MEDIA ARTS GROUP INC
Form PRER14A
December 15, 2003

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A INFORMATION

(RULE 14a-101)
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

ý Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

o Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-11(c) of §240.14a-12

MEDIA ARTS GROUP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4)

Proposed maximum aggregate value of transaction:

(5) Total fee paid:

ý Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

900 Lightpost Way
Morgan Hill, California 95037

A MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT

, 2003

Dear Stockholder,

You are cordially invited to attend a special meeting of the stockholders of Media Arts Group, Inc. to be held on , 2004, at :00 a.m., Pacific Standard time, at . A formal notice of the special meeting and a proxy statement relating to the matters to be considered at the special meeting are attached for your review. We encourage you to read the attached proxy statement carefully because it contains important information about the special meeting and the matters to be considered at the special meeting as described below.

At the special meeting, you will be asked to approve and adopt an Agreement and Plan of Merger, dated as of October 31, 2003, among Media Arts Group, Thomas Kinkade, the founder, a director and the largest stockholder of Media Arts Group, and The Thomas Kinkade

Company (formerly known as Main Street Acquisition Company, Inc.), a Delaware corporation that Mr. Kinkade formed solely to effect the merger described below, as well as the merger contemplated by the merger agreement. A copy of the merger agreement is attached as Appendix A. We encourage you to read the merger agreement carefully because it contains important information about the merger and related matters.

If the merger agreement and the merger are adopted and approved by the requisite vote of our stockholders described below, the following will occur:

- The Thomas Kinkade Company (formerly known as Main Street Acquisition Company, Inc.), which we sometimes refer to below and in the attached proxy statement as "Mergerco," will be merged with and into Media Arts Group, and Media Arts Group will continue as the surviving corporation of the merger;

- each outstanding share of Media Arts Group stock (other than shares held by Mergerco, Mr. Kinkade or any of his affiliates, as well as shares held by stockholders who properly exercise their appraisal rights under applicable law) will be converted into the right to receive $4.00 in cash, without interest;

- each outstanding share of Media Arts Group stock held by Mergerco, Mr. Kinkade or any of his affiliates will be canceled without any consideration being paid for them;

- each outstanding option and warrant to purchase our stock (whether or not vested) will be cancelled and converted into the right to receive a cash payment equal to $4.00, minus the per

---

- share exercise price of the option or warrant, multiplied by the number of shares of stock that are issuable upon the exercise of the option or warrant; and

- each outstanding share of Mergerco stock will be converted into one share of stock in the surviving corporation, Media Arts Group.

As a result of the merger, Media Arts Group will become a privately-held company, wholly-owned by Mr. Kinkade and his affiliates.

We will not complete the merger unless the merger agreement and the merger are approved and adopted by:

- the affirmative vote of the holders of a majority of the shares of our stock outstanding on the record date for the special meeting; and

- the affirmative vote of the holders of a majority of the shares of our stock (other than shares held by the officers or directors of Media Arts Group or Mergerco, Mr. Kinkade or his affiliates) outstanding on the record date for the special meeting who cast votes either for or against the merger agreement and the merger.

On the record date for the special meeting, Mergerco, Mr. Kinkade and his affiliates controlled approximately 4,267,276 shares of our stock (excluding options to purchase an additional 600,000 shares of our stock held by Mr. Kinkade), representing approximately 32% of the outstanding shares of our stock on that date.

The board of directors of Media Arts Group, acting through all four independent, non-employee members of the board (consisting of Moe Grzelakowski, C. Joseph LaBonte, Donald Potter and Richard E. Stearns), without the participation of Mr. Kinkade, Anthony D. Thomopoulos and Eric Halvorson, each of whom is an employee of Media Arts Group, represented our stockholders in connection with the negotiation of the merger agreement and the merger. These independent directors, after extensive negotiations in which they were advised by their own financial and legal advisors, unanimously determined that the merger agreement and the merger are fair to, and in the best interests of, Media Arts Group and its stockholders other than Mergerco, Mr. Kinkade and his affiliates, as to whom the board of directors expresses no opinion. **Accordingly,**

the board of directors of Media Arts Group (acting without the participation of Messrs. Kinkade, Thomopoulos and Halvorson) unanimously recommends that Media Arts Group stockholders vote FOR the approval and adoption of the merger agreement and merger.

In reaching its determinations with respect to the merger agreement and the merger, the board of directors considered the advice of its financial advisor, Jefferies & Company, Inc., as well as an opinion delivered by Jefferies & Company, Inc., dated October 31, 2003, that as of that date, and based upon and subject to various considerations set forth in the opinion, the $4.00 per share merger consideration to be received by the holders of shares of Media Arts Group stock pursuant to the merger agreement is fair from a financial point of view to such stockholders (other than Mergerco, Mr. Kinkade and his affiliates, as to whom Jefferies & Company, Inc. expressed no opinion).

Your vote is very important. Whether or not you plan to attend the special meeting, please complete, sign and return the enclosed proxy card promptly in the envelope provided. Your shares will then be represented at the special meeting. If you attend the special meeting, you may revoke your proxy and vote in person, even if you previously returned a proxy card.

If you have any questions about the merger agreement or the merger, we encourage you to contact at .

Thank you for your attention to this important matter.

Sincerely,

Anthony D. Thomopoulos
Chief Executive Officer and Chairman of the Board

Morgan Hill, California
, 2003

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the merger, passed upon the fairness or merits of the merger, or passed upon the accuracy or adequacy of the disclosure in this proxy statement. Any representation to the contrary is a criminal offense.

This proxy statement is dated , 2003 and is first being mailed to Media Arts Group stockholders beginning on or about , 2003.

