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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED APRIL 25, 1998

COMMISSION FILE NUMBER 000-24385  
SCHOOL SPECIALTY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

39-0971239  
I.R.S. Employer  
Identification No.

1000 NORTH BLUEMOUND DRIVE  
APPLETON, WI  
(Address of principal executive offices)

54914  
(Zip Code)

Registrant's telephone number, including area code: (920) 734-2756

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

NONE.

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

COMMON STOCK, PAR VALUE \$.001

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

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of July 17, 1998 was \$202,007,352.

As of July 17, 1998, 14,572,784 shares of the Registrant's common stock, \$.001 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: NONE  
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PART I

THIS ANNUAL REPORT ON FORM 10-K (THE "ANNUAL REPORT") CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. WHEN USED HEREIN, THE WORDS "ANTICIPATE," "BELIEVE," "ESTIMATE," "INTEND," "MAY," "WILL" AND "EXPECT" AND SIMILAR EXPRESSIONS AS THEY RELATE TO SCHOOL SPECIALTY, INC. ("SCHOOL SPECIALTY" OR THE "COMPANY") OR ITS MANAGEMENT ARE INTENDED TO IDENTIFY SUCH FORWARD-LOOKING STATEMENTS. THE COMPANY'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS COULD DIFFER MATERIALLY FROM THE RESULTS EXPRESSED IN, OR IMPLIED BY, THESE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES INCLUDE THOSE DISCUSSED IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-- FACTORS AFFECTING THE COMPANY'S BUSINESS." THE COMPANY DOES NOT UNDERTAKE ANY OBLIGATION TO REVISE THESE FORWARD-LOOKING STATEMENTS TO REFLECT ANY FUTURE EVENTS OR CIRCUMSTANCES.

ITEM 1. BUSINESS

COMPANY OVERVIEW

The Company believes that it is the largest U.S. distributor focusing on non-textbook educational supplies and furniture for grades pre-kindergarten through 12 ("pre-K-12"). The Company provides a comprehensive offering of high quality educational supplies and furniture to school districts, school administrators and teachers through the broad distribution of its catalogs. School Specialty distributes general school supplies, including classroom and art supplies, instruction materials, furniture and equipment. The Company also distributes supplies and furniture for certain educational disciplines, including early childhood education under the Childcraft name, art supplies under the Sax Arts & Crafts name and library-related products under the Gresswell name. In order to broaden its geographic presence and product offering, the Company has acquired 17 companies since May 1996. For the fiscal year ended April 25, 1998, the Company's revenues aggregated \$310.5 million and operating income aggregated \$16.2 million, which represented compound annual increases of 35.8% and 122.8%, respectively, over revenues and operating income for the year ended December 31, 1994.

With over 32,000 stock keeping units ("SKUs"), School Specialty offers customers one source for virtually all of their non-textbook school supply and furniture needs. School Specialty markets its products through an innovative two-pronged approach, targeting both administrators and teachers to cover the full spectrum of decision makers. The Company's "top down" approach, utilizing its 290 sales representatives and its School Specialty general supply and furniture catalog (the "School Specialty Catalog"), focuses on procurement officials at the state, regional and local levels, while its "bottom up" approach focuses on curriculum specialists and teachers. Sales to curriculum specialists and over 2.1 million teachers are made primarily through the 6.3 million general supply catalogs of Re-Print LLC ("Re-Print") and specialty catalogs that are mailed each year.

The Company believes that annual sales of non-textbook educational supplies and equipment to the school supply market aggregate approximately \$6.1 billion, with over \$3.6 billion sold to institutions and \$2.5 billion sold to consumers. The Company also believes there are over 3,400 distributors of school supplies, the majority of which are family- or employee-owned companies with revenues under \$20 million that operate in a single region. The Company believes the demand for timely order fulfillment at competitive prices, combined with the need to invest in automated inventory and electronic ordering systems, is accelerating the trend toward consolidation in the industry. School Specialty also believes that it is well positioned to capitalize on this consolidation as the largest distributor in its industry with annual revenues which it believes exceed those of its next two largest competitors combined. Although the Company is the largest distributor in the industry, its share of the \$6.1 billion school supply market is less than 6%, giving the Company substantial growth opportunities.

The volume of school supplies is directly influenced by the size of the student population. Kindergarten through 12th grade ("K-12") student enrollment reached an all-time peak in 1996 with 51.5 million students and the U.S. Department of Education projects that student enrollment will continue to grow to

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54.3 million by the year 2006. As a result of these trends, the U.S. Department of Education projects that expenditures in public elementary and secondary schools will continue to rise through the year 2007. These rising expenditures include a projected increase in total per pupil spending in current dollars from \$5,961 per pupil in 1997 to \$7,179 by the year 2001. The Company believes that as the largest U.S. distributor of non-textbook educational supplies it will be a major beneficiary of this growth in expenditures.

School Specialty is a Delaware corporation formed in February 1998 to hold the Educational Supplies and Products Division of U.S. Office Products. School Specialty, Inc., a Wisconsin corporation ("Old School") formed in October 1959, was acquired by U.S. Office Products in May 1996. School Specialty's wholly-owned subsidiary, The Re-Print Corp., was acquired by U.S. Office

Products in July 1996 and has been in operation since 1921. In connection with the Strategic Restructuring Plan (defined below), The Re-Print Corp. was reorganized as Re-Print LLC. The specialty product lines, Childcraft, Sax Arts & Crafts and Gresswell, were all acquired by U.S. Office Products in 1997, and have been in operation since 1946, 1945, and 1938, respectively. On June 9, 1998, U.S. Office Products distributed the shares of School Specialty to the stockholders of U.S. Office Products (the "School Specialty Distribution"). The School Specialty Distribution was part of a comprehensive restructuring plan adopted by the U.S. Office Products Board of Directors (the "Strategic Restructuring Plan") in which U.S. Office Products spun-off (the "Distributions") all of the shares of School Specialty and three other companies that operate in the print management, technology solutions and corporate travel services business (the "Spin Off Companies").

#### COMPANY GROWTH STRATEGY

School Specialty's objective is to further enhance its position as the leading distributor of non-textbook educational supplies through the continued implementation of the following strategies:

**PURSUE ACQUISITIONS AGGRESSIVELY.** The Company believes that there are extensive acquisition opportunities among the over 3,400 school distributors in the U.S. The Company intends to pursue two types of acquisitions: (i) general school supply and furniture companies in geographic markets in which the Company has a limited presence, and (ii) specialty companies focusing on disciplines such as physical education, science, technology and music. School Specialty believes it can improve the margins of acquired entities through its efficient integration process to achieve economies of scale. Although the Company is the largest distributor in the industry, its share of the \$6.1 billion school supply market is less than 6%, giving the Company substantial growth opportunities.

In furtherance of its acquisition strategy, School Specialty routinely reviews and conducts investigations of potential acquisitions of school supply businesses. When School Specialty believes a favorable opportunity exists, it enters into discussion with the owners of such businesses regarding the possibility of an acquisition by School Specialty.

**IMPROVE PROFITABILITY.** School Specialty improved its operating margin from 1.5% in 1995 to 5.3% for the fiscal year ended April 25, 1998. School Specialty believes that there are substantial opportunities to further improve margins by (i) increasing the efficiency of recent acquisitions, (ii) expanding purchasing power and (iii) improving warehousing and distribution.

**PENETRATE NEW MARKETS AND EXPAND CUSTOMER BASE IN EXISTING MARKETS.** School Specialty believes that it can increase sales by adding sales representatives in geographic markets in which the Company does not have a significant presence. In addition, the Company believes that it can further increase sales by cross merchandising its specialty supplies to its general supplies customers. Lastly, the Company intends to increase international sales in English-speaking countries.

#### PRODUCT LINES

**SCHOOL SPECIALTY.** The School Specialty Catalog offers a comprehensive selection of classroom supplies, instructional materials, educational games, art supplies, school forms (such as reports, planners

and academic calendars), physical education equipment, audio-visual equipment, school furniture, and indoor and outdoor equipment and is targeted to administrative decision makers. School Specialty believes it is the largest school furniture resale source in the United States. School Specialty has been granted exclusive franchises for certain furniture lines in specific territories and School Specialty enjoys significant purchasing power in open furniture lines.

The Company's specialty brands offer product lines for specific educational

disciplines.

RE-PRINT. Re-Print offers its customers substantially the same products as the School Specialty Catalog but focuses on reaching teachers and curriculum specialists directly through its mail-order catalogs.

CHILDCRAFT. Childcraft distributes early childhood education products and materials. Childcraft also distributes over 1,000 proprietary or exclusive products manufactured by its Bird-in-Hand Woodworks subsidiary, including wood classroom furniture and equipment such as library shelving, cubbies, easels, desks and play vehicles.

SAX ARTS & CRAFTS. Sax Arts & Crafts is a leading distributor of art supplies and art instruction materials, including paints, brushes, paper, ceramics, art metals and glass, leather and wood crafts. Sax Arts & Crafts offers customers a toll free "Art Savvy Hotline" staffed with 15 professional artists to respond to customer questions.

GRESSWELL. Gresswell distributes library-related products in the U.K. including furniture, and media display and storage. Gresswell's dedicated sales and design team helps customers plan, design and install library projects using Computer Assisted Design equipment.

EDUCATION ACCESS. Education Access is a catalog reseller of technology solutions for the K-12 education market. This new product line will offer curriculum software, productivity software, peripherals, networking products, and other related products. Education Access publishes a 110-page catalog twice a year and mails interim Technology Flash Updates to the K-12 market in the United States.

School Specialty employs merchandising managers who continually review and update the product lines for each operating division. The merchandising managers convene customer focus groups and advisory panels to ascertain whether current offerings are well-received and to anticipate future demand. The merchandising managers also travel to product fairs and conventions seeking out new product lines. This annual review process results in an organic reshaping and expansion of the educational materials being offered by School Specialty.

## OPERATIONS

### SALES AND MARKETING

School Specialty believes it has developed a substantially different sales and marketing model from that of traditional school supply and school furnishings distribution companies in the United States. School Specialty's strategy is to use its position of owning two distribution platforms with which it can approach the school market. School Specialty's 290 sales representatives focus on "top down" selling (through districts, school purchasing authorities and schools), while School Specialty's Re-Print Division uses the "bottom up" approach through its direct mail catalog selling directly to teachers. To further strengthen its position in the market, School Specialty also owns premier specialty education brands (Childcraft, Sax Arts & Crafts, and Gresswell) that have the potential to enrich the general product offering through cross-merchandising.

School Specialty has a broad customer base and no single customer accounted for more than 2% of sales during fiscal 1998. Schools typically purchase school supplies and furniture based on an established relationship with relatively few suppliers. School Specialty establishes and maintains its relationship with its

customers by assigning accounts within a specific geographic territory to a local area sales representative. Additionally, each account is assigned its designated inside customer service representative.

School Specialty's customer service representatives call on existing customers frequently to ascertain and fulfill their school supply needs. The

representatives maintain contact with customers throughout the order cycle and assist in processing orders.

School Specialty's primary compensation program for sales representatives is based on commissions as a percentage of gross profit on sales. For new and transitioning sales representatives, School Specialty offers salary and expense reimbursement until the representative is moved to a full commission compensation structure.

School Specialty utilizes direct mail catalogs to reach its broader customer base. School Specialty distributes five major catalogs, one for each of its School Specialty general supply, Re-Print, Childcraft, Gresswell, and Sax Arts & Crafts lines. The catalog distribution calendar is generally the same across all product lines. A major catalog containing all product offerings is distributed toward the end of the calendar year so that it is available for school buyers at the beginning of the year. During the year, various catalog supplements are distributed to coincide with the peak school buying season in June through September and following the return of students to school in the fall.

The approximate number of catalogs distributed for School Specialty, Re-Print, Childcraft, Gresswell and Sax Arts & Crafts for each of the past three calendar years and projected catalog distribution for 1998 is set out below. The figures set forth below include all books of over 32 pages sent out (or, with respect to 1998, expected to be sent out) during the calendar year but do not include catalogs that were distributed by discontinued operations.

	1995	1996	1997	1998
				(PROJECTED)
School Specialty Catalog.....	115,000	296,750	450,750	600,000
Re-Print.....	998,000	1,175,000	2,275,000	3,400,000
Childcraft.....	1,583,000	1,308,000	1,360,000	1,728,000
Gresswell.....	100,000	180,000 (1)	130,000	150,000
Sax Arts & Crafts.....	750,000	823,000	1,043,500	1,064,000
Total.....	3,546,000	3,782,750	5,259,250	6,942,000

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(1) Includes an extra catalog published against a competitive launch.

Pricing for School Specialty's general and specialty product offerings varies by product and channel of distribution. The Company generally offers a negotiated discount from catalog prices for supplies and responds to quote and bid requests for furniture and equipment. In addition, local sales representatives work with the Company's corporate sales force and school supply buyers to achieve an acceptable pricing structure based upon the mix of products being procured.

School Specialty distributes products through its distribution centers as well as placing customer orders directly with School Specialty's suppliers. Furniture is generally shipped directly from the manufacturer to the user, bypassing School Specialty's distribution centers.

PURCHASING AND INVENTORY MANAGEMENT

School Specialty manages its inventory by continually reviewing daily inventory levels compared to a running 90-day inventory for the previous year, adjusted for incoming orders. School Specialty constantly refines the focus of inventory products through its automated inventory management system to pursue the optimum level of scope and depth of product offered. Every item in each of the various distribution regions is forecasted on a daily basis to account for the anticipated demand curve, current order activity, and available stock as

well as the expected lead time from the supplier. The forecast allows inventory purchases to respond quickly to the high seasonal demand while keeping off-season inventory to a minimum. The information systems for all of School Specialty's distribution centers are interconnected to allow transfer of inventory between facilities to fill regional demand. In addition, all orders can be redirected to the distribution center which is the primary stocking location for a product. School Specialty's inventory management results in inventory turnover that management believes is higher than industry turnover rates and reduces the level of discontinued, excess and obsolete inventory compared to businesses acquired by School Specialty.

School Specialty believes its large size enhances its purchasing power with suppliers and results in lower product costs than most of the Company's competitors. Further, School Specialty believes it can leverage this purchasing power to acquire companies in the future to improve the operating margins for both general supply and specialty businesses. The Company also believes its purchasing power for general supplies should result in improved margins for its specialty businesses.

Market surveys by Krebs and Company have shown that the primary determinants of customer satisfaction in the educational supply industry are the completeness and accuracy of shipments received and the timeliness of delivery. School Specialty continues to invest in sophisticated computer systems to automate the order taking, inventory allocation and management, and order shipment processes. As a result, School Specialty has been able to provide superior order fulfillment to its customers. In addition, School Specialty has developed OMS, which allows schools to customize their orders and enter them electronically with School Specialty and provides historical usage reports to schools useful for their budgeting process. During the academic year, School Specialty seeks to fill orders within twenty-four hours of receipt of the order at a 95.0% fill rate and a 99.5% order accuracy rate. During the summer months, School Specialty shifts to a production environment and schedules shipments to coincide with the start of the school year. During the summer months, School Specialty's objectives are to meet a 100% fill rate at a 99.5% order accuracy rate. In the aggregate, School Specialty's order fill rate for June, July and August 1997 exceeded 97.0%. The Company defines "fill rate" as the percentage of line items in a customer's order that are initially shipped to the customer in response to the order by the requested ship date.

During the peak shipping season between June 1 and September 30, each of School Specialty's distribution centers contracts with local common carriers to deliver its product to schools and school warehouses. Re-Print and Sax Arts & Craft rely on carriers such as Roadway Package Service, United Parcel Service and the U.S. Postal Service for distribution to customers.

#### INFORMATION SYSTEMS

The Company believes that through the utilization of technology in areas such as (i) purchasing and inventory management, (ii) customer order fulfillment and (iii) database management, School Specialty is able to turn inventory more quickly than competitors, offer customers more convenient and cost effective product ordering methods and conduct more precisely targeted sales and marketing campaigns. School Specialty uses two principal information systems, one for its general distribution and another for its specialty market distribution. In general school supply distribution, School Specialty utilizes a specialized distribution software package used primarily by office products and paper distributors. The software offers a fully integrated process from sales order entry through customer invoicing, and inventory requirements

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planning through accounts payable. School Specialty's system provides information through daily automatic posting to the general ledger and integrated inventory control. School Specialty has made numerous enhancements to this process that allow greater flexibility in addressing seasonal requirements of the industry and meeting specific customer needs.

The specialty divisions are moving towards a common mail order system

provided by Smith-Gardner & Associates. The Mail-order and Catalog System ("MACS") meets the unique needs of the direct marketing approach with extensive list management and tracking of multiple marketing efforts. The system provides complete and integrated order processing, inventory control, warehouse management, and financial applications.

Although School Specialty has two principal information systems, these systems integrate general ledger, purchasing and inventory management functions. The software and hardware allow for continued incremental growth as well as the opportunity to integrate new client-server and other technologies into the information systems. Currently, all acquired School Specialty general distribution companies (except one acquired in December 1997) are on the same computer system. The specialty businesses and Re-Print operate on different systems but intend to implement the common MACS system. School Specialty intends to continue to use two principal information systems in its business.

#### YEAR 2000 COMPLIANCE

School Specialty's current information systems as well as those being considered for acquisition by School Specialty's mail order and specialty distribution divisions, currently meet information standards for Year 2000 compliance. School Specialty does not expect that it will incur any material costs and expenses to meet information standards for Year 2000 compliance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Factors Affecting the Company's Business."

#### COMPETITION

School Specialty operates in a highly competitive environment. The Company's principal competitors are other national and regional school supply distribution companies. School Specialty is also faced with increasing competition from non-traditional alternate channel competitors, such as office products contract stationers and superstores. Among traditional school supply distributors, School Specialty believes that there are only two other companies with sales in excess of \$130 million: Beckley-Cardy and the J.L. Hammett Co. School Specialty believes that it competes favorably with these companies on the basis of service and price.

The market is highly competitive on a regional basis, but School Specialty believes its heaviest competition is coming from alternate channel competitors such as office product contract stationers and superstores. Their primary advantages over School Specialty are size, location, greater financial resources and buying power. Their primary disadvantage is that their product mix covers only 15% to 20% of the school's needs (measured by volume). In addition, the Company's competitors do not offer special order fulfillment software, which School Specialty believes is increasingly important to adequately service school needs. School Specialty believes it competes favorably with these companies on the basis of service and product offering.

#### EMPLOYEES

As of April 25, 1998, School Specialty had 1,220 full-time employees, 272 of whom were employed primarily in management and administration, 416 in regional warehouse and distribution operations, and 532 in marketing, sales, order processing, and customer service. To meet the seasonal demands of its customers, School Specialty employs many seasonal employees during the late spring and summer seasons. Historically, School Specialty has been able to meet its requirements for seasonal employment. As of April 25, 1998, approximately 43 of School Specialty's employees were members of the Teamsters Labor

Union at Sax Arts & Crafts' New Berlin, Wisconsin facility. School Specialty considers its relations with its employees to be very good.

#### ITEM 2. PROPERTIES

School Specialty's corporate headquarters are located at 1000 North



Bluemound Drive, Appleton, Wisconsin, a combined office and warehouse facility of approximately 120,000 square feet. School Specialty's lease on the Appleton headquarters expires on December 31, 2001. School Specialty leases or owns the following distribution facilities.

LOCATIONS	APPROXIMATE SQUARE FOOTAGE	OWNED/ LEASED	LEASE EXPIRATION
Agawam, Massachusetts.....	163,300	Owned	--
Bethlehem, Pennsylvania.....	25,600	Leased	February 28, 1999
Birmingham, Alabama.....	180,365	Leased	November 20, 2006
Bowling Green, Kentucky.....	42,000	Leased	June 30, 2001
Cary, Illinois.....	75,767	Owned	--
Enfield, London, England.....	8,000	Owned	--
Fresno, California.....	18,480	Leased	December 31, 2001
Hoddesdon, London, England.....	10,000	Leased	September 1999
Hoddesdon, London, England.....	10,000	Leased	September 2015
Lancaster, Pennsylvania.....	75,434	Leased	December 31, 2002
Lancaster, Pennsylvania.....	165,750	Leased	February 28, 1999
Mt. Laurel, New Jersey.....	48,000	Leased	May 31, 2001
New Berlin, Wisconsin.....	97,500	Leased	March 31, 2002
Oklahoma City, Oklahoma.....	37,340	Leased	July 16, 2001
Pollocksville, North Carolina.....	84,071	Owned	--
Portland, Oregon.....	30,456	Leased	May 31, 2001
Salina, Kansas.....	123,000	Owned	--

The Lancaster, Pennsylvania facility is used for manufacturing and the Salina, Kansas facility is used for production of school forms. In addition, School Specialty has ten sales offices throughout the United States.

School Specialty believes that its properties are adequate to support its operations for the foreseeable future. School Specialty reviews on a regular basis the consolidation of its facilities.

#### ITEM 3. LEGAL PROCEEDINGS

The Company is, from time to time, a party to legal proceedings arising in the normal course of its business. Management believes that none of these legal proceedings will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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

No matters were submitted to the Company's stockholders for consideration during the quarter ended April 25, 1998.

### PART II

#### ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

(a) The Company's common stock (the "Common Stock") has traded on the Nasdaq National Market since June 10, 1998 under the symbol "SCHS." There was no market for the Company's Common Stock prior to that date.

The number of record holders of the Company's Common Stock as of July 17, 1998 was 3,940. The Company believes that a substantially larger number of beneficial owners hold such shares of Common Stock in depository or nominee form.

The Company has not declared or paid any cash dividends on the Company's Common Stock to date and does not anticipate paying any cash dividends on its shares of Common Stock in the foreseeable future because it intends to retain its earnings, if any, to finance the expansion of its business and for general corporate purposes. Any payment of future dividends will be at the discretion of the Board of Directors and will depend upon, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to the payment of dividends and other factors that the Company's Board of Directors deems relevant. Further, the Company's credit facility restricts the Company's ability to pay dividends to

the extent that there is a default under the credit facility.

(b) On June 9, 1998, the Company's registration statement (the "Registration Statement") on Form S-1 filed pursuant to the Securities Act of 1933, as amended (file number 333-47509) was declared effective by the Commission. The Registration Statement related to an offering (the "Offering") of 2,125,000 shares of the Common Stock, par value \$.001 of the Company at an aggregate offering price of \$32,937,500. Additionally, School Specialty registered 318,750 shares to cover over-allotments. On June 10, 1998, School Specialty sold 2,125,000 shares of Common Stock. The underwriters for the Offering were Goldman, Sachs & Co., NationsBanc Montgomery Securities LLC, Salomon Smith Barney and Piper Jaffray, Inc. In addition, the Company sold 250,00 shares directly to Daniel P. Spalding, the Chairman of the Board and its Chief Executive Officer, David J. Vander Zanden, its President and Chief Operating Officer, and Donald Ray Pate, Jr., its Executive Vice President for Re-Print. The shares were sold at a price of \$14.415 for aggregate consideration of \$3,603,750. The sale of these shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

The total proceeds to the Company of the Offering, net of underwriting discounts and commissions of \$2,305,625, were \$30,631,875. In addition, the Company incurred approximately \$1,500,000 of expenses in connection with the Offering, consisting primarily of the costs of registering the Offering under the Securities Act of 1993, as amended, and with the National Association of Securities Dealers, Inc., printing fees and professional expenses. The net proceeds to the Company of the Offering were approximately \$29,131,875. None of such payments were made to directors or officers of the Company or their associates or to persons owning 10% or more of any class of equity securities of the Company or to affiliates of the Company. None of the proceeds were received prior to April 25, 1998. The net proceeds were used to reduce indebtedness outstanding under the Company's credit facility. The debt under the credit facility had been incurred to pay debt of U.S. Office Products allocated to the Company in connection with the Distributions. See "Item 7--Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

#### ITEM 6. SELECTED FINANCIAL DATA

The Selected Financial Data provided herein should be read in conjunction with the historical financial statements, including the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operation," all of which appear elsewhere in this Annual Report.

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The historical Selected Financial Data for the fiscal years ended April 25, 1998 and April 26, 1997, the four months ended April 30, 1996, and the years ended December 31, 1995 and 1994 have been derived from School Specialty's consolidated financial statements that have been audited. The historical Selected Financial Data for the fiscal years ended April 25, 1998 and April 26, 1997, the four months ended April 30, 1996, and the year ended December 31, 1995 are included elsewhere in the Annual Report. The historical Selected Financial Data for the year ended December 31, 1993 have been derived from unaudited consolidated financial statements which are not included elsewhere in this Annual Report. These unaudited consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, contain all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results of operations for the periods presented. The historical financial information of Old School and Re-Print has been combined on a historical cost basis in accordance with generally accepted accounting principles ("GAAP") to present this financial data as if the Pooled Companies had always been members of the same operating group. The financial information of the Purchased Companies is included from the dates of their respective acquisitions.

#### FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA (IN THOUSANDS, EXCEPT PER SHARE DATA)

	FISCAL YEAR ENDED		FOUR MONTHS	YEAR ENDED
	APRIL 25, 1998	APRIL 26, 1997	APRIL 30, 1996	DECEMBER 31, 1995
STATEMENT OF INCOME DATA:				
Revenues.....	\$ 310,455	\$ 191,746	\$ 28,616	\$ 150,482
Cost of revenues.....	219,313	136,577	20,201	105,757
Gross profit.....	91,142	55,169	8,415	44,725
Selling, general, and administrative expenses.....	71,403	43,462	10,307	39,869
Non-recurring acquisition costs.....		1,792	1,122	
Restructuring costs.....	2,491	194		2,532
Strategic restructuring costs.....	1,000			
Operating income.....	16,248	9,721	(3,014)	2,324
Interest expense.....	5,505	4,197	1,461	5,536
Interest income.....	(132)		(6)	
Other (income) expense.....	156	(196)	67	(18)
Income (loss) before provision for income taxes.....	10,719	5,720	(4,536)	(3,194)
Provision for (benefit from) income taxes (1).....	5,480	(2,412)	139	173
Net income (loss).....	\$ 5,239	\$ 8,132	\$ (4,675)	\$ (3,367)
Net income (loss) per share:				
Basic.....	\$ 0.40	\$ 0.81	\$ (0.54)	\$ (0.51)
Diluted.....	\$ 0.39	\$ 0.80	\$ (0.53)	\$ (0.50)
Weighted average shares outstanding:				
Basic.....	13,284	10,003	8,611	6,562
Diluted.....	13,547	10,196	8,789	6,669

	1994	1993
STATEMENT OF INCOME DATA:		
Revenues.....	\$ 119,510	\$ 76,926
Cost of revenues.....	87,750	56,280
Gross profit.....	31,760	20,646
Selling, general, and administrative expenses.....	27,281	18,294
Non-recurring acquisition costs.....		
Restructuring costs.....		
Strategic restructuring costs.....		
Operating income.....	4,479	2,352
Interest expense.....	3,007	1,845
Interest income.....		
Other (income) expense.....	(86)	228
Income (loss) before provision for income taxes.....	1,558	279
Provision for (benefit from) income taxes (1).....	218	199
Net income (loss).....	\$ 1,340	\$ 80
Net income (loss) per share:		
Basic.....	\$ 0.26	\$ 0.02
Diluted.....	\$ 0.26	\$ 0.02
Weighted average shares outstanding:		
Basic.....	5,062	4,918
Diluted.....	5,078	4,918

	APRIL 25, 1998	APRIL 26, 1997	APRIL 30, 1996	DECEMBER 31, 1995
BALANCE SHEET DATA:				
Working capital (deficit).....	\$ 47,791	\$ 14,491	\$ (3,663)	\$ (1,052)
Total assets.....	223,729	87,685	54,573	54,040
Long-term debt, less current portion.....	315	566	15,031	15,294
Long-term payable to U.S. Office Products.....	62,699	33,266		
Stockholders' (deficit) equity.....	106,466	16,329	(4,267)	(620)

	1994	1993
BALANCE SHEET DATA:		
Working capital (deficit).....	\$ 3,512	\$ 1,140
Total assets.....	44,267	23,190
Long-term debt, less current portion.....	11,675	7,175
Long-term payable to U.S. Office Products.....		
Stockholders' (deficit) equity.....	1,827	545

(1) Results for the fiscal year ended April 26, 1997 include benefit from income taxes of \$2.4 million primarily arising from the reversal of a \$5.3 million valuation allowance in the quarter ended April 26,

1997. The valuation allowance had been established in 1995 to offset the tax benefit from net operating loss carryforwards included in the Company's deferred tax assets, because at the time it was not likely that such tax benefit would be realized. The valuation allowance was reversed subsequent

to the Company's being acquired by U.S. Office Products, because it was deemed "more likely than not," based on improved results, that such tax benefit would be realized.

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

The following discussion and analysis of the financial condition and results of operation of the company should be read in conjunction with the financial statements and the notes thereto which appear elsewhere in this annual report.

##### OVERVIEW

School Specialty is the largest U.S. distributor focusing on non-textbook educational supplies and furniture for grades pre-K-12. The Company provides a comprehensive offering of high quality educational supplies and furniture to school districts, school administrators and teachers through the broad distribution of its catalogs. Specialty brands, which target specific curriculum disciplines, include Childcraft, which sells to the early childhood market; Sax Arts & Crafts, which distributes a broad line of art supplies and materials; and Gresswell, which distributes library-related products in the United Kingdom.

Revenues have increased from \$65.0 million in the fiscal year ended December 31, 1992 to \$310.5 million for the fiscal year ended April 25, 1998. This increase resulted primarily from 16 acquisitions, 14 of which occurred during fiscal 1997 and 1998, as well as internally generated growth.

School Specialty's gross profit margins have improved by achieving increased buying power and by acquiring specialty companies which usually have higher gross margins than the Company's general products divisions. The Company expects gross profit margins to be further enhanced by acquiring additional specialty companies and continuing to improve its purchasing power.

School Specialty's operating margin has improved significantly over the last several years. This improvement reflects the Company's acquisition of specialty companies which have higher operating margins than the Company's general products divisions. In addition, operating margins have increased as the Company has reduced selling, general and administrative expenses of acquired companies by eliminating redundant administrative functions. Currently, nine of the ten general school supply companies acquired since May 1996 have been integrated.

The benefit from income taxes in Fiscal 1997 of \$2.4 million reflects the reversal of a \$5.3 million deferred tax valuation allowance in the fourth quarter. The Company believes an effective income tax rate of 46.0% is more representative of future effective income tax rates.

School Specialty's business and working capital needs are highly seasonal with peak sales levels occurring from May through October. During this period, the Company receives, ships and bills the majority of its orders so that schools and teachers receive their merchandise by the start of each school year. School Specialty's inventory levels increase in April through July in anticipation of the peak selling season. The majority of cash receipts are collected from September through December.

In the past, the Company has recorded restructuring costs associated with consolidation of warehouse facilities. These costs typically include: costs to exit the facility, such as rent under remaining lease terms, occupancy, relocation costs and facility restoration; employee costs, such as severance; and asset impairment costs. The Company expects to incur such costs in the future as it continues to integrate acquired companies. Based on the additional time and resources expected to be involved in the development, review and approval of any such restructuring plans, the Company cannot presently predict the timing or overall magnitude of such a charge.

In the first quarter of fiscal 1999, the Company will record a compensation charge of approximately \$1.1 million, representing (i) non-cash compensation

related to certain employees of School Specialty who tendered in the U.S. Office Products equity self-tender offer options that were previously granted by U.S. Office Products and (ii) the difference between the amount which Messrs. Spalding, Vander Zanden and Pate paid for the 250,000 shares of Common Stock purchased directly from the Company in connection with the Company's initial public offering and the amount which they would have paid for such shares if the purchase price per share had been the initial public offering price of the shares offered in the offering. The charge related to the equity self-tender was incurred solely as a result of the tender of options into the equity self-tender and was incurred prior to the School Specialty Distribution.

School Specialty is a Delaware corporation formed in February 1998 to hold the Educational Supplies and Products Division of U.S. Office Products, which acquired School Specialty, Inc., a Wisconsin corporation ("Old School"), in May 1996 and Re-Print in July 1996. The Company's consolidated financial statements give retroactive effect to these two business combinations under the pooling-of-interests method (Old School and Re-Print are referred to as the "Pooled Companies") and include the results of companies acquired in business combinations accounted for under the purchase method from their respective dates of acquisition. Prior to their respective dates of acquisition by U.S. Office Products, the Pooled Companies reported results on years ending on December 31. Upon acquisition by U.S. Office Products and effective for the fiscal year ended April 26, 1997 ("fiscal 1997"), the Pooled Companies changed their year-ends from December 31 to conform to U.S. Office Products' fiscal year, which ends on the last Saturday in April.

The following discussion should be read in conjunction with the Company's consolidated financial statements and related notes thereto.

#### RESULTS OF OPERATIONS

The following table sets forth various items as a percentage of revenues on a historical basis for fiscal 1997 and 1998 and the year ended December 31, 1995.

	FISCAL YEAR ENDED APRIL 25, 1998	FISCAL YEAR ENDED APRIL 26, 1997	FOR THE YEAR ENDED DECEMBER 31, 1995
Revenues.....	100.0%	100.0%	100.0%
Cost of revenues.....	70.6	71.2	70.3
Gross profit.....	29.4	28.8	29.7
Selling, general and administrative expenses.....	23.0	22.7	26.5
Non-recurring acquisition costs.....		0.9	
Restructuring costs.....	1.1	0.1	1.7
Operating income.....	5.3	5.1	1.5
Interest expense, net.....	1.8	2.2	3.7
Other (income) expense.....	0.1	(0.1)	
Income (loss) before provision for income taxes.....	3.4	3.0	(2.2)
Provision for (benefit from) income taxes.....	1.8	(1.3)	0.1
Net income (loss).....	1.6%	4.3%	(2.3)%

#### CONSOLIDATED HISTORICAL RESULTS OF OPERATIONS

YEAR ENDED APRIL 25, 1998 COMPARED TO YEAR ENDED APRIL 26, 1997

Consolidated revenues increased 61.9%, from \$191.7 million in fiscal 1997, to \$310.5 million in fiscal 1998. This increase was primarily due to the inclusion of revenues from the eight companies acquired in business combinations accounted for under the purchase method during fiscal 1998 (the "Fiscal 1998

Purchased Companies") from their respective dates of acquisition and revenues from the six companies acquired during fiscal 1997 in business combinations accounted for under the purchase method (the "Fiscal 1997 Purchased Companies" and together with the Fiscal 1998 Purchased Companies, the "Purchased Companies") for the entire period. Revenues also increased due to sales to new accounts, increased sales to existing customers and higher pricing on certain products in response to increased product costs. Product cost is the most significant element in cost of revenues. Inbound freight, occupancy and delivery charges are also included in cost of revenues.

Gross profit increased 65.2%, from \$55.2 million, or 28.8% of revenues, for fiscal 1997 to \$91.1 million, or 29.4% of revenues, for fiscal 1998. The increase in gross profit as a percentage of revenues was due primarily to an increase in revenues from higher margin products, primarily as a result of the purchase acquisitions of three companies selling higher margin specialty product lines during fiscal 1998, and as a result of improved purchasing power and rebate programs negotiated with vendors. These factors were partly offset by an increase in the cost of revenues as a result of the increased freight costs caused by the UPS strike in the summer of 1997 and an increase in the portion of revenues represented by lower margin bid revenues.

Selling, general and administrative expenses include selling expenses (the most significant component of which is sales wages and commissions), catalog costs, general administrative overhead (which includes information systems and customer service), and accounting, legal, human resources and purchasing expenses. Selling, general and administrative expenses increased 64.3%, from \$43.5 million, or 22.7% of revenues, for fiscal 1997 to \$71.4 million, or 23.0% of revenues, for fiscal 1998. The increase in selling, general and administrative expenses as a percentage of revenues was due primarily to the purchase acquisition of three specialty companies during fiscal 1998, which typically have higher operating expenses as a percentage of revenue, partially offset by the efficiencies generated from the elimination of certain redundant administrative functions, including purchasing, accounting, finance and information systems, of the Fiscal 1997 Purchased Companies and the consolidation of two warehouses into one regional facility in the Northeastern U.S during the third quarter of fiscal 1997. School Specialty has established a 24-month integration process in which a transition team is assigned to (i) sell or discontinue incompatible business units, (ii) reduce the number of SKUs, (iii) eliminate redundant administrative functions, (iv) integrate the acquired entity's MIS system, and (v) improve buying power. However, the length of time it takes the Company to fully implement its strategy for assimilating an acquired company can vary depending on the nature of the company acquired and the season in which it is acquired.

The Company has historically utilized grants of employee stock options as a method of incentivizing employees by increasing their ownership interests in the Company, which also has the effect of more closely aligning their interests with the interests of stockholders of the Company. As a result, if the Company had recorded compensation expense based upon the fair market value of the stock options on the dates of grant under the methodology prescribed by SFAS 123, the Company's net income for the fiscal year ended April 25, 1998 would have been reduced by approximately \$0.8 million or 15.3%.

The Company recorded in the fourth quarter of fiscal 1998 approximately \$2.5 million of one-time non-recurring costs, primarily consisting of a write-down of deferred catalog costs, employee severance and asset impairment costs, and \$1.0 million of the transaction costs allocated to the Company under the Distribution Agreement. The Company incurred non-recurring acquisition costs of \$1.8 million in fiscal 1997, in conjunction with the acquisition of the Pooled Companies. These non-recurring acquisition costs included accounting, legal, investment-banking fees, real estate and environmental assessments and

appraisals and various regulatory fees. Generally accepted accounting principles ("GAAP") require the Company to expense all acquisition costs (both those paid by the Company and those paid by the sellers of the acquired companies) related to business combinations accounted for under the pooling-of-interests method of

accounting. In accordance with GAAP, the Company will be unable to utilize the pooling-of-interests method to account for acquisitions for a period of two years following the completion of U.S. Office Products' Strategic Restructuring Plan. During this period, the Company will not reflect any non-recurring acquisition costs in its results of operations, as all costs incurred of this nature would be related to acquisitions accounted for under the purchase method and would, therefore, be capitalized as a portion of the purchase consideration. See "Factors Affecting the Company's Business--Risks Related to Inability to Use Pooling-of-Interests Method to Account for Future Acquisitions".

Since U.S. Office Products' acquisition of the Pooled Companies, interest has been allocated to the Company based upon the Company's average outstanding payable balance with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period. Interest expense, net of interest income, increased 28.0%, from \$4.2 million for fiscal 1997 to \$5.4 million for fiscal 1998. The increase was due primarily to higher amounts payable to U.S. Office Products incurred as a result of the acquisition of the eight companies acquired in fiscal 1998.

Provision for income taxes increased from a tax benefit of \$2.4 million for fiscal 1997 to \$5.5 million for fiscal 1998. The high effective income tax rate of 51.1% for fiscal 1998, compared to the federal statutory rate of 35.0%, was primarily due to state income taxes, non-deductible goodwill amortization and USOP share distribution costs. In 1995, the Company recorded a valuation allowance of \$5.3 million on a deferred tax asset resulting from the net operating loss carryforwards created during 1995. The valuation allowance had been established by one of the Pooled Companies prior to its acquisition by U.S. Office Products to offset the tax benefit from such loss carryforwards, because at the time it was not likely that such tax benefit would be realized. The benefit from income taxes in Fiscal 1997 of \$2.4 million arose primarily from the reversal of the \$5.3 million deferred tax asset valuation allowance in the fourth quarter. The valuation allowance was reversed subsequent to the Company's being acquired by U.S. Office Products, because it was deemed "more likely than not", based on improved results, that the tax benefit from such operating loss carryforwards would be realized.

#### YEAR ENDED APRIL 26, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1995

Consolidated revenues increased 27.4%, from \$150.5 million in 1995, to \$191.7 million in fiscal 1997. This increase was primarily due to the inclusion, for fiscal 1997, of revenues from the Fiscal 1997 Purchased Companies from their respective dates of acquisition, sales to new accounts, increased sales to existing customers and higher pricing on certain products in response to increased product costs.

Gross profit increased 23.4%, from \$44.7 million, or 29.7% of revenues, in 1995 to \$55.2 million, or 28.8% of revenues, in fiscal 1997. The decrease in gross profit as a percentage of revenues was due primarily to a shift in revenue mix, resulting from the acquisition of the Fiscal 1997 Purchased Companies, which traditionally had lower gross profits as a percentage of revenues. This decrease was partially offset by improved purchasing and rebate programs negotiated with vendors and the Company's ability to take advantage of term discounts due to improved cash flows.

Selling, general and administrative expenses increased 9.0%, from \$39.9 million, or 26.5% of revenues, in 1995 to \$43.5 million, or 22.7% of revenues, in fiscal 1997. The decrease in selling, general and administrative expenses as a percentage of revenues was due primarily to the consolidation of two warehouses into one regional facility in the Northeastern U.S. during third quarter of fiscal 1997, the elimination of certain redundant administrative functions of a company acquired during 1995 in a business combination accounted for under the purchase method (the "1995 Purchased Company") and reduced executive compensation expense at one of the Pooled Companies after being acquired by U.S. Office Products in July 1996.

method of incentivizing employees by increasing their ownership interests in the Company, which also has the effect of more closely aligning their interests with the interests of stockholders of the Company. As a result, if the Company had recorded compensation expense based upon the fair market value of the stock options on the dates of grant under the methodology prescribed by SFAS 123, the Company's net income for the fiscal year ended April 26, 1997 would have been reduced by approximately \$0.7 million or 9.2%.

The Company incurred non-recurring acquisition costs of \$1.8 million in fiscal 1997, in conjunction with business combinations accounted for under the pooling-of-interests method. These non-recurring acquisition costs included accounting, legal, investment-banking fees, real estate and environmental assessments and appraisals and various regulatory fees.

The Company incurred restructuring costs of \$2.5 million and \$194,000 during 1995 and fiscal 1997, respectively. These costs represent the external costs and liabilities to close redundant Company facilities, severance costs related to the Company's employees and other costs associated with the Company's restructuring plans. The Company expects to incur similar costs in the future as the Company continues to review its operations, with the intention of continuing to eliminate redundant facilities.

Interest expense, net of interest income, decreased 24.2%, from \$5.5 million in 1995 to \$4.2 million in fiscal 1997. The decrease was due primarily to the repayment of substantially all of the Company's debt in conjunction with the acquisition of the Pooled Companies by U.S. Office Products and lower interest rates being charged on the Company's short-term and long-term debt with U.S. Office Products.

Provision for income taxes decreased from a tax expense of \$173,000 in 1995 to a tax benefit of \$2.4 million in fiscal 1997. The Company incurred a tax expense in 1995, notwithstanding the fact that it reported a pre-tax loss, because one of the Pooled Companies' earnings were not offset by the other Pooled Companies' loss. In 1995, the Company recorded a full valuation allowance of \$5.3 million on the deferred tax asset resulting from the net operating loss carryforwards created during 1995. The valuation allowance had been established by one of the Pooled Companies prior to its acquisition by U.S. Office Products to offset the tax benefit from such loss carryforwards, because at the time it was not likely that such tax benefit would be realized. The benefit from income taxes in Fiscal 1997 of \$2.4 million arose primarily from the reversal of the \$5.3 million deferred tax asset valuation allowance in the fourth quarter. The valuation allowance was reversed subsequent to the Company's being acquired by U.S. Office Products, because it was deemed "more likely than not", based on improved results, that the tax benefit from such operating loss carryforwards would be realized.

#### LIQUIDITY AND CAPITAL RESOURCES

Subsequent to the acquisition by U.S. Office Products of the Pooled Companies and prior to the School Specialty Distribution, U.S. Office Products funded the cash portions of School Specialty's acquisitions, paid the acquisition costs, repaid outstanding debt of acquired companies, allocated a portion of U.S. Office Products' corporate expenses to School Specialty and made daily advances or sweeps of cash to keep School Specialty's cash balance at or near zero on a daily basis. The net amount of such transactions was recorded as a payable from School Specialty to U.S. Office Products.

At April 25, 1998, the Company had working capital of \$47.8 million. The Company's capitalization, defined as the sum of long-term debt, long-term payable to U.S. Office Products and stockholders' equity, at April 25, 1998 was \$169.5 million.

During fiscal 1998, net cash provided by operating activities was \$3.7 million. Net cash used in investing activities was \$99.7 million, including \$95.7 million for acquisitions and \$4.0 million for additions to property and equipment. Net cash provided by financing activities was \$96 million, including \$95.7 million provided by U.S. Office Products to fund the cash portion of the purchase price and the repayment of debt assumed with the acquisition of the



fiscal 1998 Purchased Companies, \$81.3 million of which was

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considered a contribution of capital by U.S. Office Products, partially offset by \$8.4 million used to repay indebtedness.

During fiscal 1997, net cash provided by operating activities was \$918,000. Net cash used in investing activities was \$16.7 million, including \$7.7 million for acquisitions, \$7.2 million for additions to property and equipment and \$1.8 million to pay non-recurring acquisition costs. Net cash provided by financing activities was \$15.8 million, including \$59.9 million provided by U.S. Office Products to fund the cash portion of the purchase price and the repayment of debt associated with the fiscal 1997 Purchased Companies and the payment of debt of the Pooled Companies, partially offset by \$46.9 million used for the net repayment of indebtedness, primarily at the fiscal 1997 Purchased Companies.

During 1995, net cash provided by operating activities was \$4.8 million. Net cash used in investing activities was \$6.0 million, including \$5.4 million for acquisitions and \$881,000 for additions to property and equipment. Net cash provided by financing activities was \$1.2 million, including net proceeds from the issuance of debt of \$2.4 million and \$500,000 received from the issuance of common stock, partially offset by payments of indebtedness of \$1.5 million.

On June 9, 1998, the Company closed on a five year \$250 million revolving credit facility (the "Credit Facility") from NationsBank, N.A. Interest on borrowings under the Credit Facility will accrue at a rate of, at the Company's option, either LIBOR plus 1.00% or the lender's base rate, for up to the first 6 months under the agreement. Thereafter, interest will accrue at a rate of (i) LIBOR plus a range of .625% to 1.625%, or (ii) the lender's base rate plus a range of 0% to .250% (depending on the Company's leverage ratio of funded debt to EBITDA). Indebtedness is secured by substantially all of the assets of the Company. The Credit Facility is subject to terms and conditions typical of facilities of such size and includes certain financial covenants. The Company made borrowings of \$83.3 million under the Credit Facility to repay the U.S. Office Products debt which it was obligated under the Distribution Agreement to repay. On June 15, 1998, School Specialty used net proceeds of approximately \$32.7 million from the Offering and the sale of 250,000 shares of Common Stock to Messrs. Spalding, Vander Zanden and Pate to repay a portion of the \$83.3 million borrowed under the Credit Facility. After such repayment, the Company had approximately \$50 million borrowed under the Credit Facility, with the remaining \$200 million available under the Credit Facility (subject to compliance with the financial covenants), for general corporate purposes, including working capital, and for acquisitions.

The Company's anticipated capital expenditures budget for the next twelve months is approximately \$3.0 million. The largest items include operational and financial reporting software, computer hardware and warehouse equipment.

#### FLUCTUATIONS IN QUARTERLY RESULTS OF OPERATIONS

The Company's business is subject to seasonal influences. The Company's historical revenues and profitability have been dramatically higher in the first two quarters of its fiscal year (May-October) primarily due to increased shipments to customers coinciding with the start of each school year.

Quarterly results also may be materially affected by the timing of acquisitions, the timing and magnitude of costs related to such acquisitions, variations in the prices paid by the Company for the products it sells, the mix of products sold and general economic conditions. Moreover, the operating margins of companies acquired by the Company may differ substantially from those of the Company, which could contribute to the further fluctuation in its quarterly operating results. Therefore, results for any quarter are not indicative of the results that the Company may achieve for any subsequent fiscal quarter or for a full fiscal year.

The following table sets forth certain unaudited consolidated quarterly financial data for fiscal 1997 and 1998 (in thousands). The information has been

derived from unaudited consolidated financial statements that in the opinion of management reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of such quarterly information. This quarterly information is not

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comparative because of the high degree of seasonability in School Specialty's business. Revenues and profitability are significantly higher in the months of May through October, with the most significant portion of revenue and profit occurring in the months of July through September. On a fiscal year basis (years ending in April), this six-month (May through October) period falls in the first and second quarters of the fiscal year. On a calendar year basis, the most profitable three months (July through September) fall in the third quarter.

YEAR ENDED APRIL 25, 1998

	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues.....	\$ 87,029	\$ 111,460	\$ 49,391	\$ 62,575	\$ 310,455
Gross profit.....	26,090	33,619	11,670	19,763	91,142
Operating income (loss).....	11,872	12,155	(4,048)	(3,731)	16,248
Net income (loss).....	5,804	5,965	(2,934)	(3,596)	5,239
Per share amounts:					
Basic.....	0.49	0.49	(0.20)	(0.24)	0.40
Diluted.....	0.48	0.47	(0.20)	(0.24)	0.39

YEAR ENDED APRIL 26, 1997

	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues.....	\$ 58,991	\$ 71,682	\$ 29,304	\$ 31,769	\$ 191,746
Gross profit.....	18,110	19,823	7,664	9,572	55,169
Operating income (loss).....	5,197	6,732	(1,520)	(688)	9,721
Net income (loss).....	1,981	2,692	(1,067)	4,526(1)	8,132
Per share amounts:					
Basic.....	0.21	0.28	(0.11)	0.40	0.81
Diluted.....	0.21	0.27	(0.11)	0.39	0.80

(1) For the year ended April 26, 1997, fourth quarter net income was increased by \$5.3 million due to the reversal of a deferred tax asset valuation allowance. See Note 1 to "Selected Financial Data."

INFLATION

The Company does not believe that inflation has had a material impact on its results of operations during the fiscal years ended April 25, 1998 and April 26, 1997 or the year ended December 31, 1995.

