ("CIBC World Markets") to render a written opinion (the "Opinion") to the Board of Directors (the "Board of Directors") of Litchfield Financial Corporation ("Litchfield" or the "Company") as to the fairness to the holders of the common stock of Litchfield other than Textron Inc. ("Textron") and its affiliates, from a financial point of view, of the consideration to be received pursuant to an Agreement and Plan of Merger (the "Merger Agreement") to be entered into among Textron, Textron Financial Corp. ("Merger Sub") and Litchfield. The Merger Agreement provides for, among other things, an offer to purchase any and all outstanding shares of common stock other than those owned by Textron or its affiliates (the "Common Stock") of Litchfield by Merger Sub at $24.50 per share, to be followed by the merger of Merger Sub with and into the Company (the "Merger") pursuant to which each outstanding share of Common Stock not owned by Textron or its affiliates will be converted into the right to receive $24.50 per share. The cash consideration to be paid to the holders of Common Stock in the offer to purchase and the Merger is referred to as the "Consideration".

In arriving at our Opinion, we:

(a) reviewed a draft of the Merger Agreement dated September 22, 1999 and certain related documents;

(b) reviewed Litchfield's audited financial statements for the fiscal years ended December 31, 1996 through December 31, 1998;

(c) reviewed the unaudited financial statements of Litchfield for the six months ended June 30, 1999 and the unaudited financial statements for the months of July and August 1999;

(d) reviewed the financial projections of Litchfield prepared by the management of Litchfield; and held discussions with the senior management of Litchfield with respect to the business, capital requirements and prospects for future growth of Litchfield;

(e) reviewed certain publicly available information concerning Litchfield including the historical market prices and trading volumes for the Common Stock;

(f) reviewed and analyzed certain publicly available financial data for certain companies we deemed comparable to Litchfield;

(g) reviewed and analyzed certain publicly available information for transactions that we deemed comparable to the Merger;

(h) performed a discounted cash flow analysis of Litchfield using certain assumptions of future performance provided to and discussed with us by the management of Litchfield;

(i) at the request of the Board of Directors, approached and held discussions with certain third parties to solicit indications of interest in the possible acquisition of Litchfield; and

(j) performed such other analyses and reviewed such other information as we deemed appropriate.

In rendering our Opinion, we relied upon and assumed, without independent verification or investigation, the accuracy and completeness of all of the financial and other information provided to or discussed with us by Litchfield and its employees, representatives and affiliates. With respect to forecasts of future financial condition and operating results of Litchfield provided to or discussed with us, we assumed, at the direction of Litchfield's management, without independent verification or investigation, that such forecasts were reasonably prepared on bases reflecting the best available information, estimates and judgments of Litchfield's management. We also have assumed, at the direction of the Board of Directors of Litchfield, that the final terms of the Merger will not vary materially from those set forth in the draft of the Merger Agreement reviewed by us. We have neither made nor obtained any independent evaluations or appraisals of the assets or the liabilities of Litchfield, contingent or otherwise. We are not expressing any opinion as to the underlying valuation, future performance or long-term viability of Litchfield. Our Opinion is necessarily based on the information available to us and general economic, financial and stock market conditions and circumstances as they exist and can be evaluated by us on the date hereof. It should be understood that, although subsequent developments may affect this Opinion, we do not have any obligation to update, revise or reaffirm the Opinion. Our Opinion does not address the relative merits of the Merger and the other business strategies being considered by the Board of Directors, nor does it address the Board of Directors' decision to proceed with the Merger.

As part of our investment banking business, we are regularly engaged in valuations of businesses and securities in connection with acquisitions and mergers, underwritings, secondary distributions of securities, private placements and valuations for other purposes.

We have acted as financial advisor to the Board of Directors in connection with the Merger in rendering this Opinion and will receive a fee for our services, a significant portion of which is contingent upon consummation of the Merger. We have in the past provided financial services to Litchfield unrelated to the proposed Merger, for which services we have received customary compensation. In the ordinary course of business, CIBC World Markets and its affiliates may actively trade securities of Litchfield and its affiliates for their own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

Based upon and subject to the foregoing, and such other factors as we deemed relevant, it is our opinion that, as of the date hereof, the Consideration to be received by the holders of Common Stock (other than Textron and its affiliates) in the offer to purchase and the Merger is fair to such holders from a financial point of view. This Opinion is for the use of the Board of Directors of Litchfield in its evaluation of the Merger, and does not constitute a recommendation to any shareholders as to whether or not such shareholder should vote on any matters related to the Merger. This Opinion may be included in its entirety in proxy/registration statements with respect to the Merger, but it may not be summarized, excerpted or otherwise publicly referred to without the prior written consent of CIBC World Markets.

Very truly yours,

/s/ CIBC World Markets

CIBC WORLD MARKETS CORP.

Exhibit 6

TEXTRON FINANCIAL CORPORATION AGREES TO ACQUIRE LITCHFIELD FINANCIAL CORPORATION

Specialized Commercial Finance Company to Significantly Enhance Textron Financial's Resort and Recreation Portfolio

PROVIDENCE, R.I., and WILLIAMSTOWN, Mass., Sept. 23/PRNewswire/--Textron Financial Corporation (NYSE: TXT) and Litchfield Financial Corporation (Nasdaq:
LTCH) today announced the signing of a definitive merger agreement whereby Textron Financial Corporation will acquire the entire outstanding capital stock of Litchfield for $24.50 per share in a cash transaction valued at approximately $183 million. The Boards of Directors of both companies have approved the agreement.