Media Arts Group, Inc.
900 Lightpost Way
Morgan Hill, California 95037

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON , 2004

Notice is hereby given that a special meeting of stockholders of Media Arts Group, Inc., a Delaware corporation, will be held on , 2004, at :00 a.m. Pacific Standard time, at , to consider and vote upon:

1. A proposal to approve and adopt an Agreement and Plan of Merger, dated as of October 31, 2003, by and among Media Arts Group, Inc., a Delaware corporation, The Thomas Kinkade Company (formerly known as Main Street Acquisition Company, Inc.), a Delaware corporation, and Thomas Kinkade, pursuant to which:

The Thomas Kinkade Company (formerly known as Main Street Acquisition Company), which we sometimes refer to below and in the attached proxy statement as "Mergerco," will be merged with and into Media Arts Group,

and Media Arts Group will continue as the surviving corporation of the merger;

each outstanding share of Media Arts Group stock (other than shares held by Mergerco, Mr. Kinkade or any of his affiliates, as well as shares held by stockholders who properly exercise their appraisal rights under applicable law) will be converted into the right to receive $4.00 in cash, without interest;

each outstanding share of Media Arts Group stock held by Mergerco, Mr. Kinkade or any of his affiliates will be canceled without any consideration paid for them;

each outstanding option and warrant to purchase our stock (whether or not vested) will be cancelled and converted into the right to receive a cash payment equal to $4.00, minus the per share exercise price of the option or warrant, multiplied by the number of shares of stock that are issuable upon the exercise of the option or warrant; and

each outstanding share of Mergerco stock will be converted into a share of Media Arts Group, and Media Arts Group will become a privately-held company, wholly-owned by Mr. Kinkade and his affiliates.

2. Any proposals to postpone or adjourn the special meeting.

No matters may be brought before the special meeting other than those matters set forth in this Notice of Special Meeting.

Only holders of record of our common stock at the close of business on , 2003, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting or any postponements or adjournments of the special meeting. A list of stockholders entitled to vote at the special meeting will be open for examination by any stockholder for any purpose germane to the meeting during ordinary business hours for a period of 10 days prior to the special meeting at the offices of Media Arts Group, 900 Lightpost Way, Morgan Hill, California 95037.

Approval and adoption of the merger agreement and the merger requires (i) the affirmative vote of the holders of a majority of the shares of our stock outstanding on the record date for the special meeting, and (ii) the affirmative vote of the holders of a majority of the shares of our stock (other than shares held by the officers or directors of Media Arts Group, or Mergerco, Mr. Kinkade or his affiliates) outstanding on the record date for the special meeting who cast votes either for or against

---

the merger agreement and the merger. As of the record date, Mergerco, Mr. Kinkade and his affiliates collectively owned approximately 32% of the outstanding shares of our stock (excluding options to purchase an additional 600,000 shares of our stock held by Mr. Kinkade).

The merger agreement and merger are described in the accompanying proxy statement, which you are urged to read carefully. A copy of the merger agreement is included as Appendix A to the attached proxy statement.

If you do not vote in favor of the merger agreement and the merger, and you otherwise comply with the applicable statutory provisions of Delaware law relating to appraisal rights, you will be entitled to an appraisal of your shares if the merger is completed. By properly exercising such appraisal rights, you will be entitled to receive, in lieu of the $4.00 merger consideration, payment in cash equal to the "fair value" of your shares, as determined in accordance with Delaware law. A copy of the relevant provisions of Delaware law is included as Appendix C to the attached proxy statement. We also refer you to the information included under the heading "SPECIAL FACTORS Appraisal Rights" in the attached proxy statement for additional information regarding appraisal rights under Delaware law.

Whether or not you plan to attend the special meeting in person, please complete, date, sign and return the enclosed proxy card to ensure that your shares will be represented at the special meeting. A return envelope (which is postage prepaid if mailed in the United States) is enclosed for that purpose. If you attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person at the special meeting, even if you previously returned a proxy card. Please note, however, that if your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must obtain from the record holder a proxy issued in your name.

The board of directors, acting through the independent directors (without the participation of Messrs. Kinkade, Thomopoulos and Halvorson, each of whom is an employee of Media Arts Group), has unanimously approved and adopted the merger agreement and the merger and recommends that our stockholders vote FOR approval and adoption of the merger agreement and the merger.

BY ORDER OF THE BOARD OF DIRECTORS,

Robert C. Murray
Vice President, General Counsel and Secretary

Morgan Hill, California
, 2003

TABLE OF CONTENTS

APPENDICES

SUMMARY TERM SHEET

This summary term sheet summarizes material information contained in this proxy statement but does not contain all of the information that may be important to you. You are urged to read this entire proxy statement carefully, including the appendices. The information contained in this summary term sheet is qualified in its entirety by reference to the more detailed information contained in this proxy statement.

Media Arts Group, Inc.

Media Arts Group, Inc., a Delaware corporation, is the subject company of the merger described in this proxy statement. The terms "we," "us," "our" and "Media Arts Group" used in this proxy statement refer to Media Arts Group, Inc. Our principal executive offices are located at 900 Lightpost Way, Morgan Hill, California 95037, and our telephone number is (408) 201-5000.

Media Arts Group is the designer, manufacturer, marketer, licensor and distributor of fine art reproductions based upon the original paintings of Thomas Kinkade. Our core manufactured products include premium canvas, archival and open edition reproductions. We also license our artwork and trademarks.

Our common stock has been traded on the New York Stock Exchange since December 7, 1998 under the symbol "MDA." Previously, our common stock had been traded on the NASDAQ National Market since our initial public offering on August 4, 1994 under the symbol "ARTS."

Our net revenues for the year ended December 31, 2002 and the nine month period ended September 30, 2003 were $103.8 and $44.5 million, respectively. We experienced net losses of $1.1 and $3.9 million for the year ended December 21, 2002 and the nine month period ended September 30, 2003, respectively.

Thomas Kinkade, the Art Director and a member of the board of directors of Media Arts Group, with his wife Nanette Kinkade and the Kinkade Family Trust (collectively referred to for purposes of this proxy statement as the "affiliated stockholders"), are significant stockholders of Media Arts Group. As of October 31, 2003, the affiliated stockholders beneficially owned 4,267,276 shares of our common stock (excluding options exercisable to acquire 600,000 additional shares held by Mr. Kinkade), representing approximately 32% of the total outstanding shares of our stock. Upon completion of the merger, the affiliated stockholders will own 100% of the outstanding shares of our stock. Eric Halvorson is the President and a member of the board of directors of Media Arts Group and Herbert D. Montgomery is the Chief Financial Officer of Media Arts Group. It is expected that Messrs. Halvorson and Montgomery will continue as members of the management team of Media Arts Group following completion of the merger. Neither Mr. Halvorson nor Mr. Montgomery is a significant stockholder of Media Arts Group and neither of them will have a continuing equity interest in Media Arts Group following the completion of the merger.

The Thomas Kinkade Company (formerly known as Main Street Acquisition Company, Inc.)