NEW ACCOUNTING PRONOUNCEMENTS

REPORTING COMPREHENSIVE INCOME. In June 1997, FASB issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income". SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. SFAS No. 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company intends to adopt SFAS No. 130 in fiscal 1999.

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In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting information about operating segments in annual and interim financial statements. Operating segments are determined consistent with the way management organizes and evaluates financial information internally for making decisions and assessing performance. It also requires related disclosures about products, geographic areas, and major customers. SFAS 131 is effective for fiscal years beginning after December 15, 1997. The Company intends to adopt SFAS No. 131 in fiscal 1999. Implementation of this disclosure standard will not affect the Company's financial position or results of operations.

#### FACTORS AFFECTING THE COMPANY'S BUSINESS

POTENTIAL LIABILITY FOR TAXES RELATED TO THE DISTRIBUTIONS. In connection with the School Specialty Distribution, U.S. Office Products entered into a tax allocation agreement with School Specialty and the other Spin-Off Companies (the "Tax Allocation Agreement") which provides that the Spin-Off Companies will jointly and severally indemnify U.S. Office Products for any losses associated with taxes related to the Distributions ("Distribution Taxes") if an action or omission (an "Adverse Tax Act") of any of the Spin-Off Companies materially contributes to a final determination that any or all of the Distributions are taxable. School Specialty also entered into a tax indemnification agreement with the other Spin-Off Companies (the "Tax Indemnification Agreement") under which the Spin-Off Company that is responsible for the Adverse Tax Act will indemnify the other Spin-Off Companies for any liability to indemnify U.S. Office Products under the Tax Allocation Agreement. As a consequence, School Specialty will be liable for any Distribution Taxes resulting from any Adverse Tax Act by School Specialty and liable (subject to indemnification by the other Spin-Off Companies) for any Distribution Taxes resulting from an Adverse Tax Act by the other Spin-Off Companies. If there is a final determination that any or all of the Distributions are taxable and it is determined that there has not been an Adverse Tax Act by either U.S. Office Products or any of the Spin-Off Companies, U.S. Office Products and each of the Spin-Off Companies will be liable for its pro rata portion of the Distribution Taxes based on the value of each company's Common Stock after the Distributions. As a result, School Specialty could become liable for a pro rata portion of Distribution Taxes with respect not only to the School Specialty Distribution, but also any of the other Distributions.

RISKS RELATED TO ALLOCATION OF CERTAIN LIABILITIES. The Company, U.S. Office Products and the other Spin-Off Companies entered into an agreement (the "Distribution Agreement") relating to the School Specialty Distribution. Under the Distribution Agreement, if one of the Spin-Off Companies defaults on an obligation owed to U.S. Office Products, School Specialty could be obligated to U.S. Office Products in respect of obligations and liabilities not related to its business or operations and over which neither it nor its management has or has had any control or responsibility. The aggregate of such liabilities for which the Company may be liable is, however, limited to \$1.75 million.

RISKS RELATED TO INTEGRATION OF OPERATIONS AND ACQUISITIONS. An important element of School Specialty's business strategy for its distribution divisions is to integrate its acquisitions into its existing operations. There can be no assurance that School Specialty will be able to integrate future acquisitions in a timely manner without substantial costs, delays, or other problems. Once integrated, acquisitions may not achieve sales, profitability, and asset productivity commensurate with School Specialty's existing divisions. In addition to integration risks for distribution divisions, acquisitions of both distribution divisions and specialty brand companies involve a number of special risks, including adverse short-term effects on School Specialty's reported operating results (including those adverse short-term effects caused by severance payments to employees of acquired companies, restructuring charges associated with the acquisitions and other expenses associated with a change of control, as well as non-recurring acquisition costs including accounting and legal fees, investment banking fees, recognition of transaction-related obligations, and various other acquisition-related costs), the diversion of management's time and attention, the dependence on retaining, hiring, and training key personnel, the amortization of acquired intangible assets, and risks associated with unanticipated problems or liabilities, some or all of which could have a material adverse

effect on School Specialty's operations and financial condition. Furthermore, although School Specialty conducts due diligence and generally requires representations, warranties, and indemnifications from the former owners of acquired companies, there can be no assurance that such owners will have accurately represented the financial and operating conditions of their companies. If an acquired company's financial or operating results were misrepresented, the acquisition could have a material adverse effect on the results of operations and financial condition of School Specialty.

DEPENDENCE UPON ACQUISITIONS FOR FUTURE GROWTH. One of School Specialty's strategies is to increase its revenues and the markets it serves through the acquisition of additional school supply distribution businesses. There can be no assurance that suitable candidates for acquisitions can be identified or, if suitable candidates are identified, that acquisitions can be completed on acceptable terms, if at all. There can be no assurance that future acquisitions will prove profitable at the time of their acquisition or will achieve sales and profitability that justify the investment therein. The failure to complete acquisitions and continue its expansion could have a material adverse effect on School Specialty's financial condition. In addition, prior to the School Specialty Distribution, School Specialty's acquisitions were completed with substantial business, legal, and accounting assistance from U.S. Office Products, and some of the acquisitions were paid for with U.S. Office Products Common Stock. The pace of School Specialty's acquisition program may be adversely affected by the absence of U.S. Office Products' support for the acquisitions. Also, School Specialty intends to use School Specialty Common Stock to pay for a portion of the consideration for its acquisitions, and therefore, if the owners of potential acquisition candidates are not willing to receive, or School Specialty is not able to issue, shares of School Specialty Common Stock in exchange for their business, School Specialty's acquisition program could be adversely affected. Furthermore, the Company's ability to pay for acquisitions with stock may be materially limited in the two-year period following the School Specialty Distribution.

POSSIBLE LIMITATIONS ON ISSUANCES OF COMMON STOCK. Section 355(e) of the Internal Revenue Code of 1986, as amended (the "Code"), which was added in 1997, generally provides that a company that distributes shares of a subsidiary in a spin-off that is otherwise tax-free will incur U.S. federal income tax liability if 50% or more, by vote or value, of the capital stock of either the company making the distribution or the spun-off subsidiary is acquired by one or more persons acting pursuant to a plan or series of related transactions that includes the spin-off. Stock acquired by certain related persons is aggregated in determining whether the 50% test is met. There is a presumption that any acquisition occurring two years before or after the spin-off is pursuant to a plan that includes the spin-off. However, the presumption may be rebutted by establishing that the spin-off and such acquisition are not part of a plan or series of related transactions. As a result of the provisions of Section 355(e), there can be no assurance that issuances of stock by School Specialty, including issuances in connection with an acquisition of another business by School Specialty, will not create a tax liability for U.S. Office Products. This limitation could adversely affect the pace of School Specialty's acquisitions and its ability to issue Common Stock for other purposes, including equity offerings.

School Specialty entered into the Tax Allocation Agreement and the Tax Indemnification Agreement pursuant to which School Specialty will be liable to U.S. Office Products and the other Spin-Off Companies if its actions or omissions materially contribute to a final determination that the School Specialty Distribution is taxable.

RISKS RELATED TO INABILITY TO USE POOLING-OF-INTERESTS METHOD TO ACCOUNT FOR FUTURE ACQUISITIONS. Generally accepted accounting principles require that an entity be autonomous for a period of two years before it is eligible to complete business combinations under the pooling-of-interests method. As a result of School Specialty being a wholly-owned subsidiary of U.S. Office Products prior to the Distribution, School Specialty will be unable to satisfy this criterion

for a period of two years following the Distribution. Therefore, School Specialty will be precluded from completing business combinations under the pooling-

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of-interests method for a period of two years and any business combinations completed by School Specialty during such period will be accounted for under the purchase method resulting in the recording of goodwill.

SEASONALITY: FLUCTUATIONS IN QUARTERLY OPERATING RESULTS. School Specialty's business is subject to seasonal influences, with sales and profitability substantially higher from May to October due to increased school orders during these months. As a result of this seasonality, historically, School Specialty has earned more than 100% of its annual net income in the first six months of its fiscal year and has historically operated at a loss in its third fiscal quarter. Also, quarterly results may be materially affected by the timing of acquisitions and the timing and magnitude of acquisition assimilation costs. Therefore, operating results for any quarter are not necessarily indicative of the results that may be achieved for any subsequent fiscal quarter or full fiscal year. Fluctuations caused by variations in quarterly results may adversely affect the market price of the School Specialty Common Stock.

RELIANCE ON KEY PERSONNEL. School Specialty's operations depend on the continued efforts of Daniel P. Spalding, its Chief Executive Officer, its other executive officers, and the senior management of certain of its subsidiaries. Furthermore, School Specialty's operations will likely depend on the senior management of certain of the companies that may be acquired in the future. If any of these people become unable to continue in his or her present role, or if School Specialty is unable to attract and retain other skilled employees, its business could be adversely affected. School Specialty does have employment contracts with some executive officers, but most of the Companies' executive officers and senior management do not have employment contracts with School Specialty. School Specialty does not have and does not intend to obtain key man life insurance covering any of its executive officers or other members of senior management of its subsidiaries. In addition, Jonathan J. Ledecy serves as a director and an employee of School Specialty and provides services to School Specialty pursuant to an employment agreement with School Specialty. Mr. Ledecy also serves as a director of each of the other Spin-Off Companies, and is the director or an officer of other public companies. Mr. Ledecy may be unable to devote substantial time to the activities of School Specialty.

DEPENDENCE ON SYSTEMS. School Specialty believes that one of the competitive advantages of its distribution divisions is its information systems, including its proprietary PC-based customer Order Management System ("OMS"). School Specialty's operations in each of its integrated divisions under School Specialty are generally dependent on these systems, which are run on a host system located at School Specialty's headquarters in Appleton, Wisconsin. Each division of School Specialty is linked to School Specialty's host system and disruption or unavailability of these links could have a material adverse effect on School Specialty's business and results of operations.

None of School Specialty's subsidiaries has a redundant computer system or a redundant dedicated communication line. School Specialty has taken precautions to protect itself from events that could interrupt its operations. Notwithstanding these precautions, there can be no assurance that a fire, flood or other natural disaster affecting School Specialty's system or its communication lines would not disable the system or prevent the system from communicating with School Specialty's divisions or the specialty brand subsidiaries. The occurrence of any of these events would have a material adverse effect on School Specialty's operations and financial condition.

School Specialty does not expect that it will incur any material costs and expenses to meet information standards for Year 2000 compliance; however, there is no assurance that School Specialty's customers or vendors meet information standards for Year 2000 compliance, and their failure to meet such standards could adversely affect School Specialty's revenues and product costs.

RISK OF RAPID GROWTH; ABSENCE OF HISTORY AS A STAND-ALONE COMPANY. Since 1991, School Specialty and U.S. Office Products have significantly expanded the scope of School Specialty's operations by acquiring sixteen regional distributors of educational supplies in different regions of the United States and four specialty brand school supply companies. All of School Specialty's specialty brand acquisitions and

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eleven of its regional distribution acquisitions have occurred since June 1996. There can be no assurance that School Specialty's management and financial controls, personnel, computer systems, and other corporate support systems will be adequate to manage the increased size and scope of School Specialty's operations as a result of School Specialty's recently completed acquisitions.

Prior to the School Specialty Distribution, certain general and administrative functions relating to School Specialty's business (including legal, accounting, purchasing and management information services) were handled by U.S. Office Products. School Specialty's future performance will depend on its ability to function as a stand-alone entity, to finance and manage its expanding operations and to adapt its information systems to changes in its business. As a result, School Specialty's expenses are likely to be higher than when it was a part of U.S. Office Products, and School Specialty may experience disruptions of general and administrative functions that it would not have encountered as a part of U.S. Office Products. Furthermore, the financial information included herein may not necessarily reflect what the results of operations and financial condition would have been had School Specialty been a separate, stand-alone entity during the periods presented or be indicative of future results of operations and financial condition of School Specialty.

DEPENDENCE ON KEY SUPPLIERS AND SERVICE PROVIDERS. School Specialty is dependent on (i) a limited number of suppliers for certain of its product lines, particularly its franchise furniture lines, and (ii) a limited number of service providers, such as delivery service from United Parcel Service. Any interruption of supply from current vendors or any material increased costs, particularly in the peak season of June through September, could cause significant delays in the shipment of such products and could have a material adverse effect on School Specialty's business, financial condition, and results of operations. Increases in freight costs charged to School Specialty or inability to ship products, whether real or perceived, could have a material adverse effect on School Specialty's business, financial condition, and results of operations. In addition, as part of its business strategy, School Specialty strives to reduce its number of suppliers and minimize duplicative lines, which may have the effect of increasing its dependence on remaining vendors. The United Parcel Service strike during August 1997 had an adverse effect on School Specialty due to the perceived inability of School Specialty to ship products.

COMPETITION. The market for school supplies is highly competitive and fragmented. School Specialty estimates that over 3,400 companies distribute educational materials to pre-K-12 schools as a primary focus of their business. In addition, School Specialty competes with alternate channel distributors such as office product contract stationers and superstores, which may continue to broaden their product lines in school supplies. Some of these competitors have greater financial resources and buying power than School Specialty. School Specialty believes that the educational supplies market will consolidate over the next several years, which may make School Specialty's general and specialty supply businesses more competitive. In addition, there may be increasing competition for acquisition candidates and there can be no assurance that acquisitions will continue to be available to School Specialty on favorable terms, if at all.

MATERIAL AMOUNT OF GOODWILL. Approximately \$99.6 million, or 44.5%, of School Specialty's pro forma total assets as of April 25, 1998 represents intangible assets, the significant majority of which is goodwill. Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations accounted for under the purchase method. School Specialty generally amortizes goodwill on a straight line method over a period of 40 years with the amount amortized in a particular period constituting a

non-cash expense that reduces School Specialty's net income. Amortization of goodwill resulting from certain past acquisitions, and additional goodwill recorded in certain acquisitions may not be deductible for tax purposes. In addition, School Specialty will be required to periodically evaluate the recoverability of goodwill by reviewing the anticipated undiscounted future cash flows from the operations of the acquired companies and comparing such cash flows to the carrying value of the associated goodwill. If goodwill becomes impaired, School Specialty would be required to write down the carrying value of the goodwill and incur a related charge to its income.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
of School Specialty, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of School Specialty, Inc. (the "Company") and its subsidiaries at April 25, 1998 and April 26, 1997, and the results of their operations and their cash flows for the four months ended April 30, 1996 and the fiscal years ended April 26, 1997 and April 25, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota  
June 24, 1998

Board of Directors  
School Specialty, Inc.

We have audited the accompanying consolidated statements of operations, stockholder's (deficit) equity and cash flows of School Specialty, Inc. (the Company) for the year ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Re-Print Corporation, a wholly owned subsidiary, which statements reflect total revenues of \$30,798,000 for the year ended December 31, 1995. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for Re-Print Corporation, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and report of other auditors, the financial statements referred to above present fairly, in all material respects, the results of the Company's operations and its cash flows for the year December 31, 1995, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP  
Milwaukee, Wisconsin  
February 2, 1996

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REPORT OF INDEPENDENT AUDITORS

Board of Directors  
The Re-Print Corporation  
Birmingham, Alabama

We have audited the accompanying balance sheet of The Re-Print Corporation as of December 31, 1995, and the related statements of income, stockholders' equity, and cash flows for the year ended December 31, 1995 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Re-Print Corporation at December 31, 1995, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

BDO Seidman, LLP  
Atlanta, Georgia  
February 8, 1996



SCHOOL SPECIALTY, INC.  
CONSOLIDATED BALANCE SHEET  
(IN THOUSANDS)

	APRIL 25, 1998	APRIL 26, 1997
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$	\$
Accounts receivable, less allowance for doubtful accounts of \$716 and \$471, respectively.....	38,719	17,232
Inventories.....	49,307	24,461
Prepaid expenses and other current assets.....	13,503	10,331
Total current assets.....	101,529	52,024
Property and equipment, net.....	22,553	14,478
Intangible assets, net.....	99,613	20,824
Other assets.....	34	359
Total assets.....	\$ 223,729	\$ 87,685
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Short-term debt.....	\$ 11	\$ 262
Short-term payable to U.S. Office Products.....	20,277	26,692
Accounts payable.....	23,788	9,091
Accrued compensation.....	4,458	860
Other accrued liabilities.....	5,204	628
Total current liabilities.....	53,738	37,533
Long-term debt.....	315	566
Long-term payable to U.S. Office Products.....	62,699	33,226
Deferred income taxes.....	511	31
Total liabilities.....	117,263	71,356
Commitments and contingencies		
Stockholder's equity:		
Divisional equity.....	104,883	19,985
Retained earnings (deficit).....	1,583	(3,656)
Total stockholder's equity.....	106,466	16,329
Total liabilities and stockholder's equity.....	\$ 223,729	\$ 87,685

See accompanying notes to consolidated financial statements.

SCHOOL SPECIALTY, INC.  
CONSOLIDATED STATEMENT OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE FISCAL YEAR ENDED		FOR THE FOUR MONTHS ENDED	FOR THE YEAR ENDED
	APRIL 25, 1998	APRIL 26, 1997	APRIL 30, 1996	DECEMBER 31, 1995
Revenues.....	\$ 310,455	\$ 191,746	\$ 28,616	\$ 150,482
Cost of revenues.....	219,313	136,577	20,201	105,757
Gross profit.....	91,142	55,169	8,415	44,725
Selling, general and administrative expenses.....	71,403	43,462	10,307	39,869
Restructuring costs.....	2,491	194	2,532	
Strategic restructuring costs.....	1,000			
Non-recurring acquisition costs.....		1,792	1,122	
Operating income (loss).....	16,248	9,721	(3,014)	2,324
Other (income) expense:				
Interest expense.....	5,505	4,197	1,461	5,536
Interest income.....	(132)		(6)	

Other.....	156	(196)	67	(18)
Income (loss) before provision for (benefit from) income taxes.....	10,719	5,720	(4,536)	(3,194)
Provision for (benefit from) income taxes.....	5,480	(2,412)	139	173
Net income (loss).....	\$ 5,239	\$ 8,132	\$ (4,675)	\$ (3,367)
Weighted average shares outstanding:				
Basic.....	13,284	10,003	8,611	6,562
Diluted.....	13,547	10,196	8,789	6,669
Net income (loss) per share:				
Basic.....	\$ 0.40	\$ 0.81	\$ (0.54)	\$ (0.51)
Diluted.....	\$ 0.39	\$ 0.80	\$ (0.53)	\$ (0.50)

See accompanying notes to consolidated financial statements.

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SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDER'S (DEFICIT) EQUITY

(IN THOUSANDS)

	DIVISIONAL EQUITY	RETAINED (DEFICIT) EARNINGS	TOTAL STOCKHOLDER'S (DEFICIT) EQUITY
Balance at December 31, 1994.....	\$ 5,327	\$ (3,500)	\$ 1,827
Transactions of Pooled Companies:			
Issuance of warrants.....	672		672
Issuance of Pooled Company common stock for cash.....	500		500
Repurchase of treasury stock.....	(92)		(92)
Cash dividends declared and paid.....		(160)	(160)
Net loss.....		(3,367)	(3,367)
Balance at December 31, 1995.....	6,407	(7,027)	(620)
Transactions of Pooled Companies:			
Exercise of warrants.....	1,080		1,080
Cash dividends declared and paid.....		(52)	(52)
Net loss.....		(4,675)	(4,675)
Balance at April 30, 1996.....	7,487	(11,754)	(4,267)
Transactions of Pooled Companies:			
Exercise of warrants and stock options.....	1,979		1,979
Retirement of treasury stock.....	34	(34)	
Issuances of U.S. Office Products Company common stock in conjunction with acquisitions.....	10,485		10,485
Net income.....		8,132	8,132
Balance at April 26, 1997.....	19,985	(3,656)	16,329
Issuances of U.S. Office Products Company common stock in conjunction with acquisitions.....	3,566		3,566
Capital contribution by U.S. Office Products.....	81,332		81,332
Net income.....		5,239	5,239
Balance at April 25, 1998.....	\$ 104,883	\$ 1,583	\$ 106,466

See accompanying notes to consolidated financial statements.

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SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(IN THOUSANDS)

FOR THE FISCAL YEAR ENDED		FOR THE FOUR MONTHS ENDED	FOR THE YEAR ENDED
APRIL 25, 1998	APRIL 26, 1997	APRIL 30, 1996	DECEMBER 31, 1995
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Cash flows from operating activities:				
Net income (loss).....	\$ 5,239	\$ 8,132	\$ (4,675)	\$ (3,367)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization expense.....	4,561	2,106	674	2,927
Non-recurring acquisition costs.....		1,792	1,122	
Other.....	78	115	118	277
Changes in current assets and liabilities (net of assets acquired and liabilities assumed in business combinations accounted for under the purchase method):				
Accounts receivable.....	(3,586)	1,277	3,727	2,666
Inventory.....	(6,666)	2,737	(4,376)	(2,523)
Prepaid expenses and other current assets.....	(717)	(2,361)	(443)	(338)
Accounts payable.....	5,256	(6,969)	3,459	2,642
Accrued liabilities.....	(441)	(5,911)	(784)	2,544
Net cash provided by (used in) operating activities.....	3,724	918	(1,178)	4,828
Cash flows from investing activities:				
Cash paid in acquisitions, net of cash received.....	(95,670)	(7,734)		(5,389)
Additions to property and equipment.....	(3,558)	(7,216)	(120)	(881)
Other.....	(514)		414	178
Payments of non-recurring acquisition costs.....		(1,792)	(1,122)	
Net cash used in investing activities.....	(99,742)	(16,742)	(828)	(6,092)
Cash flows from financing activities:				
Payments of long-term debt.....	(6,270)	(16,962)	(194)	(1,488)
Proceeds from (payments of) short-term debt, net.....	(2,102)	(29,908)	1,263	655
Advances from U.S. Office Products Company.....	23,058	59,919		
Capital contribution by U.S. Office Products.....	81,332			
Proceeds from issuance of common stock.....		1,979	1,080	500
Proceeds from issuance of long-term debt.....		750		1,715
Payments of dividends at Pooled Companies.....			(138)	(134)
Purchase of treasury stock at Pooled Company.....				(92)
Net cash provided by financing activities.....	96,018	15,788	2,011	1,156
Net increase (decrease) in cash and cash equivalents.....		(46)	5	(108)
Cash and cash equivalents at beginning of period.....		46	41	149
Cash and cash equivalents at end of period.....	\$	\$	\$ 46	\$ 41
Supplemental disclosures of cash flow information:				
Interest paid.....	\$ 35	\$ 456	\$ 1,461	\$ 5,564
Income taxes paid (refunded).....	\$ 1,148	\$ (132)	\$ (3)	\$ 9

See accompanying notes to consolidated financial statements.

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SCHOOL SPECIALTY, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS--(CONTINUED)

(IN THOUSANDS)

The Company issued common stock and cash in connection with certain business combinations accounted for under the purchase method in the fiscal years ended April 25, 1998 and April 26, 1997 and the year ended December 31, 1995. The fair values of the assets and liabilities of the acquired companies at the dates of the acquisitions are presented as follows:

	FOR THE FISCAL YEAR ENDED		FOR THE FOUR MONTHS ENDED	FOR THE YEAR ENDED
	APRIL 25, 1998	APRIL 26, 1997	APRIL 30, 1996	DECEMBER 31, 1995
Accounts receivable.....	\$ 17,900	\$ 5,381	\$	\$ 1,589
Inventories.....	18,180	6,922		1,823
Prepaid expenses and other current assets.....	2,431	2,371		502
Property and equipment.....	6,379	1,155		4,536
Intangible assets.....	80,359	14,248		3,268
Other assets.....	346	29		156
Short-term debt.....	(1,850)	(4,283)		(191)
Accounts payable.....	(9,400)	(4,012)		(274)
Accrued liabilities.....	(9,089)	(1,846)		(225)
Long-term debt.....	(6,020)	(1,746)		(5,795)
Net assets acquired.....	\$ 99,236	\$ 18,219	\$	\$ 5,389
The acquisitions were funded as follows:				
U.S. Office Products common stock.....	\$ 3,566	\$ 10,485	\$	\$
Cash paid, net of cash acquired.....	95,670	7,734		5,389
Total.....	\$ 99,236	\$ 18,219	\$	\$ 5,389

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See accompanying notes to consolidated financial statements.

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SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

NOTE 1--BACKGROUND

School Specialty, Inc. (the "Company") is a Delaware corporation which was a wholly-owned subsidiary of U.S. Office Products Company ("U.S. Office Products") at April 25, 1998. On June 9, 1998, U.S. Office Products spun-off its Educational Supplies and Products Division (the "Education Division") as an independent publicly owned company. This transaction was effected through the distribution of shares of the Company to U.S. Office Products' shareholders (the "Distribution"). Prior to the Distribution, U.S. Office Products contributed its equity interests in certain wholly-owned subsidiaries associated with the Education Division to the Company. U.S. Office Products and the Company entered into a number of agreements to facilitate the Distribution and the transition of the Company to an independent business enterprise. Additionally, concurrently with the Distribution, the Company sold 2.1 million shares (2.4 million shares if the over-allotment is sold) in an initial public offering (the "IPO").