Litchfield is a commercial finance company specializing in receivables-based finance agreements for the vacation ownership (timeshare) industry and other commercial finance niches. With over $550 million in managed finance receivables, Litchfield has a ten-year track record of over 20% annual earnings growth.

"Litchfield bolsters Textron Financial Corporation's competitive position in one of our fastest-growing core niches -- resort and recreation finance. It also complements our existing portfolio by adding other niches consistent with TFC's strategy. We have known Litchfield management for a long time. Their track record and culture mirror our own, and we are eager to have this highly successful organization join our family of businesses," remarked Stephen A. Giliotti, Textron Financial Corporation Chairman, President and CFO.

Richard A. Stratton, President and CEO of Litchfield commented, "This is a great combination of skills, culture and resources. Our timeshare and factoring lending groups will complement Textron Financial's resort and recreation finance and factoring businesses, which focus on complementary market segments. Our land receivables, tax lien and financial services businesses will provide Textron Financial new opportunities in growing markets. And by improving our access to lower cost capital, the combination will enable us to expand the growth of our core businesses." Mr. Stratton will remain President of Litchfield and

will also become Senior Vice President - Operations of Textron Financial Corporation.

The agreement provides for an all-cash tender offer by Textron Financial for all of Litchfield's outstanding shares of common stock, commencing within five business days. The tender is expected to close by late October, 1999, unless extended, and is subject to the valid tender of at least 66.66% of the outstanding Litchfield shares on a fully diluted basis, and to customary government filings and other customary conditions. Litchfield management and directors intend to tender their shares in response to the offer.

The tender offer for shares of Litchfield common stock will be made only through definitive tender offer documents, which will be filed with the Securities and Exchange Commission and mailed to the shareholders of Litchfield. Following completion of the tender offer, it is contemplated that the holders of any then-outstanding shares of common stock will receive, in a second-step merger, the same $24.50 per share cash consideration as holders will receive in the tender offer.

With 140 employees, Litchfield has offices in Williamstown, Mass.; Atlanta; Denver; and Scottsdale, Ariz. The company's customers consist of developers of vacation ownership (timeshare) properties and rural land, small finance companies, and municipalities selling real estate tax liens.

With over $5 billion in managed receivables and a twenty-year history of record earnings, Textron Financial Corporation is a diversified commercial finance company with three groups of products and services: term financing for Aircraft, Equipment and Golf (including the financing of Textron products); revolving credit arrangements; and specialty finance. Other services include syndications, asset management, portfolio servicing and insurance brokerage.

Textron Financial Corporation is a subsidiary of Textron Inc. (NYSE: TXT), a $10 billion, global, multi-industry company with market-leading operations in Aircraft, Automotive, Industrial and Finance. Textron has a workforce of over 64,000 employees and major manufacturing facilities in 23 countries. Textron is among Fortune magazine's "America's Most Admired Companies."

SOURCE: Litchfield Financial Corporation

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding Litchfield Financial Corp.'s business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most recently ended fiscal year.

[Litchfield LOGO]

September 29, 1999

To Our Stockholders:

On behalf of the Board of Directors of Litchfield Financial Corporation (the "Company"), we are pleased to inform you that, on September 22, 1999, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Textron Financial Corporation and its wholly-owned subsidiary, Lighthouse Acquisition Corp., pursuant to which Lighthouse Acquisition Corp. has today commenced a cash tender offer (the "Offer") to purchase all of the outstanding shares (the "Shares") of the Company's Common Stock at $24.50 per Share. Under the Merger Agreement, the Offer will be followed by a merger (the "Merger") in which any remaining Shares will be converted into the right to receive $24.50 per Share in cash, without interest thereon.

YOUR BOARD OF DIRECTORS HAS DETERMINED THAT THE OFFER AND THE MERGER ARE FAIR TO, AND IN THE BEST INTERESTS OF, THE COMPANY AND ITS STOCKHOLDERS, HAS APPROVED THE OFFER AND THE MERGER, AND RECOMMENDS THAT THE COMPANY'S STOCKHOLDERS ACCEPT THE OFFER AND TENDER THEIR SHARES PURSUANT TO THE OFFER.

In arriving at its recommendation, the Board of Directors gave careful consideration to a number of factors described in the attached Schedule 14D-9 that is being filed today with the Securities and Exchange Commission, including, among other things, the terms and conditions of the Merger Agreement and the fairness opinion of CIBC World Markets Corp. ("CIBC World Markets"), the Company's financial advisor, to the effect that, as of the date of such opinion and based upon the assumptions and other matters set forth therein, the consideration to be received by holders of Shares in the Offer and the Merger is fair to such holders from a financial point of view. The full text of the opinion is attached as an exhibit to the Schedule 14D-9. Stockholders are urged to read the opinion carefully and in its entirety.

In addition to the attached Schedule 14D-9 relating to the Offer, also enclosed is the Offer to Purchase, dated September 29, 1999, of Lighthouse Acquisition Corp., together with related materials, including a Letter of Transmittal, to be used for tendering your Shares. These documents set forth the terms and conditions of the Offer and the Merger and provide instructions as to how to tender your Shares. We urge you to read the enclosed materials carefully in making your decision with respect to tendering your Shares pursuant to the Offer.

On behalf of the Board of Directors,

/s/ Richard A. Stratton

Richard A. Stratton
President, Chief Executive Officer and

Director