Main Street Acquisition Company, Inc., a Delaware corporation, was formed solely for the purpose of completing the merger described in this proxy statement. After the merger agreement was signed, Main Street Acquisition Company changed its name to The Thomas Kinkade Company. The term "Mergerco" used in this proxy statement refers to The Thomas Kinkade Company (formerly known as Main Street Acquisition Company, Inc.). The principal executive offices of Mergerco are located at 900 Lightpost Way, Morgan Hill, California 95037, and the telephone number is (408) 201-5000.

Mergerco is controlled by the affiliated stockholders. Prior to the merger, the affiliated stockholders will contribute all of their shares of Media Arts Group common stock to Mergerco.

The Proposed Merger (page 56)

On October 31, 2003, Media Arts Group, Mergerco and Mr. Kinkade entered into the merger agreement. Under the terms of the merger agreement, subject to the satisfaction or waiver of its terms and conditions, Mergerco will be merged with and into Media Arts Group, with Media Arts Group surviving the merger.

At the completion of the merger, except as described below, each outstanding share of our stock will be converted into the right to receive $4.00 in cash, without interest.

At the completion of the merger, each outstanding share of our stock held by Mergerco or any of the affiliated stockholders will be cancelled and, as a result, such stockholders will not be entitled to receive any consideration in connection with the merger. In addition, stockholders who properly exercise their appraisal rights under Delaware law in connection with the merger will not be entitled to receive the cash consideration described above, but in lieu of such consideration, such stockholders will be entitled to receive a cash payment equal to the "fair value" of their shares as determined by judicial authorities in the State of Delaware.

At the completion of the merger, each outstanding option or warrant to purchase our stock (whether or not vested) will be cancelled and converted into the right to receive a cash payment equal to $4.00, minus the per share exercise price of the option or warrant, multiplied by the number of shares of stock that are issuable upon the exercise of the option or warrant.

Independent Board of Directors

As a result of their actual or potential interests in the merger, Messrs. Kinkade, Thomopoulos and Halvorson (since June 23, 2003, when Mr. Halvorson became President of Media Arts Group) did not participate in any meetings or deliberations of our board of directors regarding the merger agreement and the merger or our strategic alternatives to the merger. Accordingly, the independent members of our board of directors, consisting of Ms. Grzelakowski and Messrs. LaBonte, Potter and Stearns, none of whom are officers or employees of Media Arts Group or otherwise have any direct or indirect interests in the merger other than as stockholders of Media Arts Group, conducted all meetings of our board of directors regarding the merger on behalf of Media Arts Group. In this proxy statement, we sometimes refer to these directors as the "independent directors."

Unless the context otherwise requires, references in this proxy statement to the "board" are references to the board of directors of Media Arts Group. Where we refer in this proxy statement to the "board of directors" in connection with its consideration of a proposed acquisition of Media Arts Group by Mr. Kinkade, including the merger agreement and the merger to which this proxy statement pertains, unless the context otherwise requires, we are referring to the board of directors acting by and through only the non-employee, independent directors of Media Arts Group, namely Ms. Grzelakowski, Messrs. LaBonte, Potter, Stearns and, for periods through June 22, 2003 only, Mr. Halvorson.

Our Purpose and Reasons for the Merger (page 21)

Our board of directors approved the merger agreement and the merger primarily to enable our stockholders to receive value for their shares at a significant premium over the market price before the announcement of the merger agreement. In addition, our board of directors determined to proceed with the merger at this time because, after exploring strategic alternatives available to us, and after considering our historical financial losses and repeated failure to meet our projections for our future financial results, the merger presented an opportunity for our stockholders to realize greater value for their shares than they would likely be able to realize in the foreseeable future if we remained a publicly traded entity.

Our board of directors also approved the merger agreement and the merger in part because they believe that our stockholders have not been able to realize fully the benefits of our status as a publicly traded entity. In particular, the board of directors believes that our stock has been undervalued, and will likely continue to be undervalued in the foreseeable future, as a result of our small market capitalization, the limited public float of our stock, the low trading volume of our stock, the limited research coverage of Media Arts Group by securities analysts, our continuing reliance on a single artist's products to generate revenue and our failure to successfully introduce and market products based on the work of other artists, our inability to successfully diversify our product portfolio and our inability to generate the type of rapid revenue growth generally expected by the public equity markets.

Our board of directors also determined that the merger would afford us greater flexibility to pursue our business plan without the demands associated with being a public company. Our status as a publicly traded entity imposes upon us a number of obligations and limitations that, in the view of our board of directors, limit our ability to pursue long-term growth and value creation. These obligations and limitations include, among other things, the costs and time associated with complying with our reporting obligations under the federal securities laws, the costs associated with complying with the new laws applicable to public companies under the Sarbanes-Oxley Act and the need to focus on short-term, quarter-to-quarter performance goals in order to satisfy the expectations of the public equity markets. Our board of directors believes that, by enabling us to withdraw from the public markets, the merger will enable us to reduce our focus on meeting quarter-to-quarter performance goals to satisfy the expectations of public stockholders and concentrate on long-term growth plans.

Purposes and Reasons of Mergerco, the Affiliated Stockholders and Certain of Our Executive Officers for the Merger (page 33)

The purpose of the merger for Mergerco and the affiliated stockholders is to allow the affiliated stockholders to acquire all outstanding shares of common stock of Media Arts Group, which will enable them to participate in 100% of Media Arts Group's future earnings and growth.

As a publicly traded company, Media Arts Group is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Compliance with these reporting requirements involves significant expenditures of our resources. Therefore, an additional purpose of the merger for Mergerco, the affiliated stockholders and Messrs. Halvorson and Montgomery is that following the merger, as a privately held company, Media Arts Group will save the expense and time of complying with these reporting requirements.

Vote Required (page 54)

Under applicable law as well as the terms of the merger agreement, the merger agreement and the merger must be approved and adopted by the affirmative vote of the holders of a majority of the shares of our stock outstanding on the record date for the special meeting described in this proxy statement. For this vote, proxies that reflect abstentions and broker non-votes, as well as proxies that are not returned, will have the same effect as a vote against approval and adoption of the merger agreement and the merger.