The Education Division was created by U.S. Office Products in May 1996 in connection with the acquisition of School Specialty, Inc., a Wisconsin corporation ("Old School"). This business combination and the acquisition in July 1996 of The Re-Print Corp. ("Re-Print") were accounted for under the pooling-of-interests method (Old School and Re-Print are herein referred to as the "Pooled Companies"). As a result of these business combinations being accounted for under the pooling-of-interests method, the results of the Company prior to the completion of such business combinations represent the combined results of the Pooled Companies operating as separate autonomous entities.

NOTE 2--BASIS OF PRESENTATION

The consolidated financial statements reflect the assets, liabilities, divisional equity, revenues and expenses that were directly related to the Company as it was operated within U.S. Office Products. In cases involving assets and liabilities not specifically identifiable to any particular business of U.S. Office Products, only those assets and liabilities expected to be transferred to the Company prior to the Distribution were included in the Company's separate consolidated balance sheet. The Company's statement of income includes all of the related costs of doing business, including an allocation of certain general corporate expenses of U.S. Office Products which were not directly related to these businesses including certain corporate executives' salaries, accounting and legal fees, departmental costs for accounting, finance, legal, purchasing, marketing, human resources as well as other general overhead costs. These allocations were based on a variety of factors, dependent upon the nature of the costs being allocated, including revenues, number and size of acquisitions and number of employees. Management believes these allocations were made on a reasonable basis.

U.S. Office Products uses a centralized approach to cash management and the financing of its operations. As a result, minimal amounts of cash and cash equivalents and an agreed upon amount of debt was to be allocated to the Company at the time of the Distribution. The consolidated statement of income does not include an allocation of interest expense on all debt allocated to the Company. See Note 9 for further discussion of interest expense.

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

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SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DEFINITION OF FISCAL YEAR

As used in these consolidated financial statements and related notes to consolidated financial statements, "fiscal 1998" and "fiscal 1997" refer to the Company's fiscal year ended April 25, 1998 and April 26, 1997, respectively.

CHANGE IN FISCAL YEAR

Prior to their respective dates of acquisition by U.S. Office Products, the Pooled Companies reported results on years ending on December 31. Upon acquisition by U.S. Office Products and effective for fiscal 1997, the Pooled Companies changed their year-ends from December 31 to conform to U.S. Office Products' fiscal year, which ends on the last Saturday in April. A four-month fiscal transition period from January 1, 1996 through April 30, 1996 has been presented for the Company to conform its fiscal year-end.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and accounts are eliminated in consolidation.

CASH AND CASH EQUIVALENTS

The Company considers temporary cash investments with original maturities of three months or less from the date of purchase to be cash equivalents.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Receivables arising from sales to customers are not collateralized and, as a result, management continually monitors the financial condition of its customers to reduce the risk of loss.

INVENTORIES

Inventories are stated at the lower of cost or market with cost determined on a first-in, first-out (FIFO) basis and consist primarily of products held for sale.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives range from 25 to 40 years for buildings and its components and 3 to 15 years for furniture, fixtures and

## SCHOOL SPECIALTY, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

## NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

equipment. Property and equipment leased under capital leases is being amortized over the lesser of its useful life or its lease terms.

## INTANGIBLE ASSETS

Intangible assets consist primarily of goodwill, which represents the excess of cost over the fair value of assets acquired in business combinations accounted for under the purchase method and non-compete agreements. Substantially all goodwill is amortized on a straight line basis over an estimated useful life of 40 years. Management periodically evaluates the recoverability of goodwill, which would be adjusted for a permanent decline in value, if any, by comparing anticipated undiscounted future cash flows from operations to net book value. Other intangible assets are being amortized over their estimated useful lives ranging from one to four years.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the Company's financial instruments including cash and cash equivalents, accounts receivable and accounts payable approximate fair value.

## INCOME TAXES

As a division of U.S. Office Products, the Company does not file separate federal income tax returns but rather is included in the federal income tax returns filed by U.S. Office Products and its subsidiaries from the respective dates that the entities within the Company were acquired by U.S. Office Products. For purposes of the consolidated financial statements, the Company's allocated share of U.S. Office Products' income tax provision was based on the "separate return" method. Certain companies acquired in pooling-of-interests transactions elected to be taxed as Subchapter S corporations, and accordingly, no federal income taxes were recorded by those companies for periods prior to their acquisition by U.S. Office Products.

## REVENUE RECOGNITION

Revenue is recognized upon the delivery of products or upon the completion of services provided to customers as no additional obligations to the customers exist. Returns of the Company's product are considered immaterial.

## COST OF REVENUES

Vendor rebates are recorded as a reduction in the cost of inventory and recognized as a reduction in cost of revenues when such inventory is sold. Delivery and occupancy costs are included in cost of revenues.

## ADVERTISING COSTS

The Company expenses advertising costs when the advertisement occurs. Advertising costs are included in the consolidated statement of income as a component of selling, general and administrative expenses.

## SCHOOL SPECIALTY, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
DEFERRED CATALOG COSTS

Deferred catalog costs are amortized in amounts proportionate to revenues over the life of the catalog, which is typically one to two years. Amortization expense related to deferred catalog costs is included in the consolidated statement of income as a component of selling, general and administrative expenses. Such amortization expense for the year ended December 31, 1995, the four months ended April 30, 1996, the fiscal years ended April 26, 1997 and April 25, 1998 was \$4,395, \$832, \$3,621 and \$6,934, respectively.

INTERNALLY DEVELOPED SOFTWARE

Internal costs related to internally developed software, such as internal salaries and supplies, are expensed as incurred as a component of selling, general and administrative expenses. External costs related to internally developed software, such as fees for outside programmers and consultants, are capitalized and expensed over the expected useful life of the software, normally three to five years.

NON-RECURRING ACQUISITION COSTS

Non-recurring acquisition costs represent acquisition costs incurred by the Company in business combinations accounted for under the pooling-of-interests method. These costs include accounting, legal, and investment banking fees, real estate and environmental assessments and appraisals, and various regulatory fees. Generally accepted accounting principles require the Company to expense all acquisition costs (both those paid by the Company and those paid by the sellers of the acquired companies) related to business combinations accounted for under the pooling-of-interests method.

RESTRUCTURING COSTS

The Company records the costs of consolidating existing Company facilities into acquired operations, including the external costs and liabilities to close redundant Company facilities and severance and relocation costs related to the Company's employees in accordance with EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in Restructuring)."

STRATEGIC RESTRUCTURING COSTS

Strategic restructuring costs represent the Company's portion of the costs incurred by U.S. Office Products as a result of U.S. Office Products' recently completed comprehensive restructuring.

NET INCOME PER SHARE

Net income per share is calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share."

NOTE 3--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)  
NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. SFAS No. 130 requires that all items required to be

recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS No. 130 is effective for fiscal years beginning after December 15, 1997. Reclassification of financial statements for earlier periods provided for comparative purposes is required. The Company intends to adopt SFAS No. 130 in fiscal 1999. Implementation of this disclosure standard will not affect the Company's financial position or results of operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for reporting information about operating segments in annual and interim financial statements. Operating segments are determined consistent with the way management organizes and evaluates financial information internally for making decisions and assessing performance. It also requires related disclosures about products, geographic areas, and major customers. SFAS 131 is effective for fiscal years beginning after December 15, 1997. The Company intends to adopt SFAS No. 131 in fiscal 1999. Implementation of this disclosure standard will not affect the Company's financial position or results of operations.

DISTRIBUTION RATIO

On May 14, 1998, the U.S. Office Products Board of Directors approved the distribution ratio for the Company in connection with the Distribution. At the date of Distribution, the Company issued approximately 12.2 million shares of its common stock to U.S. Office Products, which then distributed such shares to its shareholders in the ratio of one share of Company common stock for every nine shares of U.S. Office Products common stock held by each shareholder. The share data reflected in the accompanying financial statements represents the historical share data for U.S. Office Products for the period or as of the date indicated, retroactively adjusted to give effect to the one for nine distribution ratio.

NOTE 4--BUSINESS COMBINATIONS

POOLING-OF-INTERESTS METHOD

In fiscal 1997, the Company issued 4,257,693 shares of U.S. Office Products common stock to acquire the Pooled Companies. The Pooled Companies and the number of shares issued are as follows:

COMPANY NAME	NUMBER OF SHARES ISSUED
School Specialty, Inc.....	2,307,693
Re-Print.....	1,950,000
Total shares issued.....	4,257,693

The Company's consolidated financial statements give retroactive effect to the acquisitions of the Pooled Companies for all periods presented. Prior to being acquired by U.S. Office Products, the Pooled

NOTE 4--BUSINESS COMBINATIONS (CONTINUED)

Companies reported on years ending on December 31. Upon completion of the acquisitions of the Pooled Companies, their year-ends were changed to U.S. Office Products' year-end of the last Saturday in April.



The following presents the separate results, in each of the periods presented, of the Company (excluding the results of Pooled Companies prior to the dates on which they were acquired), and the Pooled Companies up to the dates on which they were acquired:

	SCHOOL SPECIALTY	POOLED COMPANIES	COMBINED
	-----	-----	-----
For the year ended April 26, 1997			
Revenues.....	\$ 181,420	\$ 10,326	\$ 191,746
Net income.....	\$ 7,791	\$ 341	\$ 8,132
For the four months ended April 30, 1996			
Revenues.....	\$	\$ 28,616	\$ 28,616
Net loss.....	\$	\$ (4,675)	\$ (4,675)
For the year ended December 31, 1995			
Revenues.....	\$	\$ 150,482	\$ 150,482
Net loss.....	\$	\$ (3,367)	\$ (3,367)

PURCHASE METHOD

In fiscal 1998, the Company made eight acquisitions accounted for under the purchase method for an aggregate purchase price of \$99,236, consisting of \$95,670 of cash and U.S. Office Products common stock with a market value of \$3,566. The total assets related to these eight acquisitions were \$125,595, including goodwill of \$80,359. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

In fiscal 1997, the Company made six acquisitions accounted for under the purchase method for an aggregate purchase price of \$18,219, consisting of \$7,734 of cash and U.S. Office Products common stock with a market value of \$10,485. The total assets related to these six acquisitions were \$30,106, including goodwill of \$14,248. The results of these acquisitions have been included in the Company's results from their respective dates of acquisition.

In 1995, one of the Pooled Companies made one acquisition accounted for under the purchase method for an aggregate cash purchase price of \$5,389. The total assets related to the acquisition were \$11,874, including goodwill of \$3,268. The results of the acquisition have been included in the Company's results from its date of acquisition.

The following presents the unaudited pro forma results of operations of the Company for the fiscal year ended April 25, 1998 and April 26, 1997 and includes the Company's consolidated financial statements, which give retroactive effect to the acquisitions of the Pooled Companies for all periods presented, and the results of the companies acquired in purchase acquisitions as if all such purchase acquisitions had been made at the beginning of fiscal 1997. The results presented below include certain pro forma adjustments to reflect the amortization of intangible assets, adjustments in executive compensation

NOTE 4--BUSINESS COMBINATIONS (CONTINUED)

of \$573 and \$124 for the fiscal years ended April 25, 1998 and April 26, 1997, respectively, and the inclusion of a federal income tax provision on all earnings:

	FOR THE FISCAL YEAR ENDED	
	APRIL 25, 1998	APRIL 26, 1997
Revenues.....	\$ 381,242	\$ 350,760
Net income.....	7,538	11,714
Net income per share:		
Basic.....	\$ 0.57	\$ 1.17
Diluted.....	0.56	1.15

The unaudited pro forma results of operations are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisitions occurred at the beginning of fiscal 1997 or the results which may occur in the future.

NOTE 5--RESTRUCTURING COSTS

The Company records the costs of consolidating existing Company facilities into acquired operations, including the external costs and liabilities to close redundant Company facilities and severance and relocation costs related to the Company's employees. The following table sets forth the Company's accrued restructuring costs for the periods ended April 30, 1996, April 26, 1997 and April 25, 1998:

	FACILITY CLOSURE AND CONSOLIDATION	SEVERANCE AND TERMINATIONS	OTHER ASSET WRITE-DOWNS AND COSTS	TOTAL
Balance at April 30 1996.....	\$ 641	\$ 469	\$ 1,422	\$ 2,532
Additions.....			194	194
Utilizations.....	(641)	(469)	(1,465)	(2,575)
Balance at April 26, 1997.....			151	151
Additions.....	728	214	1,550	2,491
Utilizations.....	(728)		(1,443)	(2,170)
Balance at April 25, 1998.....	\$	\$ 214	\$ 258	\$ 472

SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 6--PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	APRIL 25, 1998	APRIL 26, 1997
Deferred catalog costs.....	\$ 7,206	\$ 5,740
Deferred income taxes.....	1,886	2,055
Notes Receivable.....	1,558	1,643
Other.....	2,853	893

Total prepaid expenses and other current assets.....	\$ 13,503	\$ 10,331
--	-----------	-----------

Deferred catalog costs represent costs which have been paid to produce Company catalogs which will be used in future periods. These deferred catalog costs will be expensed in the periods the catalogs are used.

NOTE 7--PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	APRIL 25, 1998	APRIL 26, 1997
Land.....	\$ 1,144	\$ 729
Buildings.....	10,064	6,488
Furniture and fixtures.....	6,725	6,502
Warehouse equipment.....	7,052	3,163
Leasehold improvements.....	3,341	2,185
	-----	-----
	28,326	19,067
Less: Accumulated depreciation.....	(5,773)	(4,589)
	-----	-----
Net property and equipment.....	\$ 22,553	\$ 14,478
	-----	-----

Depreciation expense (which includes capital lease amortization) for the fiscal years ended April 25, 1998 and April 26, 1997, the four months ended April 30, 1996 and the year ended December 31, 1995 was \$2,499, \$1,540, \$470 and \$1,645, respectively.

NOTE 8--INTANGIBLE ASSETS

Intangible assets consist of the following:

	APRIL 25, 1998	APRIL 26, 1997
Goodwill.....	\$ 102,487	\$ 22,128
Other.....	2,487	2,020
	-----	-----
	104,974	24,148
Less: Accumulated amortization.....	(5,361)	(3,324)
	-----	-----
Net intangible assets.....	\$ 99,613	\$ 20,824
	-----	-----

NOTE 8--INTANGIBLE ASSETS (CONTINUED)

Amortization expense for the fiscal years ended April 25, 1998 and April 26, 1997, the four months ended April 30, 1996 and the year ended December 31, 1995 was \$2,061, \$566, \$204 and \$1,098, respectively.

NOTE 9--CREDIT FACILITIES

SHORT-TERM DEBT

Short-term debt consists of the following:

	APRIL 25, 1998	APRIL 26, 1997
	-----	-----
Other.....	\$ 30	\$ 30
Current maturities of long-term debt.....	11	232
	-----	-----
Total short-term debt.....	\$ 11	\$ 262
	-----	-----

LONG-TERM DEBT

Long-term debt consists of the following:

	APRIL 25, 1998	APRIL 26, 1997
	-----	-----
Other.....	\$ 310	\$ 483
Capital lease obligations.....	16	315
	-----	-----
Less: Current maturities of long-term debt.....	326 (11)	798 (232)
	-----	-----
Total long-term debt.....	\$ 315	\$ 566
	-----	-----

MATURITIES OF LONG-TERM DEBT

Maturities on long-term debt, including capital lease obligations, are as follows:

1999.....	\$ 11
2000.....	181
2001.....	92
2002.....	36
2003.....	6
Thereafter.....	-----
Total maturities of long-term debt.....	\$ 326
	-----
	-----

PAYABLE TO U.S. OFFICE PRODUCTS

The short-term payable to U.S. Office Products was incurred by the Company primarily as a result of U.S. Office Products repaying short-term debt outstanding of the businesses acquired by U.S. Office

NOTE 9--CREDIT FACILITIES (CONTINUED)

Products at or soon after the respective dates of acquisition and through the centralized cash management system, which involves daily advances or sweeps of cash to keep the cash balance at or near zero on a daily basis.

The long-term payable to U.S. Office Products primarily represents payments made by U.S. Office Products on behalf of the Company and a reasonable allocation by U.S. Office Products of certain general corporate expenses. An analysis of the activity in this account is as follows:

Balance at April 30, 1996.....	\$	
Payments of long-term debt of acquired companies.....		21,379
Funding of acquisitions and payment of acquisition costs.....		8,203
Allocated corporate expenses.....		2,221
Normal operating costs paid by U.S. Office Products.....		1,423
		-----
Balance at April 26, 1997.....		33,226
Payments of long-term debt of acquired companies.....		822
Funding of acquisitions and payment of acquisition costs.....		20,706
Allocated corporate expenses.....		7,145
Normal operating costs paid by U.S. Office Products.....		800
		-----
Balance at April 25, 1998.....	\$	62,699
		-----
		-----

The average outstanding long-term payable to U.S. Office Products during the fiscal years ended April 25, 1998 and April 26, 1997 was \$52,207 and \$27,269, respectively.

Interest has been allocated to the Company based upon the Company's average outstanding payable (short-term and long-term) balance with U.S. Office Products at U.S. Office Products' weighted average interest rate during such period. The Company's financial statements include allocations of interest expense from U.S. Office Products totaling \$5,414 and \$3,839 during the fiscal years ended April 25, 1998 and April 26, 1997, respectively.

The Distribution Agreement allocated a specified amount of U.S. Office Products' debt outstanding under its credit facilities to each Spin-Off Company and required each Spin-Off Company, on or prior to the Distribution, to obtain credit facilities, to borrow funds under such facilities and to use the proceeds of such borrowings to pay off the U.S. Office Products' debt so allocated plus any additional debt incurred by U.S. Office Products after January 12, 1998 (the date of the Investment Agreement) in connection with the acquisition of an entity that has become or will become a subsidiary of such Spin-Off Company. Under the Distribution Agreement, \$80,000 of U.S. Office Products' debt has been allocated to School Specialty, and since January 12, 1998, U.S. Office Products has incurred an additional \$3,300 of debt in connection with one additional acquisition completed by the Company. Prior to the Distribution, the Company entered into the credit facility and at the time of the Distribution borrowed \$83,300 under the facility to pay off debt of U.S. Office Products.

NOTE 10--INCOME TAXES

The provision for income taxes consists of:

	FOR THE FISCAL YEAR ENDED		FOR THE FOUR MONTHS ENDED	FOR THE YEAR ENDED
	APRIL 25, 1998	APRIL 26, 1997	APRIL 30, 1996	DECEMBER 31, 1995
Income taxes currently payable:				
Federal.....	\$ 3,646	\$ 71	\$	\$ (66)
State.....	907	99		
	-----	-----	-----	-----
	4,553	170		(66)
	-----	-----	-----	-----
Deferred income tax expense (benefit).....	927	(2,582)	139	239
	-----	-----	-----	-----
Total provision for (benefit from) income taxes.....	\$ 5,480	\$ (2,412)	\$ 139	\$ 173
	-----	-----	-----	-----

Deferred taxes are comprised of the following:

	APRIL 25, 1998	APRIL 26, 1997
Current deferred tax assets:		
Inventory.....	\$ 743	\$ 265
Allowance for doubtful accounts.....	164	193
Net operating loss carryforward.....	851	3,069
Accrued liabilities.....	128	421
Prepaid catalog advertising/restructuring.....		(1,893)
	-----	-----
Total current deferred tax assets.....	1,886	2,055
	-----	-----
Long-term deferred tax assets (liabilities):		
Property and equipment.....	(591)	(289)
Intangible assets.....	80	258
	-----	-----
Total long-term deferred tax liabilities.....	(511)	(31)
	-----	-----
Net deferred tax assets.....	\$ 1,375	\$ 2,024
	-----	-----

At April 30, 1996, the valuation allowance had been recorded, related to deferred tax assets of a Pooled Company, including net operating loss carryforwards. Based upon the improved profitability of this Pooled Company during fiscal 1997, the valuation allowance was reversed, resulting in a benefit from income taxes.

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SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 10--INCOME TAXES (CONTINUED)

The Company's effective income tax rate varied from the U.S. federal statutory tax rate as follows:

	FOR THE FISCAL YEAR ENDED		FOR THE FOUR MONTHS ENDED	FOR THE YEAR ENDED
	APRIL 25, 1998	APRIL 26, 1997	APRIL 30, 1996	DECEMBER 31, 1995

	1998	1997	1996	1995
U.S. federal statutory rate.....	34.0%	35.0%	35.0%	34.0%
State income taxes, net of federal income tax benefit for fiscal 1997.....	6.6	1.0		
Net benefit for current year net operating loss.....			(32.8)	(34.0)
Reversal of valuation allowance.....		(84.8)		
Nondeductible goodwill.....	6.0	1.6	(2.2)	
Nondeductible acquisition costs.....	3.3	5.0		
Tax on separate company income not offset against other company's loss.....			(3.0)	(5.4)
Other.....	1.2			
Effective income tax rate.....	51.1%	(42.2)%	(3.0 )%	(5.4 )%

At April 25, 1998, the Company has available for tax purposes net operating loss carryforwards of approximately \$2,500. These carryforwards expire in the years ending 2002-2011. The net operating loss carryforwards are subject to certain limitations pursuant to IRS Code Section 382.

NOTE 11--LEASE COMMITMENTS

The Company leases various types of retail, warehouse and office facilities and equipment, furniture and fixtures under noncancelable lease agreements which expire at various dates. Future minimum lease payments under noncancelable capital and operating leases are as follows:

	CAPITAL LEASES	OPERATING LEASES
1999.....	\$ 12	\$ 1,556
2000.....	6	1,183
2001.....		1,027
2002.....		659
2003.....		323
Thereafter.....		
Total minimum lease payments.....	18	\$ 4,748
Less: Amounts representing interest.....	(2)	
Present value of net minimum lease payments.....	\$ 16	

Rent expense for the fiscal years ended April 25, 1998 and April 26, 1997, the four months ended April 30, 1996 and the year ended December 31, 1995 was \$3,389, \$1,817, \$600 and \$1,947, respectively.

NOTE 12--COMMITMENTS AND CONTINGENCIES

LITIGATION

The Company is, from time to time, a party to litigation arising in the normal course of its business. Management believes that none of this litigation will have a material adverse effect on the financial position, results of operations or cash flows of the Company.

## POSTEMPLOYMENT BENEFITS

The Company has entered into employment agreements with several employees that would result in payments to these employees upon a change of control or certain other events. No amounts have been accrued at April 25, 1998 or April 26, 1997 related to these agreements, as no change of control has occurred.

## DISTRIBUTION

Under the Distribution Agreement, the Company was required, on or prior to the Distribution, to obtain a credit facility, to borrow funds under such facility and to use the proceeds of such borrowings to pay off \$83.3 million of U.S. Office Products' debt. See additional discussion in Note 9.

At the date of the Distribution, School Specialty, U.S. Office Products and the other Spin-Off Companies entered into the Distribution Agreement, the Tax Allocation Agreement, and the Employee Benefits Agreement and the Spin-Off Companies entered into the Tax Indemnification Agreement and may enter into other agreements, including agreements relating to referral of customers to one another. These agreements provide, among other things, for U.S. Office Products and School Specialty to indemnify each other from tax and other liabilities relating to their respective businesses prior to and following the Distribution. Certain of the obligations of School Specialty and the other Spin-Off Companies to indemnify U.S. Office Products are joint and several. Therefore, if one of the other spin-off companies fails to satisfy its indemnification obligations to U.S. Office Products when such a loss occurs, School Specialty may be required to reimburse U.S. Office Products for all or a portion of the losses that otherwise would have been allocated to other spin-off companies. In addition, the agreements allocate liabilities, including general corporate and securities liabilities of U.S. Office Products not specifically related to the school supplies business, between U.S. Office Products and the Company and the other Spin-Off Companies. The terms of the agreements that will govern the relationship between School Specialty and U.S. Office Products were established by U.S. Office Products in consultation with School Specialty's management prior to the Distribution while School Specialty was a wholly-owned subsidiary of U.S. Office Products.

## NOTE 13--EMPLOYEE BENEFIT PLANS

Effective September 1, 1996, the Company implemented the U.S. Office Products 401(k) Retirement Plan (the "401(k) Plan") which allows employee contributions in accordance with Section 401(k) of the Internal Revenue Code. The Company matches a portion of employee contributions and all full-time employees are eligible to participate in the 401(k) Plan after one year of service.

Certain subsidiaries of the Company have, or had prior to implementation of the 401(k) Plan, qualified defined contribution benefit plans, which allow for voluntary pre-tax contributions by the employees. The subsidiaries paid all general and administrative expenses of the plans and in some cases made matching contributions on behalf of the employees. For the four months ended April 30, 1996 and

SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

## NOTE 13--EMPLOYEE BENEFIT PLANS (CONTINUED)

the year ended December 31, 1995, the subsidiaries incurred expenses totaling \$6 and \$105, respectively, related to these plans.