In addition, under the terms of the merger agreement, the merger agreement and the merger must be approved and adopted by the affirmative vote of the holders of a majority of the shares of our stock (other than shares held by the directors or officers of Media Arts Group or Mergerco, or any of the affiliated stockholders) that are cast either for or against approval and adoption of the merger agreement and the merger at the special meeting described in this proxy

statement. None of Media Arts Group, Mr. Kinkade, the affiliated stockholders or any officers or directors of Media Arts Group or Mergerco control the vote of any other stockholders on the approval and adoption of the merger agreement and the merger. Because shares held by Mergerco and the affiliated stockholders are excluded from this vote, the affiliated stockholders do not have the ability to assure the approval and adoption of the merger agreement and the merger. For this vote, proxies that reflect abstentions and broker non-votes, as well as proxies that are not returned, will have no effect on approval and adoption of the merger agreement and the merger.

Our Beliefs Regarding the Fairness of the Merger and the Recommendation of Our Board of Directors Regarding the Merger (pages 23 and 27)

After careful consideration, and in light of the factors described in this proxy statement under the headings "SPECIAL FACTORS Our Beliefs Regarding the Fairness of the Merger," "SPECIAL FACTORS Recommendation of Our Board of Directors Regarding the Merger" and "SPECIAL FACTORS Our Purpose and Reasons for the Merger," our board of directors has unanimously determined that the merger agreement is advisable, and that the merger agreement and the merger are fair to, and in the best interests of, Media Arts Group and its stockholders (other than Mergerco and the affiliated stockholders, as to whom our board of directors expresses no opinion).

On the basis of the foregoing, our board of directors has unanimously approved the merger agreement and the merger, and recommends that the stockholders of Media Arts Group vote to approve and adopt the merger agreement and the merger.

Opinion of Financial Advisor to Our Board of Directors (page 27)

In deciding to approve the terms of the merger agreement and the merger, one of the factors that our board of directors considered was the written opinion of our financial advisor, Jefferies & Company, Inc., dated October 31, 2003, that as of that date, and based upon and subject to the various considerations set forth in the opinion, the $4.00 per share merger consideration to be received by the holders of shares of Media Arts Group stock pursuant to the merger agreement is fair from a financial point of view to such stockholders (other than Mergerco and the affiliated stockholders, as to whom Jefferies expressed no opinion). The full text of Jefferies' opinion, which describes, among other things, the assumptions made, procedures followed, matters considered and limitations on the scope of review undertaken by Jefferies in rendering its opinion, is attached in its entirety as Appendix B to this proxy statement. You are urged to read the entire opinion letter carefully.

Position of Mergerco, the Affiliated Stockholders and Certain of Our Executive Officers as to Fairness of the Merger (page 34)

Mergerco, the affiliated stockholders, and Messrs. Halvorson and Montgomery, who are expected to remain with Media Arts Group after the merger, believe that the merger is substantively and procedurally fair to our stockholders who are unaffiliated with Mergerco, the affiliated stockholders or such executive officers.

Effects of the Merger (page 41)

Upon completion of the merger:

Mergerco will merge with and into Media Arts Group with Media Arts Group surviving the merger.

The affiliated stockholders will own 100% of the then-outstanding stock of Media Arts Group, which will enable them to participate in 100% of Media Arts Group's future earnings and growth.

You will no longer be a stockholder of, or have any ownership interest in, Media Arts Group.

Media Arts Group will no longer be a public company, and our stock will no longer be quoted on the New York Stock Exchange.

The registration of our stock under the Exchange Act will terminate, and we will cease to file periodic reports with the Securities and Exchange Commission under the Exchange Act.

Interests of Our Directors and Officers in the Merger; Potential Conflicts of Interest (page 46)

When considering the recommendation of the board of directors that you vote for approval and adoption of the merger agreement and the merger, you should be aware that certain of our directors and officers have interests in the merger that are different from, or in addition to, yours and that may present, or appear to present, a conflict of interest. These interests include the following:

Thomas Kinkade, who is a director of Media Arts Group and beneficially owns 4,267,276 shares of our stock (representing approximately 32% of our outstanding shares) (excluding options to purchase an additional 600,000 shares held by Mr. Kinkade), will not receive any consideration in the merger, but he and the other affiliated stockholders will own 100% of Media Arts Group following the completion of the merger. As a result, after the merger, Mr. Kinkade will receive all of the benefits, if any, realized from the future ownership and operation of Media Arts Group's business and assets. You, however, will not have any direct or indirect ownership interest in Media Arts Group's business and assets and will not participate in any potential future success of Media Arts Group's business following the completion of the merger.

Under our standard policies for compensating our directors for attendance at board and committee meetings, each of the independent directors received $1,000 for each meeting they attended at which the merger was considered. As of the date of this proxy statement, Ms. Grzelakowski has received $17,000, Mr. LaBonte has received $19,000, Mr. Potter has received $19,000, and Mr. Stearns has received $15,000 in fees, representing an aggregate fee of $70,000 for their services performed since October 29, 2002 as our independent directors in connection with their consideration of the merger, strategic alternatives to the merger, and related matters. Each member was also reimbursed for his or her out-of-pocket expenses. Additionally, Mr. Halvorson received $13,000 for the 13 independent director meetings he attended during the period between October 29, 2002 and June 23, 2003, during which time he was an independent director. If our independent directors hold additional meetings to consider the status of the merger, under our standard policies for compensating our directors for attendance at board meetings, they will receive $1,000 for each additional meeting they attend. These fees and payments were not (and will not be) contingent upon the completion of the merger.

The merger agreement provides that Media Arts Group's indemnification and insurance obligations and arrangements will be honored and maintained for our current directors and officers.

It is expected that Messrs. Halvorson and Montgomery will continue as members of the management team of Media Arts Group following the completion of the merger.

Mr. Kinkade has agreed to pay each of Messrs. Thomopoulos, Halvorson, and Montgomery a success fee of $100,000 upon the completion of the merger for their additional responsibilities and services in connection with the merger agreement and the merger.

On August 1, 2003, after Mr. Halvorson began serving as our President, Mr. Kinkade and his wife personally lent Mr. and Mrs. Halvorson $200,000 to assist the Halvorsons in purchasing a residence in close proximity to our principal executive offices. See "SPECIAL FACTORS Interests of Certain Persons in the Merger; Potential Conflicts of Interest Relocation Loan to the Halvorsons."

To our knowledge, each of our executive officers and directors intends to vote all of the shares of our stock that they beneficially own in favor of the merger. Excluding shares owned by Mr. Kinkade, as of November 7, 2003, our executive officers and directors as a group beneficially owned 9,250 shares of our stock. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT."

As a result of the merger, our officers and directors (other than Mr. Kinkade, but including Messrs. Halvorson and Montgomery) will be entitled to receive the same merger consideration and option cash-out amount as other stockholders. See "SPECIAL FACTORS Interests of Certain Persons in the Merger; Potential Conflicts of Interest Acceleration of Stock Options," below.

Material U.S. Federal Income Tax Consequences (page 40)

The receipt of cash in exchange for shares of our stock in the merger will be a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local, foreign or other tax laws. Generally, you will recognize gain or loss for these purposes equal to the difference between $4.00 per share and your tax basis for the shares of stock that you own immediately before completion of the merger.

Tax matters are very complex and the tax consequences of the merger to you will depend on the facts of your own situation. You should consult your tax advisor for a full understanding of the tax consequences of the merger to you.

Merger Financing (page 43)

The total amount of funds necessary to complete the merger and to pay the related fees and expenses is estimated to be approximately (i) $ for Media Arts Group and (ii) $ for Mergerco. Media Arts Group and Mergerco anticipate that the merger consideration will be funded from two primary sources:

Our existing cash, cash equivalents and working capital, excluding amounts necessary for our ongoing business needs.

Financing in the form of (i) a two-year term loan in the amount of $3.0 million and (ii) a three-year revolving line of credit facility in the amount of $22.0 million. Both loans will be secured by assets and certain guarantees from Mr. Kinkade. Mergerco has received a commitment letter from GE Corporate Financial Services, Inc. regarding the financing, but has not yet executed definitive financing documents.

Mergerco and Mr. Kinkade will not be required to complete the merger unless they have received the funding contemplated by the commitment letter from GE Corporate Financial Services, Inc. or otherwise have access to sufficient funds under any other commitment that is acceptable to them to enable Mergerco to make the payments contemplated by the merger agreement. As a result, even if we receive the requisite approvals of our stockholders that are necessary to complete the merger, Mergerco and Mr. Kinkade might not complete the merger if they do not receive the necessary financing to complete the merger.

As of September 30, 2003, Media Arts Group's working capital was $42.6 million, which included cash and cash equivalents of $22.6 million. Assuming the merger is completed, we currently anticipate that we will be able to generate sufficient cash together with amounts available under the new credit facility to fund our ongoing operations, including working capital needs, for at least the next 12 months.

Conditions to Completing the Merger (page 60)

Conditions to Obligations of Media Arts Group, Mergerco and Mr. Kinkade. Our obligation and the obligations of Mergerco and Mr. Kinkade to complete the merger are subject to the satisfaction of certain conditions, including the following:

- The merger agreement and the merger must have been approved and adopted by the affirmative vote of the holders of a majority of the shares of our stock outstanding on the record date for the special meeting.
- The merger agreement and the merger must have been approved and adopted by the holders of a majority of shares of our stock (other than those held by the officers or directors of Media Arts Group, or Mergerco or any of the affiliated stockholders) that are cast either for or against approval the merger agreement and the merger at the special meeting.
- There must not be in effect any law, rule, regulation or order that would make the merger illegal or otherwise prohibit the completion of the merger.
- All consents, approvals and authorizations required to be obtained to complete the merger must have been obtained, except where the failure to do so could not reasonably be expected to have a material adverse effect on us.

Neither we nor Mergerco and Mr. Kinkade may waive any of these conditions.

Conditions to Obligations of Mergerco and Mr. Kinkade. The obligations of Mergerco and Mr. Kinkade to complete the merger are also subject to the satisfaction or waiver of other conditions, including the following:

- Our representations and warranties in the merger agreement must be true and correct as of the closing date, except where the failure to be true and correct has not had a material adverse effect on us.
- We must have performed and complied in all material respects with all of our obligations under the merger agreement on or prior to the closing date.
- There must not have occurred a change or event that has had a material adverse effect on us.
- Sufficient funds must be available to complete the merger and pay the merger consideration.

Mergerco and Mr. Kinkade may waive any of these conditions on or prior to the completion of the merger.

Conditions to Obligations of Media Arts Group. Our obligation to complete the merger is also subject to the satisfaction or waiver of other conditions, including the following:

The representations and warranties of Mergerco in the merger agreement must be true and correct in all material respects as of the closing date.

Mergerco must have performed in all material respects all of its obligations under the merger agreement on or prior to the closing date.

We may waive any of these conditions on or prior to the completion of the merger.

Limitations on Considering Other Takeover Proposals (page 59)

We have agreed not to solicit, enter into discussions regarding, or agree to or recommend any third party acquisition proposal while the merger is pending. Our board of directors may furnish non-public information to, or enter into discussions or negotiations with, any third party regarding an unsolicited bona fide acquisition proposal if, among other things, our board of directors determines in good faith, after consultation with its legal counsel, that failure to take such action would be inconsistent with the fiduciary duties of our board of directors.

In addition, our board of directors may withdraw or modify its recommendation of the merger or recommend an acquisition proposal with a third party if among other things, the acquisition proposal is a superior proposal, and our board of directors determines in good faith, after consultation with its legal counsel, that failure to take such action would be inconsistent with the fiduciary duties of our board of directors.

Termination (page 62)

The merger agreement may be terminated prior to the effective time of the merger, whether before or after approval by our stockholders, for a number of reasons, including the following:

Mutual consent of us and Mergerco.

We or Mergerco may terminate the merger agreement if the merger is not completed (i) on or before January 31, 2004, so long as the party wishing to terminate has not breached its obligations under the merger agreement, or (ii) if certain other conditions are met, on or before March 1, 2004.

We or Mergerco may terminate the merger agreement if the merger is permanently restrained, enjoined or otherwise prohibited by a court or other governmental entity.

We or Mergerco may terminate the merger agreement if our stockholders do not approve and adopt the merger agreement and the merger as required by the terms of the merger agreement.

Mergerco may terminate the merger agreement if (i) we have breached our non-solicitation obligations under the merger agreement, (ii) our board of directors has recommended a third party acquisition proposal, (iii) our board of directors has withdrawn or modified in a manner adverse to Mergerco its recommendation of the merger, or (iv) a tender offer or exchange offer for 25% or more of our stock is commenced and our board of directors recommends acceptance by our stockholders.

We or Mergerco may terminate the merger agreement if there has been a material breach by the other party under the merger agreement that has not been cured.

We may terminate the merger agreement if, prior to approval and adoption by our stockholders of the merger agreement and the merger, and as a result of a superior proposal:

- our board of directors determines that the failure to terminate the merger agreement and accept such superior proposal would be inconsistent with the fiduciary duties of our board of directors;
- we provide notice of the proposed termination to Mergerco; and
- we give Mergerco five days to make an offer that is at least as favorable to our stockholders as the superior proposal and negotiate in good faith with Mergerco regarding any revised offer.