## NOTE 14--STOCKHOLDER'S EQUITY

EARNINGS PER SHARE



In February 1997, the FASB issued SFAS No. 128, "Earnings Per Share." SFAS No. 128 establishes standards for computing and presenting earnings per share ("EPS"). SFAS No. 128 requires the dual presentation of basic and diluted EPS on the face of the consolidated statement of income. Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company has adopted SFAS No. 128 during fiscal 1998 and has restated all prior period EPS data. The following information presents the Company's computations of basic and diluted EPS for the periods presented in the consolidated statement of income.

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
FISCAL 1998:			
Basic EPS.....	\$ 5,239	13,284,003	\$ 0.40
Effect of dilutive employee stock options.....		263,461	
Diluted EPS.....	\$ 5,239	13,547,464	\$ 0.39
FISCAL 1997:			
Basic EPS.....	\$ 8,132	10,002,875	\$ 0.81
Effect of dilutive employee stock options.....		192,766	
Diluted EPS.....	\$ 8,132	10,195,641	\$ 0.80
FOUR MONTHS ENDED APRIL 30, 1996:			
Basic EPS.....	\$ (4,675)	8,611,240	\$ (0.54)
Effect of dilutive employee stock options.....		177,702	
Diluted EPS.....	\$ (4,675)	8,788,942	\$ (0.53)
YEAR ENDED DECEMBER 31, 1995:			
Basic EPS.....	\$ (3,367)	6,562,210	\$ (0.51)
Effect of dilutive employee stock options.....		107,199	
Diluted EPS.....	\$ (3,367)	6,669,409	\$ (0.50)

SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 14--STOCKHOLDER'S EQUITY (CONTINUED)  
CAPITAL CONTRIBUTION BY U.S. OFFICE PRODUCTS

During the fiscal year ended April 25, 1998, U.S. Office Products contributed \$81,332 of capital to the Company. The contribution reflects the forgiveness of intercompany debt by U.S. Office Products, as it was agreed that the Company would be allocated only \$80,000 of debt plus the amount of any additional debt incurred after January 12, 1998 in connection with the acquisition of entities that will become subsidiaries of School Specialty.

EMPLOYEE STOCK PLANS

The Company currently has stock options outstanding under the U.S. Office Products 1994 Long-Term Compensation Plan. The Company expects to replace the

options to purchase shares of common stock of U.S. Office Products held by employees with options to purchase shares of common stock of the Company. In order to keep the option holders in the same economic position immediately before and after the Distribution, the number of U.S. Office Products options held by Company personnel was multiplied by 0.903 and the exercise price of those options was divided by 0.903 for purposes of the replacement options. The vesting provisions and option period of the original grants were not changed. All option data reflected below has been retroactively restated to reflect the effects of the Distribution. The Company accounts for options issued in accordance with APB Opinion No. 25. Accordingly, because the exercise prices of the options have equaled the market price on the date of grant, no compensation expense has been recognized for the options granted. Had compensation cost for the Company's stock options been recognized based upon the fair value of the stock options on the grant date under the methodology prescribed by SFAS 123, the Company's net income and net income per share would have been impacted as indicated in the following table.

	FOR THE FISCAL YEAR ENDED	
	APRIL 25, 1998	APRIL 26, 1997
Net income:		
As reported.....	\$ 5,239	\$ 8,132
Pro Forma.....	4,436	7,383
Net income per share:		
As reported:		
Basic.....	0.40	0.81
Diluted.....	0.39	0.80
Pro Forma:		
Basic.....	0.33	0.74
Diluted.....	0.33	0.72

SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 14--STOCKHOLDER'S EQUITY (CONTINUED)

The fair value of options granted (which is amortized to expense over the option vesting period in determining the pro forma impact) is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	FOR THE FISCAL YEAR ENDED	
	APRIL 25, 1998	APRIL 26, 1997
Expected life of option.....	7 years	7 years
Risk free interest rate.....	6.35%	6.66%
Expected volatility of stock.....	44.10%	44.00%

The weighted-average fair value of options granted was \$9.75 and \$15.31 for fiscal 1998 and 1997, respectively.

A summary of option transactions follows:

	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Balance at April 30, 1995.....				
Granted.....				
Exercised.....				
Canceled.....				
Balance at April 30, 1996.....				
Granted.....	225,445	\$ 27.03		
Exercised.....				
Canceled.....	(14,565)	28.37		
Balance at April 26, 1997.....	(210,880)	26.93		
Granted.....	257,020	18.01		
Exercised.....				
Canceled.....	(25,606)	25.45		
Balance at April 25, 1998.....	442,294	\$ 21.83	46,319	\$ 27.14

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SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 14--STOCKHOLDER'S EQUITY (CONTINUED)

The following table summarizes information about stock options outstanding at April 25, 1998:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	OPTIONS	WEIGHTED-AVERAGE LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
\$16.80-\$21.77.....	257,020	9.23	\$ 18.01		
\$24.36-\$29.43.....	185,274	8.17	27.14	46,319	\$ 27.14
\$16.80-\$29.43.....	442,294	8.79	\$ 21.83	46,319	\$ 27.14

Non-qualified options granted to employees are generally exercisable beginning one year from the date of grant in cumulative yearly amounts of 25% of the shares under option and generally expire ten years from the date of grant.

Under a services agreement entered into with Jonathan J. Ledecy, the Board of Directors of U.S. Office Products agreed that Jonathan J. Ledecy would receive a stock option for School Specialty Common Stock from School Specialty as of the date of the Distribution. The U.S. Office Products Board intends the option to be compensation for Mr. Ledecy's services as a director of the Company, and certain services as an employee of the Company. The option covers 7.5% of the outstanding Company common stock determined as of the date of the Distribution, with no anti-dilution provisions in the event of issuance of additional shares of common stock (other than with respect to stock splits or reverse stock splits). The option will have a per share exercise price equal to the IPO price.

Immediately following the effective date of the registration statements filed in connection with the IPO and the Distribution, the Company's Board of Directors granted 850,083 options covering 7% of the outstanding shares of the Company's common stock, immediately following the Distribution and prior to the IPO, to certain executive management personnel (excluding the 7.5% granted to Mr. Ledecy). The options granted were granted under the 1998 Stock Incentive Plan (the "Plan") and have a per share exercise price equal to the IPO price, with other terms to be determined by the Company's Board of Directors.

Total options available for grant under the Plan are equal to 20.0% of the outstanding shares of the Company's common stock immediately following the Distribution and the IPO, including the options to be granted to Mr. Ledecy on that date.

SCHOOL SPECIALTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLARS IN THOUSANDS)

NOTE 15--QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents certain unaudited quarterly financial data for the fiscal years ended April 25, 1998 and April 26, 1997:

	YEAR ENDED APRIL 25, 1998				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues.....	\$ 87,029	\$ 111,460	\$ 49,391	\$ 62,575	\$ 310,455
Gross profit.....	26,090	33,619	11,670	19,763	91,142
Operating income (loss).....	11,872	12,155	(4,048)	(3,731)	16,248
Net income (loss).....	5,804	5,965	(2,934)	(3,596)	5,239
Per share amounts:					
Basic.....	0.49	0.49	(0.20)	(0.24)	0.40
Diluted.....	0.48	0.47	(0.20)	(0.24)	0.39

	YEAR ENDED APRIL 26, 1997				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
Revenues.....	\$ 58,991	\$ 71,682	\$ 29,304	\$ 31,769	\$ 191,746
Gross profit.....	18,110	19,823	7,664	9,572	55,169
Operating income (loss).....	5,197	6,732	(1,520)	(688)	9,721
Net income (loss).....	1,981	2,692	(1,067)	4,526	8,132
Per share amounts:					
Basic.....	0.21	0.28	(0.11)	0.40	0.81
Diluted.....	0.21	0.27	(0.11)	0.39	0.80

NOTE 16--SUBSEQUENT EVENTS

CREDIT FACILITY

On June 9, 1998, the Company received a five year \$250,000 revolving credit facility from NationsBank, N.A. Interest on borrowings under the credit facility will accrue interest at a rate of, at the Company's option, either LIBOR plus 1.00% or the lender's base rate, for up to the first 6 months under the agreement. Thereafter, interest will accrue at a rate of (i) LIBOR plus a range of .625% to 1.625%, or (ii) the lender's base rate plus a range of 0% to .250% (depending on the Company's leverage ratio of funded debt to EBITDA). Indebtedness is secured by substantially all of the assets of the Company. The

credit facility is subject to terms and conditions typical of facilities of such size and includes certain financial covenants. The Company has made borrowings under the credit facility to repay the US Office Products debt which it was obligated under the Distribution Agreement to repay. The balance of the credit facility will be available for working capital, capital expenditures and acquisitions, subject to compliance with financial covenants.

ITEM 9: CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The directors and executive officers of School Specialty as of July 17, 1998 are as follows:

NAME	AGE	POSITION
Daniel P. Spalding.....	43	Chairman of the Board and Chief Executive Officer
David J. Vander Zanden.....	43	President, Chief Operating Officer, and Director
Donald J. Noskowiak.....	40	Executive Vice President and Chief Financial Officer
Douglas Moskonas.....	53	Executive Vice President for School Specialty Divisions
Melvin D. Hilbrow.....	50	Executive Vice President for Gresswell
Richard H. Nagel.....	57	Executive Vice President for Sax Arts & Crafts
Donald Ray Pate, Jr.....	35	Executive Vice President for Re-Print
Ronald E. Suchodolski.....	52	Executive Vice President for Childcraft
Michael J. Killoren.....	41	Vice President for School Specialty Divisions
Lillian R. Kellogg.....	45	President for Education Access Division
Jonathan J. Ledecy.....	40	Director
Leo C. McKenna (1).....	64	Director
Rochelle Lamm Wallach (1).....	50	Director

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(1) Member of Audit and Compensation Committees

DANIEL P. SPALDING became Chairman of the Board and Chief Executive Officer of School Specialty in February 1998. Mr. Spalding has served as President of the Educational Supplies and Products Division of U.S. Office Products since 1996. Prior to that time, he served as President, Chief Executive Officer, and a director of Old School since 1988. Prior to 1988, Mr. Spalding was an officer of JanSport, a manufacturer of sports apparel and backpacking equipment. Mr. Spalding was a co-founder of JanSport, and served as President and Chief Executive Officer from 1977 to 1984. Mr. Spalding has been a director of the National School Supply and Equipment Association since 1992 and completed his term as the association's Chairman in November 1997. Mr. Spalding is Michael J. Killoren's cousin.

DAVID J. VANDER ZANDEN became the Chief Operating Officer of School Specialty in March 1998. Prior to that time, he served as President of Ariens Company since 1992, a manufacturer of outdoor lawn and garden equipment.

DONALD J. NOSKOWIAK has served as Chief Financial Officer of School Specialty since 1997. In February 1998, Mr. Noskowiak became an Executive Vice President of School Specialty. He was Vice President, Treasurer and Principal Financial Officer of Old School since 1994. From 1992 through 1994 he was the Corporate Controller of Old School.

DOUGLAS MOSKONAS has served as Executive Vice President of School Specialty for School Specialty Divisions since completion of the School Specialty Distribution on June 1998. Mr. Moskonas joined Old School in 1993 as Vice President of Sales for the Valley Division. Since that time he has served as General Manager for the Valley Division from 1994 through 1996 and was appointed President of School Specialty Distribution in 1997. Prior to joining School Specialty, Mr. Moskonas served as Vice President of Sales for Emmons-Napp Office

Products from 1979 through 1993.

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MELVIN D. HILBROWN has served as Executive Vice President of School Specialty for Gresswell since completion of the School Specialty Distribution in June 1998. Mr. Hilbrow joined School Specialty as Managing Director of Gresswell with School Specialty's acquisition of Don Gresswell, Ltd. in 1997. He has been Managing Director of Gresswell since 1989.

RICHARD H. NAGEL has served as Executive Vice President of School Specialty for Sax Arts & Crafts since completion of the School Specialty Distribution in June 1998. Mr. Nagel joined School Specialty with the acquisition of Sax Arts & Crafts in 1997 and serves as President of Sax Arts & Crafts. Mr. Nagel has been with Sax Arts & Crafts since 1975 when he was hired as Assistant General Manager. He was named President of Sax Arts & Crafts in 1990.

DONALD RAY PATE, JR. has served as Executive Vice President of School Specialty for Re-Print since completion of the School Speciality Distribution in June 1998. Mr. Pate joined School Specialty with the acquisition of Re-Print in 1996 and serves as President of Re-Print. Mr. Pate has served as President of Re-Print since he acquired it in 1988.

RONALD E. SUCHODOLSKI has served as Executive Vice President of School Specialty for Childcraft since completion of the School Speciality Distribution in June 1998. Mr. Suchodolski joined School Specialty with the acquisition of Childcraft in 1997 and serves as President of Childcraft. Mr. Suchodolski has been President of Childcraft since 1995 and was Director of Childcraft's School Division from 1984 through 1989. From 1989 to 1993, Mr. Suchodolski was President of the Judy/Instructo Division of Paramount, and from 1993 through 1995 Mr. Suchodolski served as Senior Vice President of Sales and Marketing for Paramount Publishing's Supplementary Materials Division.

MICHAEL J. KILLOREN has served as Vice President of School Specialty for School Speciality Divisions since completion of the School Specialty Distribution in June 1998. Mr. Killoren has served as Chief Operating Officer of School Specialty Distribution since 1997. From 1992 to 1997, he was Vice President/Operations of School Specialty. Mr. Killoren is Daniel P. Spalding's cousin.

LILLIAN R. KELLOGG joined the Company with the acquisition of Education Access in March 1998 and serves as President of the Company's Education Access Division. Ms. Kellogg previously served as Executive Vice President of Education Access, Inc. from March 1997 to March 1998 and as President of Computer Plus, Inc. from March 1984 to March 1997. On January 19, 1998, Education Access, Inc. filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. The Company acquired substantially all of the assets of its catalog division on March 20, 1998.

JONATHAN J. LEDECKY has served as a director and an employee of School Specialty since completion of the School Specialty Distribution in June 1998. He founded Consolidation Capital Corporation in February 1997 and serves as its Chairman and Chief Executive Officer. Mr. Ledecy founded U.S. Office Products in October 1994, served as its Chairman of the Board until the June 1998 and served as its Chief Executive Officer until November 5, 1997. Mr. Ledecy has also served as the Non-Executive Chairman of the Board of USA Floral Products, Inc. since April 1997 and as a director of UniCapital Corporation since October 1997. Mr. Ledecy served from 1989 to 1991 as the President of The Legacy Fund, Inc., and from 1991 to September 1994 as President and Chief Executive Officer of Legacy Dealer Capital Fund, Inc., a wholly-owned subsidiary of Steelcase Inc. Prior to his tenure at The Legacy Fund, Inc., Mr. Ledecy was a partner at Adler and Company and a Senior Vice President at Allied Capital Corporation, an investment management company.

LEO C. MCKENNA is a self-employed financial consultant working with personal asset management, corporate planning, acquisitions, merger studies, and negotiations. Mr. McKenna is currently a Member of the Board of Life Insurance Company of Boston and New York (Subsidiary of Boston Mutual Life). He is founder

and a director of Ledyard National Bank, where he also serves on the Audit Committee. He is also a director of Rosenthal, A.G. USA. He is a director and member of the John Brown Cook Foundation and

an overseer and Chairman of the Finance Committee for the Catholic Student Center at Dartmouth College.

ROCHELLE LAMM WALLACH was associated with Strong Advisory Services, a division of Strong Capital Management, as its President from 1995 to March 1998. Prior to that time, she was Chief Operating Officer of AAL Capital Management, a mutual fund manager which she founded in 1986.

COMMITTEES OF THE BOARD

The Audit Committee of the Board of Directors is charged with reviewing School Specialty's annual audit and meeting with School Specialty's independent accountants to review School Specialty's internal controls and financial management practices.

The Compensation Committee of the Board of Directors is charged with determining the compensation of executive officers of School Specialty and administering the Company's stock option plan.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information with respect to the compensation paid by School Specialty for services rendered during the years ended April 26, 1997 and April 25, 1998 to the Chief Executive Officer and to each of the four other most highly compensated officers of School Specialty (the "Named Officers").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG TERM	ALL OTHER
		SALARY	BONUS	COMPENSATION OPTIONS (#) (1)	
Daniel P. Spalding.....	1997	\$ 178,846	\$ 34,200	135,484	--
Chairman of the Board, CEO and Director	1998	212,104	--	--	--
Ronald E. Suchodolski(2).....	1997	\$ 141,535	\$ 30,000	--	--
Executive Vice President for Childcraft	1998	157,646	154,633	18,065	--
Richard H. Nagel(2)(3).....	1997	\$ 118,000	\$ 29,500	--	\$ 32,000
Executive Vice President for Sax Arts & Crafts	1998	130,660	29,500	18,065	--
Donald Ray Pate, Jr.(2).....	1997	\$ 220,901	--	--	--
Executive Vice President for Re-Print	1998	117,000	--	--	--
Douglas Moskonas.....	1997	\$ 97,266	\$ 44,500	13,548	--
Executive Vice President for School Specialty Division	1998	139,525	--	18,065	--

- (1) Options were issued by U.S. Office Products to acquire U.S. Office Products common stock and options remaining after U.S. Office Products' tender offer were replaced with options to acquire School Speciality Common Stock in connection with the School Specialty Distribution. The number of options set forth in the table represents the number of options for School Specialty Common Stock the officer would have been granted if all U.S. Office Products options granted during the year were replaced with School Specialty options.
- (2) Mr. Suchodolski, Mr. Nagel and Mr. Pate joined School Specialty in May 1997, July 1997 and July 1996, respectively. The compensation information included in this table reflects the compensation received when employed by predecessor companies.
- (3) Other compensation refers to Mr. Nagel's automobile allowance and stay-bonus compensation received by his prior employer.

## OPTIONS GRANTED IN FISCAL YEAR 1998

The following table sets forth certain information regarding options to acquire School Speciality Common Stock granted to the Named Officers during the year ended April 25, 1998. All options were granted by U.S. Office Products as options to acquire U.S. Office Products common stock and options remaining after U.S. Office Products' tender offer were replaced with options to acquire School Specialty Common Stock, utilizing the option conversion formula applied in connection with the School Specialty Distribution, which affected the number of shares issuable upon exercise of the options and the exercise price of the options. The number of options and exercise prices set forth below represent the number of options (and exercise price of options) for School Specialty Common Stock that the officer would have been granted if all U.S. Office Products options granted during the fiscal year were replaced with School Specialty options.

## OPTIONS GRANTED IN FISCAL YEAR ENDED APRIL 25, 1998

NAME	OPTIONS GRANTED (1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (2)	EXERCISE PRICE (2)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE	
					AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (3)	
					5%	10%
Daniel P. Spalding.....	135,484	52.7%	\$ 16.80	4/28/07	\$ 1,431,447	\$ 3,627,567
Ronald E. Suchodolski.....	18,065	7.0%	19.93	12/12/07	226,424	573,804
Richard H. Nagel.....	18,065	7.0%	19.93	12/12/07	226,424	573,804
Donald Ray Pate, Jr.....	--	--	--	--	--	--
Douglas Moskonas.....	18,065	7.0%	19.93	12/12/07	226,424	573,804

- (1) The options granted are non-qualified stock options, which are exercisable at the market price on the date of grant, beginning one year from the date of grant in cumulative yearly amounts of 25% of the shares and expire ten years from the date of grant. The options become fully exercisable upon a change in control, as defined in the Incentive Plan.
- (2) Total options granted refers to options to acquire U.S. Office Products common stock given to all employees of the Educational Supplies and Products Division of U.S. Office Products during fiscal 1998.
- (3) The dollar amounts under these columns are the results of calculations at assumed annual rates of stock appreciation of 5% and 10%. These assumed rates of growth were selected by the SEC for illustration purposes only. They are not intended to forecast possible future appreciation, if any, of stock prices. No gain to the optionees is possible without an increase in stock prices, which will benefit all stockholders.

## AGGREGATED OPTION EXERCISES IN FISCAL YEAR ENDED APRIL 25, 1998 AND FISCAL YEAR-END 1998 OPTION VALUES

The following table sets forth certain information regarding unexercised options held by the Named Officers at April 25, 1998. All options were granted by U.S. Office Products as options to acquire U.S. Office Products common stock and options remaining after U.S. Office Products' tender offer were replaced with options to acquire shares of School Specialty Common Stock, utilizing the option conversion formula applied in connection with the School Speciality Distribution. The number of options set forth below represents the number of options for School Specialty Common Stock that the officer would have held at the end of the fiscal year if all U.S. Office Products options held on that date (prior to the U.S. Office Products tender offer) were replaced with School Specialty options.



NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER UNEXERCISED OPTIONS		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END (\$) (1)
			HELD AT APRIL 25, 1998 (#)		
			EXERCISABLE	UNEXERCISABLE	
Daniel P. Spalding.....	--	\$ --	--	135,484	\$ --
Ronald E. Suchodolski.....	--	--	--	18,065	--
Richard H. Nagel.....	--	--	--	18,065	--
Donald Ray Pate, Jr.....	--	--	--	--	--
Douglas Moskonas.....	--	--	--	31,613	--

NAME	UNEXERCISABLE
Daniel P. Spalding.....	N/A
Ronald E. Suchodolski.....	N/A
Richard H. Nagel.....	N/A
Donald Ray Pate, Jr.....	N/A
Douglas Moskonas.....	N/A

(1) At the end of fiscal 1998, School Specialty Common Stock was not traded. Therefore it is not possible to determine the value of unexercised in-the-money options as of that date.

#### 1998 STOCK INCENTIVE PLAN

The purpose of the 1998 Stock Incentive Plan (the "Plan") is to promote the long-term growth and profitability of the Company by providing employees with incentives to improve stockholder value and contribute to the growth and financial success of the Company, and by enabling the Company to attract, retain and reward highly motivated and qualified employees. The maximum percentage of shares of Company Common Stock that may be issued with respect to awards granted under the Plan is 20% of the outstanding Common Stock of the Company determined immediately after the grant of the award. The maximum number of shares that may be issued with respect to awards granted under the Plan to an individual in a calendar year may not exceed 1.2 million shares. The Plan will be administered by the Compensation Committee of the Board of Directors. All employees of the Company and its subsidiaries, as well as non-employee directors of the Company, are eligible to receive awards under the Plan. The Plan authorizes the Compensation Committee to make awards of incentive stock options, non-qualified stock options, restricted stock, and other stock-based awards. The Compensation Committee will determine the prices (which may not be less than the fair market value on the date of award), vesting schedules, expiration dates and other material conditions under which such awards may be exercised.

Mr. Ledecy received 914,079 stock options for Company Common Stock, which is equal to 7.5% of the outstanding Company Common Stock determined as of June 9, 1998, without regard to the public offering that closed on June 15, 1998. The options are intended to compensate Mr. Ledecy for his services to School Specialty as an employee. The option has a per share exercise price equal to \$15.50. Based on the exercise price of \$15.50 and an assumed trading volatility index of the School Specialty Common Stock of 35.0%, the estimated value of the option is approximately \$2.6 million, net of taxes at an assumed 40% rate. Mr. Ledecy's option is fully vested when granted but will not be exercisable until June 9, 1999. Mr. Ledecy's option from the Company will be exercisable immediately if Mr. Ledecy dies before the option expires or if and to the extent that School Specialty accelerates the exercise schedule of substantially all management options. All unexercised portions of the option will expire ten years after its date of grant or, if applicable, as of the date Mr. Ledecy violates his non-competition agreement with School Specialty.

As of June 10, 1998 Daniel P. Spalding received an option (the "Spalding Option") pursuant to the Plan for 228,519 shares, which is equal to 1.9% of the outstanding Common Stock as of that date. The Spalding Option has the same terms as Mr. Ledecy's option, including an exercise price equal to \$15.50. Based on

the exercise price of \$15.50 an assumed trading volatility index of the School Specialty Common Stock of 35.0%, the estimated value of the option is approximately \$0.7 million, net of taxes at an assumed 40% rate. In addition, certain executive officers of the Company received options for in aggregate 621,564 shares (approximately 5.1% of the Common Stock) on June 10, 1998 also at an exercise price of \$15.50.

#### DIRECTOR COMPENSATION AND OTHER ARRANGEMENTS

School Specialty granted each non-management director 15,000 options to purchase School Specialty Common Stock upon their initial election as members of the Board of Directors. The Company intends to grant options to acquire 5,000 shares for each additional year of service. Non-management directors are paid an annual retainer of \$20,000 and \$1,000 for each additional special meeting attended and will also be reimbursed for all out-of-pocket expenses related to their service as directors.

The Company entered into an employment agreement with Mr. Ledecy effective as of June 10, 1998 that implemented certain portions of an agreement (the "Ledecy Services Agreement") that Mr. Ledecy had previously entered into with U.S. Office Products. Under the employment agreement, Mr. Ledecy reports to the Board of Directors and senior management of the Company. In such capacity, Mr. Ledecy provides high-level acquisition negotiation services and strategic business advice. The Company can require Mr. Ledecy's performance of such services, consistent with his other contractual obligations to Consolidation Capital Corporation, U.S. Office Products and the other Spin-Off Companies. As an employee, Mr. Ledecy is also subject to the generally applicable personnel policies of the Company and is eligible for such benefit plans in accordance with their terms. The Company pays Mr. Ledecy an annual salary of \$48,000 for up to two years. The Company may terminate Mr. Ledecy's employment with "cause", where cause consists of (i) his conviction of or guilty or nolo contendere plea to a felony demonstrably and materially injurious to the Company, or (ii) his violation of the non-competition provision as it relates to the Company.