Fee and Expense Reimbursement Upon Termination (page 63)

Generally, the merger agreement provides that all fees and expenses will be paid by the party incurring them. However, if the merger agreement is terminated by either us or Mergerco, in certain circumstances, either we, or Mergerco and Mr. Kinkade will be entitled to receive from the other reimbursement of up to $1.0 million of out-of-pocket fees and expenses actually and reasonably incurred in connection with the merger agreement and the merger. For example, if we or Mergerco terminate the merger agreement because the other party has breached its representations, warranties or obligations under the merger agreement and fails to cure such breach, we or Mergerco and Mr. Kinkade, as the case may be, would be entitled to reimbursement. Additionally, if Mergerco terminates the merger agreement because we have breached our covenant not to solicit or support any third party acquisition proposals, because our board of directors has withdrawn its recommendation of the merger or has recommended an alternative third party aquisition proposal, or because we have terminated the merger agreement because our own board of directors has approved a superior third party aquisition proposal, Mergerco and Mr. Kinkade would be entitled to reimbursement.

The Special Meeting (page 54)

A special meeting of our stockholders will be held on , 2004, at :00 a.m. Pacific Standard time, at , to consider and vote upon a proposal to approve and adopt the merger agreement and the merger.

You are entitled to vote at the special meeting if you owned shares of our stock at the close of business on , 2003, which is the record date for the special meeting. You will have one vote at the special meeting for each share of our stock you owned at the close of business on the record date. On the record date, there were shares of our stock outstanding and entitled to be voted at the special meeting.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of our stock entitled to vote at the special meeting is necessary to constitute a quorum for the transaction of business at the special meeting.

To cast a vote on the merger agreement and the merger by proxy or in person at the special meeting, or to change a vote reflected in any proxy you previously sent to us, you must follow the procedures described in this proxy statement under the heading "THE SPECIAL MEETING."

A vote FOR the proposal to approve and adopt the merger agreement and the merger on the enclosed proxy card, will have the effect of voting all of the shares represented by your proxy in favor of the proposal. A vote AGAINST the proposal to approve and adopt the merger agreement and the merger on the enclosed proxy card, will have the effect of voting all of the shares represented by your proxy against the proposal.

If you sign and return a proxy without expressly directing (by checking the applicable boxes on the enclosed proxy card) (1) how your shares should be voted on the proposal to approve and adopt the merger agreement and the merger, (2) that your shares should be voted against the proposal to approve and adopt the merger agreement and the merger, or (3) that you are abstaining from voting on the proposal to approve and adopt the merger agreement and the merger, all of your shares represented by your proxy will be voted FOR the proposal to approve and adopt the merger agreement and the merger.

We are also seeking discretionary authority to vote, in the discretion of the proxy holders, on any proposals to postpone or adjourn the special meeting. To grant discretionary authority on these proposals, you must vote FOR the granting of discretionary authority on the enclosed proxy card. A vote FOR this granting of discretionary authority on the enclosed proxy card will

have the effect of voting all of the shares represented by your proxy in favor of the granting of discretionary authority. A vote AGAINST this granting of discretionary authority on the enclosed proxy card will have the effect of voting all of the shares represented by your proxy against the granting of discretionary authority. If you sign and return a proxy without expressly directing (by checking the applicable boxes on the enclosed proxy card) (1) how your shares should be voted on the granting of discretionary authority, (2) that your shares should be voted against the granting of discretionary authority, or (3) that you are abstaining from voting on the granting of discretionary authority, all of your shares represented by your proxy will be voted FOR the granting of discretionary authority to vote, in the discretion of the proxy holders, on any proposals to postpone or adjourn the special meeting.

Appraisal Rights (page 49)

Under Delaware law, if the merger is completed and you do not vote in favor of the merger and instead follow the appropriate procedures for demanding appraisal rights, you will be entitled to receive, in lieu of the $4.00 merger consideration, a cash payment equal to the "fair value" of your shares of our stock, as determined by judicial authorities in the State of Delaware.

If the merger is completed and you desire to exercise your appraisal rights under Delaware Law, you are required to comply with Section 262 of the Delaware General Corporation Law, a copy of which is attached to this proxy statement as Appendix C. Failure to take all of the steps required under Delaware law may result in the loss of your appraisal rights.

Certain Legal Proceedings (page 69)

On November 6, 2003, a putative class action complaint was filed in the Superior Court of the State of California, County of Santa Clara, naming Media Arts Group and its directors as defendants. The action, *Thompson v. Media Arts Group, Inc., et al.*, Case No. 1-03-CV-008621, challenges the merger agreement. Specifically, the complaint alleges that defendants breached their fiduciary duties in connection with the merger agreement and seeks to enjoin the completion of the merger agreement. On December 10, 2003, the plaintiff served requests for production of documents upon some of the defendants. On December 12, 2003, defendants moved to stay or dismiss this action on the grounds that a virtually identical action is currently pending in Delaware Chancery Court. The motion to stay is currently scheduled for hearing on February 26, 2004. Based on the facts known to date, Media Arts Group believes that the claims asserted in this action are without merit and intends to vigorously defend this suit.

On November 26, 2003, a second putative class action complaint captioned *Goings v. Media Arts Group, Inc., et al.*, Civil Action No. 087-N, was filed in the Court of Chancery of the State of Delaware in and for New Castle County. This action also alleges that Media Arts Group and its directors and certain of its officers breached their fiduciary duties to Media Arts Group's stockholders by entering into the merger agreement and seeks to enjoin the completion of the merger. On November 26, 2003, the plaintiff moved for a preliminary injunction to prevent the completion of the merger, and concurrently filed a motion for expedited proceedings and discovery. On December 11, 2003, Media Arts Group and certain other defendants moved to dismiss the complaint. Based on the facts known to date, Media Arts Group believes that the claims asserted in this action are without merit and intends to vigorously defend this suit.

QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

The information provided in question-and-answer format below is for your convenience only and is merely a summary of certain information contained in this proxy statement. You should carefully read this entire proxy statement, including the appendices.

Q: **When and where is the special meeting?**

A: The special meeting will be held on , 2004, at :00 a.m. Pacific Standard time, at .