The Ledecy Services Agreement provides for non-competition and non-solicitation restrictions that continue until the later of June 10, 2000 or one year after Mr. Ledecy leaves School Specialty's employ. These provisions generally restrict Mr. Ledecy from, among other things, investing in or working for or on behalf of any business selling any products or services in direct competition with U.S. Office Products or the Spin-Off Companies (collectively, the "U.S. Office Products Companies"), within 100 miles of any location where the relevant U.S. Office Products Company regularly maintains an office with employees. (For this purpose, "products or services" includes products or services offered by School Specialty.) Notwithstanding this prohibition, Mr. Ledecy may serve in a policy making role (but not engage in direct personal competition) with respect to the following businesses: (i) businesses selling, supplying, or distributing janitorial or sanitary products or services; (ii) businesses managing or servicing equipment (other than computers); (iii) businesses providing internet services; (iv) UniCapital Corporation's current businesses (which include equipment leasing); or (v) U.S. Marketing Services' shelf-stocking and merchandising and point-of-purchase display creation business. The Ledecy Services Agreement prohibits Mr. Ledecy from trying to hire away managerial employees of School Specialty or from calling upon customers of the School Specialty to solicit or sell products or services in direct competition with School Specialty. Mr. Ledecy also may not hire away for Consolidation Capital Corporation any person then or in the preceding one year employed by School Specialty.

#### EMPLOYMENT CONTRACTS AND RELATED MATTERS

School Specialty has entered into employment agreements with the following four of its Named Officers: Daniel P. Spalding (Chairman and Chief Executive Officer), Donald Ray Pate, Jr. (Executive Vice

and President of Sax Arts & Crafts) and David J. Vander Zanden, (President and Chief Operating Officer).

Daniel P. Spalding, Chief Executive Officer of School Specialty, entered into an employment contract with Old School on April 29, 1996. The contract has an initial term of four years but, unless terminated, is automatically extended at the end of each of the last three years of the initial term for another year. Mr. Spalding receives a base salary of at least \$180,000 and participates in an incentive bonus plan which provides for an annual bonus up to 100% of base salary upon the attainment of profit and revenue objectives. Following the termination of his employment for any reason, Mr. Spalding has agreed not to compete with School Specialty for a period equal to the longer of two years or, in the case of early termination, the years remaining on his contract. If Mr. Spalding is terminated without cause, as defined in the contract, he is entitled to his entire base salary for the years remaining on the contract. In addition, Mr. Spalding may terminate his contract for good cause (e.g., a material, adverse change in his position or responsibilities or any material breach on the part of School Specialty) or within five days of a change in control of School Specialty. The contract defines a change of control to mean: (i) the acquisition of beneficial ownership of 50% or more of voting securities of School Specialty by any person other than U.S. Office Products; (ii) a loss of majority status by the combination of members of U.S. Office Products' Board at the time of its initial public offering and any Board members installed by a two-thirds vote of the then-present initial Directors or any Directors subsequently installed by them; (iii) any reorganization of U.S. Office Products unless 75% of the beneficial ownership of U.S. Office Products voting securities remains in the same hands; or (iv) U.S. Office Products or more than 49% of its assets are liquidated. The Company expects to enter into an amendment to Mr. Spalding's employment agreement in respect of the change of control provisions to reflect the Company's public status.

Donald Ray Pate, Jr., serves as President of Re-Print and entered into an employment contract with Re-Print on July 26, 1996 to serve as its President. The contract runs for four years but provides for two automatic one-year extensions unless Re-Print gives 60 days written notice of its intent not to renew. Mr. Pate's annual base salary is \$125,000, and he participates in an executive compensation program and incentive bonus plan based upon the attainment of profit and revenue objectives. Following the termination of his employment for any reason, Mr. Pate has agreed not to compete with Re-Print for the longer of two years or until the end of the contractual term. If Mr. Pate is terminated without cause, he is entitled to receive his base salary for three months or until the end of the initial contractual term, whichever period is greater. Mr. Pate was granted options on June 10, 1998 to purchase 45,703 shares with the same terms as Mr. Ledekys' options, including an exercise price of \$15.50 (See "--1998 Stock Incentive Plan").

Richard H. Nagel, President of Sax Arts & Crafts, entered into a four-year employment contract with Sax Arts & Crafts on June 27, 1997 to serve as its President. Mr. Nagel's annual base salary is at least \$125,000, and he participates in an executive compensation program and an incentive bonus plan based upon the attainment of profit and revenue objectives. Following the termination of his employment for any reason, Mr. Nagel has agreed not to compete with Sax Arts & Crafts for one year. If Mr. Nagel is terminated without cause, he is entitled to receive his base salary for one year or until the end of the contractual term, whichever period is lesser. Mr. Nagel was granted options on June 10, 1998 to purchase 45,703 shares with the same terms as Mr. Ledeky's options, including an exercise price of \$15.50. (See "--1998 Stock Incentive Plan").

David J. Vander Zanden became President and Chief Operating Officer in March 1998. After the School Specialty Distribution, School Specialty entered into a two-year employment contract with Mr. Vander Zanden, with automatic two-year extensions unless School Specialty or Mr. Vander Zanden gives 90 days written notice of either party's intent not to renew. The employment contract provides for a base salary of \$225,000 and participation in an incentive bonus plan based upon the attainment of profit and revenue objectives. The employment contract also contains a covenant not to compete upon termination of the agreement, and provides Mr. Vander Zanden the right to terminate the agreement upon a change of

control in School Specialty, defined in the agreement. Mr. Vander Zanden was granted options

on June 10, 1998 to purchase 228,519 shares with the same terms as Mr. Ledecy's options, including an exercise price of \$15.50. (See "--1998 Stock Incentive Plan").

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee consists of Mr. McKenna and Ms. Wallach. No member of the Compensation Committee has ever been an officer of School Specialty or any of its subsidiaries and no executive officer of the Company has served on the Compensation Committee or the board of directors of any company of which any director of the Company is an executive officer.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of July 17, 1998, the number and percentage of outstanding shares of School Specialty Common Stock beneficially owned by (i) all persons known by School Specialty to own beneficially more than 5% of the Common Stock, (ii) each director, (iii) the Chief Executive Officer and each of the four other most highly compensated executive officers of the Company (the "Named Executive Officers"), and (iv) all directors and executive officers as a group.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES OWNED	PERCENT OF OUTSTANDING SHARES
Daniel P. Spalding (1)	199,219	1.4%
Ronald Suchodolski	--	--
Jonathan J. Ledecy (2)	207,100	1.4
Richard H. Nagel	--	--
Donald Ray Pate, Jr. (3)	158,444	1.1
Douglas Moskonas (1)	6,500	*
Leo C. McKenna	5,016	*
David J. Vander Zanden	50,000	*
Rochelle Lamm Wallach	1,950	*
All current executive officers and directors as a group (13 persons) (1)	645,251	4.4
5% STOCKHOLDERS (4)		
FMR Corp. 82 Devonshire Street Boston, MA 02109	1,342,687	9.2
Gardner-Lewis Asset Mgmt. 285 Wilmington Westchester Pike Chadd-Ford, PA 19317	899,292	6.2

\* Less than 1%.

(1) Share amounts include options currently exercisable, or exercisable within 60 days after July 17, 1998, in the amount of 52,001, 5,200 and 67,601 for Mr. Spalding, Mr. Moskonas and all executive officers and directors as a group.

(2) Does not include shares underlying Mr. Ledecy's options described under "Executive Compensation--1998 Stock Incentive Plan," none of which are exercisable within the next twelve months.

(3) Mr. Pate has entered into hedging arrangements that place a ceiling and a floor on the price of certain of his shares of U.S. Office Products common stock.

(4) Share amounts were determined by the Company from sources the Company

believes to be reliable.

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#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On April 29, 1996, U.S. Office Products acquired Old School in a business combination accounted for under the pooling-of-interests method in which 576,923 shares (as adjusted for a one for four reverse stock split) of U.S. Office Products common stock were issued as consideration. Current officers of School Specialty who received shares of U.S. Office Products common stock in the transaction include Daniel P. Spalding (77,441 shares as adjusted), and an additional 7,504 shares (as adjusted) through an IRA for his benefit), Michael J. Killoren (6,754 shares as adjusted), and Donald J. Noskowiak (6,754 shares as adjusted). In addition, John S. Spalding (Daniel P. Spalding's father) received 162 shares (as adjusted) and an additional 15,008 shares (as adjusted) through an IRA for his benefit, the Patricia M. Spalding Revocable Trust received 17,731 shares (as adjusted), Joanne Lee Killoren received 15,076 shares (as adjusted), Donald Killoren (Michael J. Killoren's father) received 15,194 shares (as adjusted) and Leo C. McKenna received 69,501 shares (as adjusted). The other parties to the foregoing transactions had no relationship to the Company or U.S. Office Products Company at the time such transactions were entered into, and accordingly, the Company believes that these transactions were as favorable as could be negotiated with third parties.

U.S. Office Products acquired Re-Print on July 26, 1996 in a business combination accounted for under the pooling-of-interests method in which it issued 487,500 shares (as adjusted) of U.S. Office Products common stock as consideration. In that transaction, Donald Ray Pate, Jr., President of Re-Print, received 269,007 shares (as adjusted) of U.S. Office Products common stock for his interest in Re-Print. Other shareholders related to Mr. Pate who received shares of U.S. Office Products common stock in the merger were Celita Pate Carmichael (7,560 shares as adjusted), Phillip S. Pate (21,338 shares as adjusted), Richard K. Pate (18,480 shares as adjusted), and Mary K. Pate (29,126 shares as adjusted). The other parties to the foregoing transactions had no relationship to the Company or U.S. Office Products Company at the time such transactions were entered into, and accordingly, the Company believes that these transactions were as favorable as could be negotiated with third parties.

On March 20, 1998, School Specialty acquired substantially all of the assets of the catalog division of Education Access, Inc., a debtor in possession under Chapter 11 of the United States Bankruptcy Code. In this transaction, the secured creditors of Education Access received all of the consideration paid by School Specialty. Lillian R. Kellogg, President of School Specialty's Education Access Division, owns approximately 40% of the capital stock of Education Access. This transaction was the subject of arm's length negotiation between School Specialty and the secured creditors of Education Access, Inc.

School Specialty's main office and warehouse facility, a 120,000 square foot building located in Appleton, Wisconsin, is leased from Bluemound Corporation. John S. Spalding, a former member of the Board of Old School and the father of Daniel P. Spalding, Chairman of the Board and Chief Executive Officer of School Specialty, holds a one-third stake in Bluemound. Donald Killoren, father of Michael J. Killoren, an officer of School Specialty, also holds a one-third stake in Bluemound. The lease provides for annual payments of \$196,000 through December 31, 2001. The Company believes that this transaction was as favorable as could be negotiated with third parties.

For a discussion of transactions between the Company and Mr. Leddecky, see "Item 11--Executive Compensation."

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#### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS, EXHIBITS AND SCHEDULES

1. FINANCIAL STATEMENTS (See Item 8 hereof.)
2. FINANCIAL STATEMENT SCHEDULES (See Item 8 hereof.)
3. EXHIBITS

NUMBER	DESCRIPTION
3.1*	Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
10.1*	Distribution Agreement among U.S. Office Products Company, Workflow Management, Inc., Aztec Consulting, Inc., Navigant International, Inc., and School Specialty, Inc.
10.2*	Tax Allocation Agreement among U.S. Office Products Company, Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc., and School Specialty, Inc.
10.3*	Tax Indemnification Agreement among Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc., and School Specialty, Inc.
10.4*	Employee Benefits Agreement among Workflow Management, Inc., Aztec Technology Partners, Inc., Navigant International, Inc., and School Specialty, Inc.
10.5*	Employment Agreement dated April 29, 1996, between Daniel P. Spalding and School Specialty, Inc.
10.6*	Employment Agreement dated July 26, 1996, between Donald Ray Pate, Jr. and The Re-Print Corp.
10.7*	Employment Agreement dated June 27, 1997, between Richard H. Nagel and Sax Arts & Crafts, Inc.
10.8	Employment Agreement between David Vander Zanden and School Specialty, Inc.
10.9	Employment Agreement between School Specialty, Inc. and Jonathan J. Leducky
10.10*	Amended Services Agreement dated as of June 8, 1998 between U.S. Office Products and Jonathan J. Leducky
10.11	1998 Stock Incentive Plan
10.12	Credit Agreement dated as of June 9, 1998 among School Specialty, Inc., the lenders named therein and Nationsbank, N.A.
10.13**	Asset Purchase Agreement dated as of June 10, 1998 by and among School Specialty, Inc., Hammond and Stephens Co. and Roger D. Pannier and Pamela S. Pannier
21*	Subsidiaries of Registrant
27	Financial data schedule
99.1	Schedule II--Valuation and Qualifying Accounts

\* Incorporated by reference herein from School Specialty's Registration Statement on Form S-1 initially filed with the Securities and Exchange Commission on February 19, 1996, as amended (File No. 333-46357).

\*\* Incorporated by reference herein from School Specialty's Current Report on Form 8-K filed July 15, 1998.

(b) REPORTS ON FORM 8-K. During the last quarter of the fiscal year covered by this report, the Company filed no Current Reports on Form 8-K.

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SIGNATURES

Pursuant to the requirements Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Appleton, Wisconsin on July 24, 1998.

SCHOOL SPECIALTY, INC.

BY: /S/ DANIEL P. SPALDING

-----  
 Name: Daniel P. Spalding  
 TITLE: CHAIRMAN OF THE BOARD AND CHIEF  
 EXECUTIVE OFFICER

Each person whose signature appears below hereby appoints Daniel P. Spalding and Donald J. Noskowiak, and both of them either of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and all other documents in connection therewith, with the Commission, granting unto said attorneys-in-fact and agents full power and authority to perform each and every act and thing appropriate or necessary to be done, as fully and for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

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

SIGNATURE	CAPACITY IN WHICH SIGNED	DATE
-----		
/s/ DANIEL P. SPALDING		
-----		
Daniel P. Spalding	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	July 22, 1998
/s/ DAVID J. VANDER ZANDEN		
-----		
David J. Vander Zanden	Director	July 23, 1998
/s/ DONALD J. NOSKOWIAK		
-----		
Donald J. Noskowiak	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	July 22, 1998
/s/ JONATHAN J. LEDECKY		
-----		
Jonathan J. Ledecy	Director	July 24, 1998
/s/ LEO C. MCKENNA		
-----		
Leo C. McKenna	Director	July 23, 1998
/s/ ROCHELLE LAMM WALLACH		
-----		
Rochelle Lamm Wallach	Director	July 23, 1998

INDEX TO EXHIBITS

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Navigant International, Inc., and School Specialty, Inc.

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## EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of this 15 day of July, 1998, is by and between SCHOOL SPECIALTY, INC., a Wisconsin corporation (the "Company") and DAVID VANDER ZANDEN ("Employee").

## RECITALS

The Company desires to continue to employ Employee and to have the benefit of his skills and services, and Employee desires to accept employment with the Company, on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual promises, terms, covenants and conditions set forth herein, and the performance of each, the parties hereto, intending legally to be bound, hereby agree as follows:

## AGREEMENTS

1. EMPLOYMENT AND DUTIES. The Company hereby agrees to employ the Employee and the Employee hereby accepts employment as the Chief Operating Officer of the Company and agrees to devote his full business time and efforts to the diligent and faithful performance of his duties as Chief Operating Office hereunder under the direction of the CEO of the Company. Such duties shall be performed from headquarters in the Appleton, Wisconsin area. Through out the term of this Agreement, the Employee shall be recommended by management of the Company to its shareholders as a suitable candidate for a position on the Board of Directors of the Company.
2. TERM OF EMPLOYMENT. Unless sooner terminated as hereinafter provided, the term of the Employee's employment hereunder shall commence with and only with the date of this agreement and shall continue for a period of two (2) years. This Agreement may be terminated prior to the end of the Term in the manner provided herein. In the event that this agreement is not terminated pursuant to the terms of this Agreement, following the first year of the initial term of two (2) years and any renewal terms thereof, said agreement shall extend for successive renewal terms of two (2) years each measured from the date of renewal, unless either party shall notify the other party of their desire to not renew the term of this agreement, with said notice to be made no later than ninety (90) days prior to the expiration of the first year of the initial term of this agreement or any then effective renewal term thereof.
3. COMPENSATION. For all services rendered by Employee, the Company shall compensate Employee as follows:

Page 1 of 6

- (a) BASE SALARY. Effective on the date hereof, the base salary payable to Employee shall be Two Hundred Twenty Five Thousand Dollars (\$225,000.00) per year or such greater amount as determined from time to time by the Board of Directors of the Company (but not reviewed less frequently than on an annual basis), payable on a regular basis in accordance with the Company's standard payroll procedures, but not less than monthly. It is understood that the base salary is a minimum amount, and shall not be reduced during the term of this Agreement.
- (b) INCENTIVE BONUS. During the initial term and any extensions thereof, Employee shall be eligible to receive an incentive bonus based upon his participation in the Company's senior management bonus program as specified in Exhibit A as attached hereto. The first and last years of employment will be prorated.
- (c) PERQUISITES, BENEFITS, AND OTHER COMPENSATION. During the initial

term and any extensions thereof, Employee shall be entitled to receive all perquisites and benefits as are customarily provided by the Company to its executive employees, subject to such changes, additions, or deletions as the Company may make generally from time to time, as well as such other perquisites or benefits as may be specified from time to time by the Board or the Chief Executive Officer of the Company.

(d) STOCK OPTIONS.

The Employee shall be granted a combination of options granted under the School Specialty, Inc, 1998 Stock Incentive Plan Incentive Stock Option Agreement ("ISO") (as defined and qualified under section 422 of the Internal Revenue Code of 1986, as amended (the "Code")) and School Specialty, Inc, 1998 Stock Incentive Plan Nonqualified Stock Option Agreement ("NSO") in a total amount of 230,620 shares of common stock of the Company (the "Option Shares"). The Option Shares shall be composed of the maximum amount of shares permitted to be issued under the terms of the ISO with the balance to be issued under the terms of the NSO. The ability to purchase the Option Shares shall have the following characteristics: (i) an exercise price equal to \$15.50 per share; (ii) expiration date of June 10, 2008; (iii) fully vested when granted but with no right to exercise before June 10, 1999 (unless the Compensation Committee of the Board of Directors of the Company provides otherwise before such date); and (iv) subject to forfeiture on conditions as provided in the ISO and/or NSO documents.

4. COVENANTS AND CONDITIONS.

Page 2 of 6

- (a) The Employee will acquire information and knowledge respecting the intimate and confidential affairs of the Company in the various phases of its business. Accordingly, the Employee agrees that he shall not for the period he receives severance pay under the terms of this Employment Agreement from the Company, use for himself or disclose to any person not employed by the Company any such knowledge or information heretofore acquired or acquired during the term of this employment hereunder including but not limited to the prescribed requirements of Section 134.90 of the Wisconsin Statutes, as hereinafter amended from time to time. Nothing in this agreement shall be construed to limit or supersede the common law of torts or statutory or other protection of trade secrets where such law provides the Company with greater protections or protections for a longer duration than that provided in this section 4 of this Agreement.
- (b) The Employee agrees that all memoranda, notes, records, papers, or other documents and all copies thereof relating to the Company's operations or business, some of which may be prepared by him, and all objects associated therewith (such as models and samples) in any way obtained by him shall be the Company's property. This shall include, but is not limited to, documents and objects concerning any process, apparatus, or product manufactured, used, developed, investigated, or considered by the Company. The Employee shall not, except for Company use, copy or duplicate any of the aforementioned documents or objects, nor remove them from the Company's facilities, nor use any information concerning them except for the Company's benefit, either during his employment or thereafter. The Employee agrees that he will deliver all of the aforementioned documents and objects that may be in his possession to the Company on termination of his employment, or at any other time on the Company's request, together with his written

certification of compliance, except for those documents and objects received as a director of the Company.

5. DEATH OR DISABILITY OF THE EMPLOYEE. The Employee's employment shall terminate immediately upon his death. In the event the Employee becomes physically or mentally disabled so as to become unable, for a period of more than one hundred twenty (120) consecutive working days or for more than one hundred twenty (120) working days in the aggregate during any twelve (12) month period, to perform his duties hereunder on a substantially full-time basis, the Company may at its option terminate his employment upon not less than thirty (30) days written notice. The Company's right to terminate the Employee's employment pursuant to the preceding sentence shall cease in the event the notice of termination provided for therein shall not be given during the period of the Employee's disability or within ninety (90) days after such disability ceases. In the event of termination, the Company shall be obligated to pay the Employee's salary under paragraph 3 hereof, net of the gross amount of Long Term disability benefits received by the Employee, through the

Page 3 of 6

balance of the term of this Agreement and any then currently effective extension thereof.

6. TERMINATION AND SEVERANCE COMPENSATION. The Company reserves the right to terminate the Employee's employment under this agreement should any of the following occur:
  - (a) The Employee's commission of a felony that is an act which, in the opinion of the Board of Directors, is either abhorrent to the community or is an intentional act, which the Board of Directors considers materially damaging to the reputation of the Company or its successors or assigns.
  - (b) The Employee's breach of or failure to perform his obligations in accordance with the terms and conditions of this agreement.
  - (c) The death or disability of the Employee.

Should the term of the Employee's employment with the Company be terminated pursuant to the terms of Section 6(b), (c) and 7 herein, the Company shall pay to the Employee the Base Salary described in Section 3(a) for the balance of the then effective term of this Agreement.

7. RIGHTS AND OBLIGATIONS OF SUCCESSORS. In the event that any of the following events occur a "Change in Control" shall be deemed to occur for the purpose of this Agreement: (a) any person or group of persons acting in concert becomes the beneficial owner, directly or indirectly (excluding ownership by or through employee benefit plans), of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; (b) the Company is combined (by merger, share exchange, consolidation, or otherwise) with another corporation and as a result of such combination less than seventy five percent (75%) of the outstanding securities of the surviving or resulting corporation are owned in the aggregate by the former shareholders of the Company; or (c) any person or group of persons acting in concert obtains direct or indirect control of the Board of Directors of the Company, other than the current shareholders of the Company. The Employee shall have the right to terminate his employment under the terms of this Agreement for a period of Sixty (60) days following the Change in Control. In the event that the Employee shall not so elect to terminate this Agreement, then this agreement shall be assignable and transferable by the Company to any subsidiary or affiliate or to any subsidiary or affiliate of the Company affiliated with the Change

in Control and shall inure to the benefit of and be binding upon the Employee and his heirs and personal representatives and the Company and its successors and assigns. In the event the Employee elects to terminate employment, the Employee shall be paid through the term of this Agreement and any then currently effective extension thereof.

Page 4 of 6

8. COVENANT NOT TO COMPETE. In consideration of the employment hereunder, the Employee hereby agrees that during the term of his employment by the Company and for the period that severance pay is paid under the terms of this Agreement by the Company to the Employee, the Employee will not either directly or indirectly own, have proprietary interest (except for less than 5% of any listed company or company traded in the over-the-counter market) of any kind in, be employed by, or serve as a consultant to or in any other capacity for any firm, other than the Company and its subsidiaries, engaged in the manufacture and distribution of school supplies, equipment, furniture or other products made and distributed by the Company or any of the Company's present or future subsidiary corporations (acquired during the term of this Agreement) during the period of the Employee's employment in the area where they are engaged in business without the express written consent of the Company. The Employee agrees that a breach of the covenant contained herein will result in irreparable and continuing damage to the Company for which there will be no adequate remedy at law and in the event of any breach of such agreement, the Company shall be entitled to injunctive and such other and further relief including damages as may be proper.
9. NOTICE. All notices, demands and other communications hereunder shall be deemed to have been duly given, if delivered by hand or mailed, certified or registered mail with postage prepaid:

To the Company:	School Specialty, Inc. 1000 North Bluemound Drive P.O. Box 1579 Appleton, WI 54913-1579 Attention: Mr. Daniel P. Spalding Fax: (920) 734-6276
With a copy to:	Joseph F. Franzoi IV, Esq. Franzoi & Franzoi, S.C. 514 Racine Street Menasha, WI 54952 Fax: (920) 725-0998
To Employee:	David Vander Zanden W2810 Oakridge Drive Appleton, WI 54915

or to such other address as the person to whom notice is to be given may have specified in a notice duly given to the sender as provided herein. Such notice, request, claim, demand, waiver, consent, approval or other communication shall be deemed to have been given as of the date so delivered, telefaxed, mailed or dispatched and,

Page 5 of 6

if given by any other means, shall be deemed given only when actually received by the addressees.