Q: **What am I being asked to vote on?**

A: You are being asked to consider and vote on a proposal to approve and adopt the merger agreement and the merger. Under the merger agreement, Mergerco will be merged into Media Arts Group, with Media Arts Group continuing as the surviving corporation. We will continue to operate after the closing of the merger, but will be wholly owned by Mr. Kinkade and his affiliates, whom we refer to in this proxy statement as the "affiliated stockholders."

In addition, we are seeking discretionary authority to vote, in the discretion of the proxy holders, on any proposals to postpone or adjourn the special meeting.

Q: **What will I receive in the merger?**

A: If the merger is completed, each outstanding share of our stock that you hold at the completion of the merger will be converted into the right to receive $4.00 in cash, without interest (unless you exercise appraisal rights under Delaware law). If Mergerco or any of the affiliated stockholders hold any shares of our stock at the time of the completion of the merger, they will not receive any consideration in the merger. However, they will own all Media Arts Group's outstanding stock following the completion of the merger.

Q: **What are the U.S. federal income tax consequences of the merger to me?**

A: The receipt of cash for shares of our stock in the merger will be a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local, foreign or other tax laws. Generally, you will recognize gain or loss for these purposes equal to the difference between $4.00 per share and your tax basis for the shares of our stock that you own at the completion of the merger. For U.S. federal income tax purposes, this gain or loss will be a capital gain or loss if you held your shares of our stock for more than one year. You should consult your own tax advisors regarding the individual tax consequence of the merger to you.

Q: **Who can vote on the merger agreement?**

A: Holders of record of our stock at the close of business on , 2003, the record date for the special meeting, may vote in person or by proxy on the merger agreement and the merger at the special meeting.

Q: **What vote is required to approve the merger agreement and the merger?**

A: There are two separate voting requirements that must be satisfied before we will complete the merger. First, the merger agreement and the merger must be approved and adopted by the holders of a majority of the outstanding shares of our stock entitled to vote at the special meeting. Second, the merger agreement and merger must be approved and adopted by the holders of a majority of those shares of our stock (excluding any shares held by the officers or directors of Media Arts

Group, or Mergerco or the affiliated stockholders) that are cast either for or against the merger agreement and the merger at the special meeting. As a result, it is important that you return your proxy card before the special meeting or attend the special meeting in person in order for your votes to be counted at the meeting.

Q:

How does the board of directors recommend that I vote?

A:

After careful consideration, and in light of the factors described under the headings "SPECIAL FACTORS Our Purpose and Reasons for the Merger" and "SPECIAL FACTORS Our Beliefs Regarding the Fairness of the Merger," our board of directors has unanimously determined that the merger agreement is advisable, and that the merger agreement and the merger are fair to, and in the best interests of, Media Arts Group and its stockholders (other than Mergerco and the affiliated stockholders, as to whom our board of directors expresses no opinion). On the basis of the foregoing, our board of directors has unanimously approved the merger agreement and the merger, and recommends that the stockholders of Media Arts Group vote to approve and adopt the merger agreement and the merger.

As a result of their actual or potential interests in the merger, Messrs. Kinkade, Thomopoulos and Halvorson did not participate in any meetings or deliberations of our board of directors regarding the merger agreement and the merger or our strategic alternatives to the merger. Accordingly, the independent members of our board of directors, consisting of Moe Grzelakowski, C. Joseph LaBonte, Donald Potter and Richard E. Stearns, none of whom are officers or employees of Media Arts Group or otherwise have any direct or indirect interests in the merger other than as stockholders of Media Arts Group, conducted all meetings of our board of directors regarding the merger on behalf of Media Arts Group.

Q:

What do I need to do now?

A:

You should read this proxy statement carefully, including its appendices, and consider how the merger affects you. Then, mail your completed, dated and signed proxy card in the enclosed return envelope as soon as possible so that your shares can be voted at the special meeting.

Q:

What happens if I do not return a proxy card, abstain from voting or do not instruct my broker holding my shares how to vote?

A:

With respect to the first voting requirement relating to the merger described above, failing to return your proxy card, abstaining from voting or failing to instruct your broker how to vote will have the same effect as voting against the merger agreement and the merger. With respect to the second voting requirement relating to the merger described above, failing to return your proxy card, abstaining from voting or failing to instruct your broker how to vote will have no effect on the outcome of the vote.

In addition, failing to return your proxy card, abstaining from voting or failing to instruct your broker how to vote will have the same effect as voting against granting discretionary authority to vote on any proposals to postpone or adjourn the special meeting.

Q:

May I vote in person?

A:

Yes. You may attend the special meeting and vote your shares in person whether or not you sign and return a proxy card. If your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must obtain a proxy from the record holder of your shares in order to vote in person at the special meeting.

Q:

May I change my vote after I have mailed my signed proxy card?

A:

Yes. You may change your vote at any time before your proxy card is voted at the special meeting. You can do this in one of three ways. First, you can send a written notice to the Secretary of Media Arts Group stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. Third, you can attend the special meeting and vote in person at the meeting. Your attendance at the special meeting will not alone revoke your proxy. If you have instructed a broker, bank or other nominee who is the record holder of your shares to vote your shares at the special meeting, you must follow directions received from your broker to change those instructions.

Q:

If my shares are held in "street name" by my broker, will my broker vote my shares for me?

A:

Your broker will not be able to vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedures provided by your broker.

Q:

Should I send in my stock certificates now?

A:

No. If you hold Media Arts Group stock certificates, after the merger is completed, you will receive written instructions explaining how to exchange your stock certificates for a cash payment of $4.00 for each share evidenced by your certificate, without interest.

Q:

What happens if I sell my Media Arts Group shares before the special meeting?

A:

The record date for the special meeting is earlier than the expected date of the merger. If you own shares of our common stock on the record date but transfer your shares after the record date but before the merger, you will retain the right to vote at the special meeting, but the right to receive the $4.00 merger consideration will pass to the person to whom you transferred your shares.

Q:

When do you expect the merger to be completed?

A:

If the merger agreement and the merger are approved and adopted at the special meeting by the requisite votes of our stockholders, and if the other conditions to the merger are satisfied or waived, we expect to complete the merger as promptly as possible after the special meeting.

Q:

Who can help answer my questions?

A:

If you would like additional copies of this proxy statement (which copies will be provided to you without charge) or if you have questions about the merger, including the procedures for voting your shares, you should contact:

MacKenzie Partners, Inc.
105 Madison Avenue
New York, NY 10016
Telephone Number: ( )
Facsimile: ( )

CAUTIONARY STATEMENT CONCERNING

FORWARD-LOOKING INFORMATION

This proxy statement and the documents incorporated herein by reference contain or are based on forward-looking statements. In some cases, forward-looking statements can be identified by the use of such words as "believes," "anticipates," expects," "intends," "plans," "seeks," "estimates," "will," variations of such words and similar expressions. Such forward-looking statements are based on current expectations, estimates and projections. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Actual results may differ materially and adversely from those expressed or forecasted in any such forward-looking statements.

Except to the extent required under federal securities laws, we do not intend to update or revise any forward-looking statements to reflect circumstances arising after the date of this proxy statement. Readers should carefully review the information and the risk factors set forth in other reports and documents that we file from time to time with the Securities and Exchange Commission, particularly the Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

SPECIAL FACTORS

Background of the Merger

From time to time, our board of directors and our management team have reviewed our strategic focus in light of conditions in the industry in which we operate and the long-term interests of Media Arts Group and our stockholders. Over the past two years, members of the board of directors and members of our senior management team, including Thomas Kinkade, a director of Media Arts Group and its founder and largest stockholder, became increasingly concerned that the price for our publicly traded stock did not accurately reflect the value of Media Arts Group. In their view, our stock has been undervalued as a result of our small market capitalization, limited public float, low trading volume, limited research coverage from securities analysts, our continuing reliance on a single artist's products to generate revenue and our failure to successfully introduce and market products based on the work of other artists, our inability to successfully diversify and our inability to generate the type of rapid revenue and unit growth generally expected by the public equity markets. During recent years, various other external factors emerged that the board of directors and members of our senior management team believed further constrained the company's share price, including a general weakness in valuations for public consumer product companies and a shift toward investment in technology and other high growth companies. During this time period, our board of directors and our management team attempted to respond to these considerations by implementing cost reduction programs throughout the company. These programs were implemented in an effort to increase the value of our outstanding stock and included reductions in the number of our employees, a consolidation of our manufacturing, warehousing and administration functions into two facilities and cost reductions in our manufacturing process.

In October 2000, Mr. Kinkade submitted a proposal to our board to acquire all of the outstanding shares of Media Arts Group stock that he did not already own at that time in exchange for $6.25 per share in cash. During late 2000 and early 2001, our board evaluated Mr. Kinkade's proposal, with the assistance of a nationally recognized financial advisor, and determined that Mr. Kinkade's proposal was not in the best interests of Media Arts Group or its stockholders at that time. In April 2001, Mr. Kinkade withdrew his proposal.

Throughout the remainder of 2001 and into 2002, our board of directors and management team continued their efforts to improve Media Arts Group's stock performance by implementing further cost reductions throughout the company. Despite these efforts, our stock price declined to a closing price of $2.63 per share by December 31, 2001.

As a result of Mr. Kinkade's participation as a member of our board of directors, during 2002 Mr. Kinkade came to the view that it was increasingly unlikely that the public markets would fully recognize the value of our stock, due in large part to our small market capitalization, our inability to successfully introduce and market products based on the work of other artists and management's inability to generate the revenue growth, and to meet projections for such growth, expected by stockholders and analysts of a public company. As a result of these factors, Mr. Kinkade began to reconsider the possibility of pursuing a going private transaction in which he and the affiliated stockholders would acquire ownership of all of Media Arts Group equity. During this time, Mr. and Mrs. Kinkade considered the possibility of selling their interests in Media Arts Group. However, after discussion, they concluded that they did not wish to sell their interests in Media Arts Group because Mr. Kinkade founded the company, is its principal artist, is and has been involved in many aspects of our management and operations since our foundation, and remains committed to pursuing the long-term growth he believes we are capable of achieving. Throughout this time and on these bases, as well as based upon our financial condition, constraints on our stock price and the short-term focus of the public markets, Mr. and Mrs. Kinkade did not believe that any buyer would be willing to pay a

price that would be sufficient to cause Mr. Kinkade and the affiliated stockholders to sell their interests in Media Arts Group.

By September 30, 2002, our stock price had declined to a closing price of $1.86 per share.

In October 2002, an independent financial advisor contacted Anthony D. Thomopoulos, our Chairman and Chief Executive Officer, to inquire as to whether we would be interested in a strategic transaction involving a reorganization that would enable Mr. Kinkade to acquire sole ownership and control of our operating business.

On October 29, 2002, a previously constituted executive committee of the board of directors, comprised of Mr. Thomopoulos, Herbert D. Montgomery, our Executive Vice President, Chief Financial Officer and Treasurer; Moe Grzelakowski, Eric H. Halvorson, C. Joseph LaBonte, Donald Potter, Richard Stearns and Mr. Kinkade, convened a meeting to consider the proposed transaction. The executive committee did not include then-board member Ron D. Ford, our former Chief Executive Officer who had previously departed Media Arts Group on August 8, 2002. The financial advisor who had contacted Mr. Thomopoulos, as well as Robert C. Murray, our Vice President, General Counsel and Secretary, and representatives of Wilson Sonsini Goodrich & Rosati, Professional Corporation, our outside legal counsel, also attended the meeting. Following the financial advisor's presentation of the proposed transaction, the executive committee requested that the financial advisor, as well as Messrs. Kinkade, Thomopoulos, Montgomery and Murray, leave the meeting in light of their potential involvement in the proposed transaction. The executive committee then discussed the proposed transaction and authorized Mr. Halvorson to engage, on our behalf, a financial advisor to assist the executive committee in evaluating the transaction and other strategic alternatives available to us.

On October 31, 2002, the executive committee (acting without the participation of Messrs. Kinkade, Thomopoulos and Montgomery) convened another meeting to consider the proposed transaction. Representatives of Wilson Sonsini Goodrich & Rosati also attended the meeting. During the meeting, Mr. Halvorson informed the executive committee that Jefferies had agreed to advise us in connection with the proposed transaction. After considering Jefferies' knowledge of our industry, experience with corporate reorganizations, lack of any previous relationship with the aforementioned financial advisor and Mr. Kinkade, as well as the structure and amount of compensation to be paid to Jefferies, the executive committee authorized the engagement of Jefferies to act as the exclusive financial advisor to us in connection with its review of the proposed transaction and other strategic alternatives available to us. The executive committee (acting without the participation of Messrs. Kinkade, Thomopoulos