10. ENTIRE AGREEMENT; AMENDMENT; WAIVER. This Agreement (including any documents referred to herein) sets forth the entire understanding of the parties hereto with respect to the subject matter contemplated hereby. Any and all previous agreements and understandings between or among the

parties regarding the subject matter hereof, whether written or oral, are superseded by this Agreement. This Agreement shall not be amended or modified except by a written instrument duly executed by each of the parties hereto. Any extension or waiver by any party of any provision hereto shall be valid only if set forth in an instrument in writing signed on behalf of such party.

11. EXPENSES. The Company will pay all fees, expenses and disbursements of their agents, representatives, accountants and counsel incurred in connection with the subject matter of this Agreement, and its enforcement.
12. GOVERNING LAW. This Agreement shall in all respects be construed according to the laws of the State of Wisconsin, without regard to its conflict of laws principles.

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

COMPANY: School Specialty, Inc.

/s/ Daniel P. Spalding

-----  
Daniel P. Spalding, Chairman and Chief  
Executive Office

EMPLOYEE:

/s/ David Vander Zanden

-----  
David Vander Zanden, Individually

EXECUTION COPY  
 Employee's Copy  
 Employer's Copy

School Specialty, Inc.  
Employment Agreement

To Jonathan J. Ledecy:

This Agreement establishes the terms of your employment with School Specialty, Inc., a Delaware corporation (the "Company"), as of June 10, 1998. This Agreement is contingent on and subject to the closing of the distribution (the "Distribution") to the U.S. Office Products Company ("USOP") stockholders of the Company's stock. If the Distribution does not close by September 30, 1998, this Agreement will have no force or effect.

**Duties** You agree to serve as a senior consultant to the Company providing strategic business advice and high level acquisition negotiations. In that capacity, you will report to the Company's senior management and its Board of Directors (the "Board"). The Board can require such reports of your activities on the Company's behalf as it reasonably deems appropriate. It can require your services to the extent consistent with your other contractual employment obligations to Consolidation Capital Corporation ("CCC"), USOP, and the other subsidiaries ("Other Spincos") of USOP whose common stock will be distributed to the USOP stockholders concurrent with the Company's stock, with the specific timing of your services to be mutually agreed. You agree to comply with the Company's generally applicable personnel policies to the extent applicable to a person working on your schedule and consistent with your obligations in this Agreement.

**Term** The term of this Agreement runs from the day following the effective date of the Distribution (the "Closing Date") through June 30, 2000, unless earlier terminated as provided in this Agreement.

**Salary** You will receive an annual salary of \$48,000 from the Closing Date, payable in accordance with the Company's payroll policies.

**Benefits** You are eligible for participation in the Company's generally applicable benefit plans and programs (including its 401(k) Plan) to the extent you satisfy their terms for participation.

**Expenses** The Company will make available to you, on an as needed and as mutually agreed basis, office space, secretarial assistance, and supplies for the direct performance of your services to the Company. It will pay or reimburse you for reasonable business expenses relating to the direct

performance of such services, subject to limits to be mutually agreed in advance, upon proper and timely substantiation.

**Options** You are receiving options for the Common Stock of the Company in consideration for services as an employee of the Company.

**Option** Your options will cover 7.5% of the Company's outstanding common stock determined as of the Distribution Date (excluding the stock under the Company's initial public offering), with no anti-dilution provisions in the event of issuance of additional

shares of common stock (other than with respect to stock splits or reverse stock splits).

Term Your option will expire ten years from the Closing Date.

Price Your option will have a per share exercise price equal to the offering price in the Company's initial public offering, or if no initial public offering commences on the Closing Date, at the fair market value of the Company's common stock, as determined under the Company's option plan, for the date of grant.

Schedule Your option will be fully vested when granted, but may not be exercised until the first anniversary of the Closing Date.

Your option will become exercisable before that first anniversary if and to the extent that the Company accelerates the exercisability of the options for substantially all management optionholders.

All unexercised portions of your options will expire if, as finally determined by a court, you violate the No Competition provision.

Disgorging Option Gain If a court finds that you violated the No Competition provision, you agree that your unexercised options are retroactively forfeited as of the date of the violation and that, if you have exercised the options since the violation began, you will promptly pay the Company any Option Gain, net of any taxes actually paid on the options. For purposes of this Agreement, the "Option Gain" per share you received on exercise of options on or after the violation is

Stock Sold for stock you have sold, the greater of (i) the spread between closing price on the date of exercise and the exercise price paid ("Exercise Spread") and (ii) the spread between the price at which you sold the stock and the exercise price paid, and

Stock Retained for stock you have retained, the greater of (i) Exercise Spread and (ii) the spread between the closing price on the date of the court's final determination and the exercise price paid.

All unexpired options will vest and be exercisable at your death.

Termination The Company can terminate your employment under this Agreement only for "cause." "Cause" means your (i) conviction of or guilty or nolo contendere plea to a felony demonstrably and materially injurious to the Company's business, and resulting in a sentence of imprisonment, or (ii), as finally determined by a court, violation of the No Competition provision as it applies to the Company, provided that the Company will give you 10 days to resolve the violation before attempting to invoke this termination provision. For a termination under (ii), you agree to repay any salary you received from the Company between the date of the violation and the date of the court's determination.

Severance If your employment ends because you resign or are properly terminated for cause, you will not receive severance or termination pay and your salary will end. Except to the extent the law or the terms of an applicable plan requires otherwise, neither you nor your beneficiary or estate will have any rights or claims under this Agreement or otherwise to receive severance or any other compensation or to participate in any other plan,

arrangement, or benefit, after your termination of employment, other than with respect to your options.

No Competition Consistent with certain of your prior obligations to USOP, you will not, until after the end of the Restricted Period, for any reason whatsoever, directly or indirectly, for yourself or on behalf of or in conjunction with any other person, persons, company, partnership, corporation, or business of whatever nature:

Competition (i) engage, as an officer, director, shareholder, owner, partner, joint venturer, or in a managerial capacity, whether as an employee, independent contractor, consultant, or advisor, or as a sales representative, in any business (other than an Excluded Business, as defined below) selling any products or services in direct competition with the Company within 100 miles of where the Company or where any of the Company's subsidiaries or affiliates regularly maintains any of its or their offices with employees (the "Territory"), where "products or services" are determined for this clause with respect to products or services offered on or before January 13, 1998 by the Company and/or any of its subsidiaries or the predecessor companies combined to form the Company in

connection with Distribution and where the geographic limitation is determined with reference to the Company and its subsidiaries and not to USOP or the other Spincos (e.g., competition with respect to the Company is determined by reference to the location where the Company or its subsidiary has an office with employees and not to the locations of offices of other Spincos);

Employees (ii) call upon any person who is, at that time, within the Territory, an employee of the Company (including the respective subsidiaries and/or affiliates thereof) in a managerial capacity for the purpose or with the intent of enticing such employee away from or out of the Company's employ (including the respective subsidiaries and/or affiliates thereof) other than a member of your immediate family; or

Customers (iii) call upon any person or entity that is, at that time, or that has been, within one year prior to that time, a customer of the Company (including the respective subsidiaries and/or affiliates thereof) within the Territory for the purpose of soliciting or selling products or services in direct competition with the Company (including the respective subsidiaries and/or affiliates thereof) within the Territory other than on behalf of an Excluded Business.

For purposes of this Agreement, the "Restricted Period" ends, on the later of the second anniversary of the Closing Date and the date one year after you leave employment with the Company and its subsidiaries and affiliates.

For purposes of this Agreement, the "Excluded Businesses" are the following:

(i) any electrical contracting business that, at the time of its creation or acquisition and at all later times, derives more than 50% of its revenues from electrical contracting and maintenance services,



without regard to whether it would otherwise violate the No Competition clause because it is also engaged in a business directly competitive with the Aztec Technology Partners, Inc. or any of its subsidiaries (together, "Aztec"), provided that this exclusion does not permit the business to engage in any of the lines of business described under "Consulting and Engineering Services," "Systems and Network Design and Implementation Services," and "Software Development and Implementation Services" in the Aztec Form S-1 filed on June 3, 1998 (the

"Aztec Specified Businesses") other than as provided under (ii) or (vi) in the Excluded Businesses;

(ii) any business whose revenue from activities that compete with Aztec and its subsidiaries, at the time of the business's creation or acquisition and at all later times, is less than \$15 million per year, provided that this exclusion does not permit the business to engage in the Aztec Specified Businesses other than (i) as provided under (vi) in the Excluded Businesses or (ii) through the pending CCC acquisitions of National Network Systems in Denver, Colorado and of Chambers Electronics Communications in Phoenix, Arizona;

(iii) any business engaged, and only to the extent it is so engaged, in computer monitoring for facilities management;

(iv) any business engaged, and only to the extent that it is so engaged, in the business of selling, supplying, or distributing janitorial or sanitary products or services;

(v) any business engaged, and only to the extent it is so engaged, in the managing or servicing of office equipment (other than computers);

(vi) any business engaged, and only to the extent it is so engaged, in providing internet access services and activities supportive of such services;

(vii) UniCapital Corporation's business as described in its prospectus as of the date of this Agreement; and

(viii) U.S. Marketing Services, Inc.'s ("USM") shelf-stocking and merchandising, point of purchase display creation, and incentive marketing businesses, as described in its registration statement filed on the date of this Agreement, so long as you are solely an investor in USM and not an officer, director, or employee of, or consultant to, USM; provided, however, that your service as a director will not violate the foregoing requirement as long as you cease to be a director no later than the 90th day after the effective date of the registration of USM's initial public offering;

provided, that in each case you are engaged in such business

only in a policy making role and not in the entity's business in a manner that would involve you in direct personal competition with the Company (and its subsidiaries), provided further that this proviso does not prevent your activities in furtherance of acquisitions of Excluded Businesses, and provided further that you will comply with your fiduciary duties as a director of the Company in connection with the Excluded Businesses.

To the extent permitted by your obligations to the relevant Excluded Business, as an employee and/or director of the Company (or its subsidiaries), you will inform the relevant entity of any opportunities for it associated with any of the Excluded Businesses.

In addition to (and not in lieu of) the restriction contained in the Employees clause above, you agree that, during the period that the restrictions contained in this No Competition provision remain in effect, and so long as you are employed by, or otherwise affiliated with, CCC, you will not, directly or indirectly, offer employment with CCC to, or otherwise allow CCC to employ, any person who

is employed by the Company or a subsidiary of the Company at the time; or

was so employed by the Company or a subsidiary of the Company within one year prior to such time.

Notwithstanding the above, the foregoing covenant shall not be deemed to prohibit you from acquiring capital stock in CCC or any Excluded Business or serving as an officer, director or employee or consultant to CCC, or acquiring as an investment not more than 4.9% of the capital stock of a competing business, whose stock is traded on a national securities exchange or over-the-counter, provided that such actions do not otherwise breach your obligations hereunder; and provided further that actions of CCC after you have ceased to be a director, officer, and employee of CCC will not constitute a breach of this covenant, despite your continued stock ownership, so long as you are not then directly assisting any competitive actions.

Because of the difficulty of measuring economic losses to the Company as a result of a breach of the foregoing covenant, and because of the immediate and irreparable damage that could be caused to the Company for which it would have no other adequate remedy, you agree that the

Company may enforce the No Competition provisions by injunctions and restraining orders.

You and the Company agree that you will not be in violation of the No Competition provisions by virtue of your investment in or other relationship to USOP, any of the Spincos, or their respective subsidiaries, even if one of those entities engages in direct competition with another. You and the Company agree that CCC's acquisition or retention of Wilson Electric Company, Inc. ("Wilson") and Wilson's engaging in any lines of business in place as of the Closing Date do not violate the No Competition provision.

You and the Company agree that the No Competition provisions

impose a reasonable restraint on you in light of the Company's activities and business (including the Company's subsidiaries and/or affiliates) on the date of the execution of this Agreement.

The Company agrees to consider reasonably and within two weeks of receipt any requests you make for a waiver from the No Competition provisions for a particular acquisition.

You and the Company further agree that, if you enter into a business or pursue other activities not in competition with the Company (including the Company's subsidiaries), or similar activities or business in locations the operation of which, under such circumstances, does not violate the Competition clause of this No Competition provision, and in any event such new business, activities, or location is not in violation of this No Competition provision or of your obligations under this No Competition provision, if any, you will not be chargeable with a violation of this provision if the Company (including the Company's subsidiaries) shall thereafter enter the same, similar, or a competitive (i) business, (ii) course of activities, or (iii) location, as applicable.

The covenants in this No Competition provision are severable and separate, and the unenforceability of any specific covenant does not affect the provisions of any other covenant. Moreover, if any court of competent jurisdiction shall determine that the scope, time, or territorial restrictions set forth are unreasonable, then it is the intention of the parties that such restrictions be enforced to the fullest extent which the court deems reasonable, and the Agreement shall thereby be reformed.

All of the covenants in this No Competition provision shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action by you against the

Company, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants. It is specifically agreed that the Restricted Period, during which your agreements and covenants made in this provision shall be effective, is computed by excluding from such computation any time during which you are in violation of any provision of the No Competition provision.

Notwithstanding any of the foregoing, if any applicable law reduces the time period during which you are prohibited from engaging in any competitive activity described in this provision, you agree that the period for prohibition shall be the maximum time permitted by law.

You specifically agree that USOP and the Company have provided you with sufficient consideration for the enforcement of the No Competition obligations for the Restricted Period and for the assumption of such benefits by the Company. You specifically consent to USOP's assignment to the Company of the right to enforce the No Competition provisions of the Amended Ledecy Services Agreement, as those provisions are incorporated in this Agreement.

Other  
Employment

The Company acknowledges that you are also employed by CCC, USOP, and the Other Spincos, and agrees that such dual

employment does not breach this Agreement, unless and to the extent that you thereby violate the No Competition provisions.

Return of  
Company  
Property

All records, designs, patents, business plans, financial statements, manuals, memoranda, lists and other property delivered to or compiled by you by or on behalf of the Company (including the respective subsidiaries thereof) or their representatives, vendors, or customers that pertain to the business of the Company (including the respective subsidiaries thereof) shall be and remain the property of the Company, and be subject at all times to its discretion and control. Likewise, you will make reasonably available at the Company's request during business hours all correspondence, reports, records, acquisition materials, charts, advertising materials and other similar data pertaining to the business, activities, or future plans of the Company that you have collected or obtained.

Trade Secrets

You agree that you will not, during or after the term of this Agreement with the Company, disclose the specific terms of the Company's (including the respective subsidiaries thereof) relationships or agreements with its or their respective significant vendors or customers or any other significant and material trade secret of the Company (including the respective subsidiaries thereof) whether in existence or proposed, to any

person, firm, partnership, corporation or business for any reason or purpose whatsoever. For CCC or any other businesses with which you are affiliated or in which you are a stockholder, you may reach agreement on comparable terms with significant vendors to the Company, so long as you do not provide copies of or otherwise disclose the specific terms of the Company's relationships or agreements.

Indemnification

If you are made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by the Company against you), by reason of the fact that you are or were performing services under this Agreement then the Company must indemnify you against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, as actually and reasonably incurred by you in connection therewith to the fullest extent provided by Delaware law and in accordance with the Company's Bylaws.

No Prior  
Agreements

You hereby represent and warrant to the Company that your execution of this Agreement, your services to the Company, and the performance of your agreements hereunder will not violate or be a breach of any agreement with a former or current employer, client, or any other person or entity. Further, you agree to indemnify the Company for any claim, including, but not limited to, attorneys' fees and expenses of investigation, by any such third party that such third party may now have or may hereafter come to have against the Company based upon or arising out of any non-competition agreement, invention, or secrecy agreement between you and such third party that was in existence as of the date of this Agreement.

Complete  
Agreement

This Agreement is not a promise of future employment. You have no oral representations, understandings, or agreements

with the Company or any of its officers, directors, or representatives covering the same subject matter as this Agreement. This written Agreement is the final, complete, and exclusive statement and expression of the agreement between the Company and you with respect to all the terms of this Agreement, and it cannot be varied, contradicted, or supplemented by evidence of any prior or contemporaneous oral or written agreements. This written Agreement may not be later modified except by a further writing signed by a duly authorized officer of the Company and you, and no term of this Agreement may be waived except by writing signed by the party waiving the benefit of such term.

Notice

Whenever any notice is required hereunder, it shall be given in writing addressed as follows:

To the Company: School Specialty, Inc.  
Attention: Chief Executive Officer  
1000 North Bluemond Drive  
Appleton, Wisconsin 54914

To Employee: Jonathan J. Ledecy  
1400 34th St., N.W.  
Washington, D.C. 20007

Notice shall be deemed given and effective three days after the deposit in the U.S. mail of a writing addressed as above and sent first class mail, certified, return receipt requested, or when actually received. Either party may change the address for notice by notifying the other party of such change in accordance with this Notice provision.

Severability

If any portion of this Agreement is held invalid or inoperative, the other portions of this Agreement shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the portion held invalid or inoperative. This severability provision shall be in addition to, and not in place of, the comparable provisions in the No Competition provision.

Governing Law

This Agreement shall in all respects be construed according to the laws of the State of Delaware, other than those relating to conflicts of laws. Any decision as to breaches of this Agreement or any provision herein shall be made pursuant to a final, nonappealable decision of a court.

Binding Effect and Assignment

This Agreement binds and benefits the Company, each of its successors or assigns, and your heirs and the personal representatives of your estate. Without the Company's prior written consent, you may not assign or delegate this Agreement or any or all rights, duties, obligations, or interests under it.

Superseding Effect

Contingent upon the Closing and effective only in that event, this Agreement supersedes any prior oral or written employment or severance agreements between you and the Company (specifically excluding your options to purchase Company stock). Except as set forth above, this Agreement supersedes all prior or contemporaneous negotiations,

commitments, agreements, and writings with respect to the subject matter of this Agreement. All such other negotiations, commitments, agreements, and writings will have no further force or effect; and the parties to any such other negotiation, commitment, agreement, or writing will have no further rights or obligations thereunder.

Negotiated  
Agreement

You agree that you have consulted with counsel of your own selection and have negotiated the terms of this Agreement with the Company. You and the Company agree that this Agreement should not be construed against either party as the "drafter."

SCHOOL SPECIALTY, INC.

Date: June 9, 1998  
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By: /s/ Daniel P. Spalding  
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Daniel P. Spalding  
Chief Executive Officer

I agree to and accept these terms, specifically including the assignment of the No Competition provision.

Date: June 9, 1998  
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/s/ Jonathan J. Ledecy  
-----  
Jonathan J. Ledecy

SCHOOL SPECIALTY, INC.  
1998 STOCK INCENTIVE PLAN

PURPOSE

SCHOOL SPECIALTY, INC., a Delaware corporation (the "COMPANY"), wishes to recruit, reward, and retain employees and outside directors. To further these objectives, the Company hereby sets forth the School Specialty, Inc. 1998 Stock Incentive Plan (the "PLAN") to provide options ("OPTIONS") or direct grants ("STOCK GRANTS" and, together with the Options, "AWARDS") to employees and outside directors with respect to shares of the Company's common stock (the "COMMON STOCK"). The Plan is effective as of the effective date (the "EFFECTIVE DATE") of the Company's registration under Section 12 of the Securities Exchange Act of 1934 (the "EXCHANGE ACT") with respect to its initial public offering ("IPO").

PARTICIPANTS

All Employees of the Company and any Eligible Subsidiaries are eligible for Options and Stock Grants under this Plan, as are the directors of the Company and the Eligible Subsidiaries who are not employees ("ELIGIBLE DIRECTORS"). Eligible employees and directors become "OPTIONEES" when the Administrator grants them an option under this Plan or "RECIPIENTS" when they receive a direct grant of Common Stock. (Optionees and recipients are referred to collectively as "PARTICIPANTS." The term PARTICIPANT also includes, where appropriate, a person authorized to exercise an Award in place of the original optionee.) The Administrator may also grant Options or make Stock Grants to consultants and other service providers.

EMPLOYEE means any person employed as a common law employee of the Company or an Eligible Subsidiary.

ADMINISTRATOR

The ADMINISTRATOR will be the Compensation Committee of the Board of Directors of the Company (the "COMPENSATION COMMITTEE"), unless the board specifies another committee. The Board may also act under the Plan as though it were the Compensation Committee. The Board of Directors of U.S. Office Products Company ("U.S. OFFICE PRODUCTS"), directly or through a committee of directors, may act as Administrator before U.S. Office Products distributes the Common Stock to U.S. Office Products' stockholders (the "DISTRIBUTION").

The Administrator is responsible for the general operation and administration of the Plan and for carrying out its provisions and has full discretion in interpreting and administering the provisions of the Plan. Subject to the express provisions of the Plan, the Administrator may exercise such powers and authority of the Board as the Administrator may find necessary or appropriate to carry out its functions. The Administrator may delegate its functions (other than those described in the GRANTING OF AWARDS section) to officers or other employees of the Company.

The Administrator's powers will include, but not be limited to, the power to amend, waive, or extend any provision or limitation of any Award. The Administrator may act through meetings of a majority of its members or by unanimous consent.

GRANTING OF AWARDS

Subject to the terms of the Plan, the Administrator will, in its sole discretion, determine

the participants who receive Awards,

the terms of such Awards,

the schedule for exercisability or nonforfeitability (including any requirements that the participant or the Company satisfy performance criteria),

the time and conditions for expiration of the Award, and

the form of payment due upon exercise, if any.

The Administrator's determinations under the Plan need not be uniform and need not consider whether possible participants are similarly situated.

Options granted to employees may be nonqualified stock options ("NQSOS") or "incentive stock options" ("ISOS") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended from time to time (the "CODE"), or the corresponding provision of any subsequently enacted tax statute. Options granted to Eligible Directors, including Formula Options, must be NQSOS. The Administrator will not grant ISOs unless the stockholders either have already approved the granting of ISOs or give such approval within 12 months after the grant.

The Administrator may impose such conditions on or charge such price for the Stock Grants as it deems appropriate.

SUBSTITUTIONS. The Administrator may also grant awards in substitution for options or other equity interests held by individuals (i) as a result of their employment by or services to U.S. Office Products before the Distribution or (ii) who become Employees of the Company or of an Eligible Subsidiary as a result of the Company's acquiring or merging with the individual's employer or acquiring its assets. If necessary to conform the Awards to the interests for which they are substitutes, the Administrator may grant substitute Awards under terms and conditions that vary from those the Plan otherwise requires. Awards in substitution for U.S. Office Products' options in connection with the Distribution will retain their pre-Distribution exercise schedule and terms (including Change of Control provisions) and expiration date.

#### DIRECTOR FORMULA OPTIONS

Each Eligible Director will receive a formula stock option ("FORMULA OPTION") as of the Effective Date with respect to 15,000 shares of Common Stock, as will each Eligible Director later appointed or elected to the Board (with the grant made as of the date of his first election or appointment). Each Eligible Director serving on the Board at each annual meeting of the Company's shareholders (beginning with the meeting at least six months after the Effective Date of the IPO) will receive a Formula Option as of that meeting with respect to 5,000 shares of Common Stock. The Exercise Price for Formula Options will be the Fair Market Value on the Date of Grant.

EXERCISE SCHEDULE Unless the Administrator specifies otherwise, each Formula Option will become exercisable as to 20% of the covered shares on the first anniversary of its Date of Grant, an additional 30% on the second anniversary, and the remaining 50% on or after the third anniversary. A Formula Option will become exercisable in its entirety upon the director's death, disability, or attainment of age 70. Options will be forfeited to the extent they are not then exercisable if a director resigns or fails to be reelected as a director.

#### DATE OF GRANT

The DATE OF GRANT will be the date as of which this Plan or the Administrator grants an Award to a participant, as specified in the Plan or in the Administrator's minutes.

#### EXERCISE PRICE

The EXERCISE PRICE is the value of the consideration that a participant must provide in exchange for one share of Common Stock. The Administrator will



determine the Exercise Price under each Award and may

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set the Exercise Price without regard to the Exercise Price of any other Awards granted at the same or any other time. The Company may use the consideration it receives from the participant for general corporate purposes.

The Exercise Price per share for NQSOs may not be less than 100% of the Fair Market Value of a share on the Date of Grant. If an Option is intended to be an ISO, the Exercise Price per share may not be less than 100% of the Fair Market Value (on the Date of Grant) of a share of Common Stock covered by the Option; PROVIDED, HOWEVER, that if the Administrator decides to grant an ISO to someone covered by Sections 422(b)(6) and 424(d) (as a more-than-10%-stock-owner), the Exercise Price of the Option must be at least 110% of the Fair Market Value (on the Date of Grant).

The Administrator may satisfy any state law requirements regarding adequate consideration for Stock Grants by (i) issuing Common Stock held as treasury stock or (ii) charging the recipients at least the par value for the shares covered by the Stock Grant. The Administrator may designate that a recipient may satisfy (ii) either by direct payments or by the Administrator's withholding from other payments due to the recipient.

#### FAIR MARKET VALUE

FAIR MARKET VALUE OF A SHARE OF COMMON STOCK FOR PURPOSES OF THE PLAN WILL BE DETERMINED AS FOLLOWS:

if the Common Stock trades on a national securities exchange, the closing sale price on that date;

if the Common Stock does not trade on any such exchange, the closing sale price as reported by the National Association of Securities Dealers, Inc. Automated Quotation System ("Nasdaq") for such date;

if no such closing sale price information is available, the average of the closing bid and asked prices that Nasdaq reports for such date; or

if there are no such closing bid and asked prices, the average of the closing bid and asked prices as reported by any other commercial service for such date.

For any date that is not a trading day, the Fair Market Value of a share of Common Stock for such date shall be determined by using the closing sale price or the average of the closing bid and asked prices, as appropriate, for the immediately preceding trading day.

The Fair Market Value will be deemed equal to the IPO price for any Options granted as of the date on which the IPO's underwriters price the IPO or granted on the following day before trading opens in the Common Stock.

#### EXERCISABILITY

The Administrator will determine the times and conditions for the exercise of or purchase under each Award but may not extend the period for exercise beyond the tenth anniversary of its Date of Grant (or five years for ISOs granted to 10% owners covered by Code Sections 422(b)(6) and 424(d)).

Awards will become exercisable at such times and in such manner as the Administrator determines and the Award agreement, if any, indicates; PROVIDED, HOWEVER, that the Administrator may, on such terms and conditions as it determines appropriate, accelerate the time at which the participant may exercise any portion of an Award or at which restrictions on Stock Grants lapse. For Stock Grants, "exercise" refers to acceptance of the Award or lapse of restrictions, as appropriate in context.

If the Administrator does not specify otherwise, Options will become exercisable and restrictions on Stock Grants will lapse as to one-fourth of the covered shares on each of the first four anniversaries of the Date of Grant.

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No portion of an Award that is unexercisable at a participant's termination of employment will thereafter become exercisable, unless the Award Agreement provides otherwise, either initially or by amendment.

#### CHANGE OF CONTROL

Upon a Change of Control (as defined below), all Options held by current Employees and directors will become fully exercisable and all restrictions on Stock Grants will lapse. A CHANGE OF CONTROL for this purpose means the occurrence, after the Company's IPO, of any one or more of the following events:

a person, entity, or group (other than the Company, any Company subsidiary, any Company benefit plan, or any underwriter temporarily holding securities for an offering of such securities) acquires ownership of more than 50% of the undiluted total voting power of the Company's then-outstanding securities eligible to vote to elect members of the Board ("COMPANY VOTING SECURITIES");

consummation of a merger or consolidation of the Company into any other entity--unless the holders of the Company Voting Securities outstanding immediately before such consummation, together with any trustee or other fiduciary holding securities under a Company benefit plan, hold securities that represent immediately after such merger or consolidation at least 50% of the combined voting power of the then outstanding voting securities of either the Company or the other surviving entity or its parent; or

the stockholders of the Company approve (i) a plan of complete liquidation or dissolution of the Company or (ii) an agreement for the Company's sale or disposition of all or substantially all the Company's assets, AND such liquidation, dissolution, sale, or disposition is consummated.

Even if other tests are met, a Change of Control has not occurred under any circumstance in which the Company files for bankruptcy protection or is reorganized following a bankruptcy filing.

The ADJUSTMENT UPON CHANGES IN CAPITAL STOCK provisions will also apply if the Change of Control is a SUBSTANTIAL CORPORATE CHANGE (as defined in those provisions).

#### LIMITATION ON ISOS

An Option granted to an employee will be an ISO only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the stock with respect to which ISOs are exercisable for the first time by the optionee during any calendar year (under the Plan and all other plans of the Company and its subsidiary corporations, within the meaning of Code Section 422(d)), does not exceed \$100,000. This limitation applies to Options in the order in which such Options were granted. If, by design or operation, the Option exceeds this limit, the excess will be treated as an NQSO.

#### METHOD OF EXERCISE

To exercise any exercisable portion of an Award, the participant must:

Deliver a written notice of exercise to the Secretary of the Company (or to whomever the Administrator designates), in a form complying with any rules the Administrator may issue, signed by the participant, and specifying the number of shares of Common Stock underlying the portion of the Award the participant is

exercising;

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Pay the full Exercise Price, if any, by cashier's or certified check for the shares of Common Stock with respect to which the Award is being exercised, unless the Administrator consents to another form of payment (which could include the use of Common Stock); and

Deliver to the Administrator such representations and documents as the Administrator, in its sole discretion, may consider necessary or advisable.

Payment in full of the Exercise Price need not accompany the written notice of exercise provided the notice directs that the stock certificates for the shares issued upon the exercise be delivered to a licensed broker acceptable to the Company as the agent for the individual exercising the option and at the time the stock certificates are delivered to the broker, the broker will tender to the Company cash or cash equivalents acceptable to the Company and equal to the Exercise Price.

If the Administrator agrees to allow an optionee to pay through tendering Common Stock to the Company, the individual can only tender stock he has held for at least six months at the time of surrender. Shares of stock offered as payment will be valued, for purposes of determining the extent to which the participant has paid the Exercise Price, at their Fair Market Value on the date of exercise. The Administrator may also, in its discretion, accept attestation of ownership of Common Stock and issue a net number of shares upon Option exercise.

#### AWARD EXPIRATION

No one may exercise an Award more than ten years after its Date of Grant (or five years, for an ISO granted to a more-than-10% shareholder). Unless the Award Agreement provides otherwise, either initially or by amendment, no one may exercise an Award after the first to occur of:

**EMPLOYMENT TERMINATION** The 90th day after the date of termination of employment (other than for death or Disability), where termination of employment means the time when the employer-employee or other service-providing relationship between the employee and the Company ends for any reason, including retirement. Unless the Award Agreement provides otherwise, termination of employment does not include instances in which the Company immediately rehires a common law employee as an independent contractor. The Administrator, in its sole discretion, will determine all questions of whether particular terminations or leaves of absence are terminations of employment;

**DISABILITY** For disability, the earlier of (i) the first anniversary of the participant's termination of employment for disability and (ii) 30 days after the participant no longer has a disability, where "DISABILITY" means the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve months; or

**DEATH** The date 24 months after the participant's death.

If exercise is permitted after termination of employment, the Award will nevertheless expire as of the date that the former service provider violates any covenant not to compete in effect between the Company and the former employee. In addition, an optionee who exercises an Option more than 90 days after termination of employment with the Company and/or the Eligible Subsidiaries will only receive ISO treatment to the extent permitted by law, and becoming or remaining an employee of another related company (that is not an Eligible Subsidiary) or an independent contractor to the Company will not prevent loss of ISO status because of the formal termination of employment.

Nothing in this Plan extends the term of an Award beyond the tenth anniversary of its Date of Grant, nor does anything in this AWARD EXPIRATION

section make an Award exercisable that has not otherwise become exercisable.

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#### AWARD AGREEMENT

Award Agreements will set forth the terms of each Award and will include such terms and conditions, consistent with the Plan, as the Administrator may determine are necessary or advisable. To the extent the agreement is inconsistent with the Plan, the Plan will govern. The Award Agreements may contain special rules. The Administrator may, but is not required to, issue agreements for Stock Grants.

#### STOCK SUBJECT TO PLAN

Except as adjusted below under CORPORATE CHANGES, the aggregate number of shares of Common Stock that may be issued under the Awards (whether ISOs, NQSOs, or Stock Grants) may not exceed 20% percent of the total number of shares of Common Stock outstanding, determined immediately after the grant of the Award;

the maximum number of shares that may be subject to ISOs may not exceed 600,000;

and the maximum number of shares that may be granted under Awards for a single individual in a calendar year may not exceed 1,200,000. (The individual maximum applies only to Awards first made under this Plan and not to Awards made in substitution of a prior employer's options or other incentives, except as Code Section 162(m) otherwise requires.)

The Common Stock will come from either authorized but unissued shares or from previously issued shares that the Company reacquires, including shares it purchases on the open market. If any Award expires, is canceled, or terminates for any other reason, the shares of the Common Stock available under that Award will again be available for the granting of new Awards (but will be counted against that calendar year's limit for a given individual).

No adjustment will be made for a dividend or other right for which the record date precedes the date of exercise.

The participant will have no rights of a stockholder with respect to the shares of stock subject to an Award except to the extent that the Company has issued certificates for, or otherwise confirmed ownership of, such shares upon the exercise of the Award.

The Company will not issue fractional shares pursuant to the exercise of an Award, but the Administrator may, in its discretion, direct the Company to make a cash payment in lieu of fractional shares.

#### PERSON WHO MAY EXERCISE

During the participant's lifetime, only the participant or his duly appointed guardian or personal representative may exercise the Awards. After his death, his personal representative or any other person authorized under a will or under the laws of descent and distribution may exercise any then exercisable portion of an Award. If someone other than the original recipient seeks to exercise any portion of an Award, the Administrator may request such proof as it may consider necessary or appropriate of the person's right to exercise the Award.

#### ADJUSTMENTS UPON CHANGES IN CAPITAL STOCK

Subject to any required action by the Company (which it shall promptly take) or its stockholders, and subject to the provisions of applicable corporate law, if, after the Date of Grant of an Award,

the outstanding shares of Common Stock increase or decrease or change into or are exchanged for a different number or kind of

security because of any recapitalization, reclassification, stock split, reverse stock split, combination of shares, exchange of shares, stock dividend, or other distribution payable in capital stock, or

some other increase or decrease in such Common Stock occurs without the Company's receiving consideration, the Administrator may make a proportionate and appropriate adjustment in the number of shares of Common Stock underlying each Award, so that proportionate interest of the participant immediately following such event will, to the extent practicable, be the same as immediately before such event. (This

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adjustment does not apply to Common Stock that the optionee has already purchased nor to Stock Grants that are already nonforfeitable, except to the extent of similar treatment for most stockholders.) Unless the Administrator determines another method would be appropriate, any such adjustment to an Award will not change the total price with respect to shares of Common Stock underlying the unexercised portion of the Award but will include a corresponding proportionate adjustment in the Award's Exercise Price.

The Administrator will make a commensurate change to the maximum number and kind of shares provided in the Stock Subject to Plan section.

Any issue by the Company of any class of preferred stock, or securities convertible into shares of common or preferred stock of any class, will not affect, and no adjustment by reason thereof will be made with respect to, the number of shares of Common Stock subject to any Award or the Exercise Price except as this ADJUSTMENTS section specifically provides. The grant of an Award under the Plan will not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or to consolidate, or to dissolve, liquidate, sell, or transfer all or any part of its business or assets.

#### SUBSTANTIAL CORPORATE CHANGE

Upon a SUBSTANTIAL CORPORATE CHANGE, the Plan and any unexercised Awards will terminate unless provision is made in writing in connection with such transaction for

the assumption or continuation of outstanding Awards, or

the substitution for such options or grants of any options or grants covering the stock or securities of a successor employer corporation, or a parent or subsidiary of such successor, with appropriate adjustments as to the number and kind of shares of stock and prices, in which event the Awards will continue in the manner and under the terms so provided.

Unless the Board determines otherwise, if an Award would otherwise terminate under the preceding sentence, participants who are then employees or directors of the Company will have the right, at such time before the consummation of the transaction causing such termination as the Board reasonably designates, to exercise any unexercised portions of the Award, whether or not they had previously become exercisable. However, unless the Board determines otherwise, the acceleration will not occur if it would render unavailable "pooling of interest" accounting for any reorganization, merger, or consolidation of the Company.

A SUBSTANTIAL CORPORATE CHANGE means the

dissolution or liquidation of the Company,

merger, consolidation, or reorganization of the Company with one or more corporations in which the Company is not the surviving corporation,

the sale of substantially all of the assets of the Company to another corporation, or

any transaction (including a merger or reorganization in which the Company survives) approved by the Board that results in any person or entity (other than any affiliate of the Company as defined in Rule 144(a)(1) under the Securities Act, any Company Subsidiary, any Company benefit plan, or any underwriter temporarily holding securities for an offering of such securities) owning 100% of the combined voting power of all classes of stock of the Company.

#### SUBSIDIARY EMPLOYEES

Employees of Company Subsidiaries will be entitled to participate in the Plan, except as otherwise designated by the Board of Directors or the Committee.

Eligible Subsidiary means each of the Company's Subsidiaries, except as the Board otherwise specifies. For ISO grants, SUBSIDIARY means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time an ISO is granted to a Participant under the Plan, each corporation (other than the last corporation in the unbroken chain) owns stock possessing 50% or more of the total combined voting power of all classes of stock in another corporation in such chain. For ISO purposes, SUBSIDIARY also includes a single-member limited liability company included

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within the chain described in the preceding sentence. For NQSOs, the Board or the Administrator can use a different definition of Subsidiary in its discretion.

#### LEGAL COMPLIANCE

The Company will not issue any shares of Common Stock under an Award until all applicable requirements imposed by Federal and state securities and other laws, rules and regulations, and by any applicable regulatory agencies or stock exchanges, have been fully met. To that end, the Company may require the participant to take any reasonable action to comply with such requirements before issuing such shares. No provision in the Plan or action taken under it authorizes any action that is otherwise prohibited by Federal or state laws.

The Plan is intended to conform to the extent necessary with all provisions of the Securities Act of 1933 ("SECURITIES ACT") and the Securities Exchange Act of 1934 and all regulations and rules the Securities and Exchange Commission issues under those laws. Notwithstanding anything in the Plan to the contrary, the Administrator must administer the Plan, and Awards may be granted and exercised, only in a way that conforms to such laws, rules, and regulations. To the extent permitted by applicable law, the Plan and any Awards will be deemed amended to the extent necessary to conform to such laws, rules, and regulations.

#### PURCHASE FOR INVESTMENT AND OTHER RESTRICTIONS

Unless a registration statement under the Securities Act covers the shares of Common Stock a participant receives upon exercise of his Award, the Administrator may require, at the time of such exercise or receipt of a grant, that the participant agree in writing to acquire such shares for investment and not for public resale or distribution, unless and until the shares subject to the Award are registered under the Securities Act. Unless the shares are registered under the Securities Act, the participant must acknowledge:

that the shares purchased on exercise of the Award are not so registered,

that the participant may not sell or otherwise transfer the shares

unless

the shares have been registered under the Securities Act in connection with the sale or transfer thereof, or

counsel satisfactory to the Company has issued an opinion satisfactory to the Company that the sale or other transfer of such shares is exempt from registration under the Securities Act, and

such sale or transfer complies with all other applicable laws, rules, and regulations, including all applicable Federal and state securities laws, rules, and regulations.

Additionally, the Common Stock, when issued upon the exercise of an Award, will be subject to any other transfer restrictions, rights of first refusal, and rights of repurchase set forth in or incorporated by reference into other applicable documents, including the Company's articles or certificate of incorporation, by-laws, or generally applicable stockholders' agreements.

The Administrator may, in its sole discretion, take whatever additional actions it deems appropriate to comply with such restrictions and applicable laws, including placing legends on certificates and issuing stop-transfer orders to transfer agents and registrars.

#### TAX WITHHOLDING

The participant must satisfy all applicable Federal, state, and local income and employment tax withholding requirements before the Company will deliver stock certificates upon the exercise of an Award. The Company may decide to satisfy the withholding obligations through additional withholding on

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salary or wages. If the Company does not or cannot withhold from other compensation, the participant must pay the Company, with a cashier's check or certified check, the full amounts required by withholding. Payment of withholding obligations is due before the Company issues shares with respect to the Award. If the Administrator so determines, the participant may instead satisfy the withholding obligations by directing the Company to retain shares from the Award exercise, by tendering previously owned shares, or by attesting to his ownership of shares (with the distribution of net shares).

#### TRANSFERS, ASSIGNMENTS, AND PLEDGES

Unless the Administrator otherwise approves in advance in writing for estate planning or other purposes, an Award may not be assigned, pledged, or otherwise transferred in any way, whether by operation of law or otherwise or through any legal or equitable proceedings (including bankruptcy), by the participant to any person, except by will or by operation of applicable laws of descent and distribution. If Rule 16b-3 then applies to an Award, the participant may not transfer or pledge shares of Common Stock acquired under a Stock Grant or upon exercise of an Option until at least six months have elapsed from (but excluding) the Date of Grant, unless the Administrator approves otherwise in advance in writing. The Administrator may, in its discretion, expressly provide that a participant may transfer his Award without receiving consideration to (i) members of his immediate family (children, grandchildren, or spouse); (ii) trusts for the benefit of such family members; or (iii) partnerships where the only partners are such family members.

#### AMENDMENT OR TERMINATION OF PLAN AND OPTIONS

The Board may amend, suspend, or terminate the Plan at any time, without the consent of the participants or their beneficiaries; PROVIDED, HOWEVER, that no amendment will deprive any participant or beneficiary of any previously declared Award. Except as required by law or by the CORPORATE CHANGES section, the Administrator may not, without the participant's or beneficiary's consent, modify the terms and conditions of an Award so as to adversely affect the participant. No amendment, suspension, or termination of the Plan will, without

the participant's or beneficiary's consent, terminate or adversely affect any right or obligations under any outstanding Awards.

#### PRIVILEGES OF STOCK OWNERSHIP

No participant and no beneficiary or other person claiming under or through such participant will have any right, title, or interest in or to any shares of Common Stock allocated or reserved under the Plan or subject to any Award except as to such shares of Common Stock, if any, already issued to such participant.

#### EFFECT ON OTHER PLANS

Whether exercising or receiving an Award causes the participant to accrue or receive additional benefits under any pension or other plan is governed solely by the terms of such other plan.

#### LIMITATIONS ON LIABILITY

Notwithstanding any other provisions of the Plan, no individual acting as a director, employee, or agent of the Company shall be liable to any participant, former participant, spouse, beneficiary, or any other person for any claim, loss, liability, or expense incurred in connection with the Plan, nor shall such individual be personally liable because of any contract or other instrument he executes in such other capacity. The Company will indemnify and hold harmless each director, employee, or agent of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been or will be delegated, against any cost or expense (including attorneys' fees) or liability (including any sum

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paid in settlement of a claim with the Board's approval) arising out of any act or omission to act concerning this Plan unless arising out of such person's own fraud or bad faith.

#### NO EMPLOYMENT CONTRACT

Nothing contained in this Plan constitutes an employment contract between the Company and the participants. The Plan does not give any participant any right to be retained in the Company's employ, nor does it enlarge or diminish the Company's right to end the participant's employment.

#### APPLICABLE LAW

The laws of the State of Delaware (other than its choice of law provisions) govern this Plan and its interpretation.

#### DURATION OF PLAN

Unless the Board extends the Plan's term, the Administrator may not grant Awards after June 8, 2008. The Plan will then terminate but will continue to govern unexercised and unexpired Awards.

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CREDIT AGREEMENT

Dated as of June 9, 1998

among

SCHOOL SPECIALTY, INC.  
as Borrower,

Certain Subsidiaries and Affiliates,  
as Guarantors,

THE LENDERS NAMED HEREIN

AND

NATIONSBANK, N.A.,

as Administrative Agent

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT dated as of June 9, 1998 (the "Credit Agreement"), is by and among SCHOOL SPECIALTY, INC., a Delaware corporation (the "Borrower"), the subsidiaries and affiliates identified on the signature pages

hereto and such other subsidiaries and affiliates as may from time to time become Guarantors hereunder in accordance with the provisions hereof (the "Guarantors"), the lenders named herein and such other lenders as may become a party hereto (the "Lenders"), and NATIONSBANK, N.A., as Administrative Agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H

WHEREAS, the Borrower has requested that the Lenders provide a \$250 million credit facility for the purposes hereinafter set forth;

WHEREAS, the Lenders have agreed to make the requested credit facility available to the Borrower on the terms and conditions hereinafter set forth;

NOW, THEREFORE, IN CONSIDERATION of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1

DEFINITIONS

1.1 Definitions.

As used in this Credit Agreement, the following terms shall have the meanings specified below unless the context otherwise requires:

"Additional Credit Party" means each Person that becomes a Guarantor after the Closing Date by execution of a Joinder Agreement.

"Administrative Agent" shall have the meaning assigned to such term in the heading hereof, together with any successors or assigns.

"Administrative Agent Fees" shall have the meaning assigned to such term in Section 3.5(c).

"Administrative Agent's Fee Letter" means that certain letter agreement, dated as of April 1, 1998, between the Agent and the Borrower, as amended, modified, supplemented or replaced from time to time.

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"Affiliate" means, with respect to any Person, any other Person (i) directly or indirectly controlling or controlled by or under direct or indirect common control with such Person or (ii) directly or indirectly owning or holding five percent (5%) or more of the equity interest in such Person. For purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing. Notwithstanding anything to the contrary in this Agreement, no Affiliate of Jonathan J. Ledecy shall be deemed to be an Affiliate of any member of the Consolidated Group solely because of Mr. Ledecy's status as an officer, director or employee of a member of the Consolidated Group.

"Agency Services Address" means NationsBank, N.A., NC1-001-15-04, 101 North Tryon Street, Charlotte, North Carolina 28255, Attn: Agency Services, or such other address as may be identified by written notice from the Administrative Agent to the Borrower.

"Aggregate Revolving Committed Amount" means the aggregate amount of Revolving Commitments in effect from time to time, being

initially TWO HUNDRED FIFTY MILLION DOLLARS (\$250,000,000).

"Applicable Percentage" means for any day, the rate per annum set forth below opposite the applicable Consolidated Leverage Ratio then in effect, it being understood that the Applicable Percentage for (i) Base Rate Loans shall be the percentage set forth under the column "Base Rate Margin", (ii) Eurodollar Loans shall be the percentage set forth under the column "Eurodollar Margin and Letter of Credit Fee", (iii) the Letter of Credit Fee shall be the percentage set forth under the column "Eurodollar Margin and Letter of Credit Fee" and (iv) the Commitment Fee shall be the percentage set forth under the column "Commitment Fee":

Pricing Level -----	Consolidated Leverage Ratio -----	Base Rate Margin -----	Eurodollar Margin and Letter of Credit Fee -----	Commitment Fee ---
I	Less than or equal to 2.25	0%	.625%	.20%
II	Greater than 2.25 but less than or equal to 2.75	0%	.875%	.25%
III	Greater than 2.75 but less than or equal to 3.25	0%	1.125%	.25%
IV	Greater than 3.25 but less than or equal to 3.75	.125%	1.375%	.25%
V	Greater than 3.75	.250%	1.625%	.325%

The Applicable Percentage shall be determined and adjusted periodically on the date (each a "Rate Determination Date") five (5) Business Days after the date by which the

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annual and quarterly compliance certificates and related financial statements and information are required in accordance with the provisions of Sections 7.1(a) and (b) and Section 7.2(b), as appropriate; provided that:

(i) the initial Applicable Percentages shall be 1.0% in the case of the Eurodollar Margin and Letter of Credit Fee, 0% in the case of the Base Rate Margin, and .25% in the case of the Commitment Fee and shall remain in effect until the earlier of (A) the date six months from the Closing Date or (B) the date of any Material Acquisition; and

(ii) in the event an annual or quarterly compliance certificate and related financial statements and information are not delivered timely to the Agency Services Address by the date required by Sections 7.1(a) and (b) and Section 7.2(b), as appropriate, the Applicable Percentages shall be based on Pricing Level V until such time as an appropriate compliance certificate and related financial statements and information are delivered, whereupon the applicable Pricing Level shall be adjusted based on the information contained in such compliance certificate and related financial statements and information.

Each Applicable Percentage shall be effective from a Rate Determination Date until the next such Rate Determination Date. The Administrative Agent shall determine the appropriate Applicable Percentages in the pricing matrix promptly upon receipt of the quarterly or annual

compliance certificate and related financial information and shall promptly notify the Borrower and the Lenders of any change thereof. Such determinations by the Administrative Agent shall be conclusive absent manifest error. Adjustments in the Applicable Percentages shall be effective as to existing Extensions of Credit as well as new Extensions of Credit made thereafter.

"Asset Disposition" means, other than a Securitization Transaction, (i) the sale, lease or other disposition of any property or asset by any member of the Consolidated Group, other than any such sale permitted by Sections 8.4(b) and other than to the extent permitted by Section 8.5, and (ii) receipt by any member of the Consolidated Group of any cash insurance proceeds or condemnation award payable by reason of theft, loss, physical destruction or damage, taking or similar event with respect to any of their property or assets.

"Attributed Principal Amount" means, on any day, with respect to any Securitization Transaction entered into by any member of the Consolidated Group, the aggregate amount (with respect to any such transaction, the "Invested Amount") paid to, or borrowed by, such Person as of such date under such Securitization Transaction, minus the aggregate amount received by the applicable Receivables Financier and applied to the reduction of the Invested Amount under such Securitization Transaction.

"Bankruptcy Code" means the Bankruptcy Code in Title 11 of the United States Code, as amended, modified, succeeded or replaced from time to time.

"Bankruptcy Event" means, with respect to any Person, the occurrence of any of the following with respect to such Person: (i) a court or governmental agency having jurisdiction in the premises shall enter a decree or order for relief in respect of such Person in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its Property or ordering the winding up or liquidation of its affairs; or (ii) there shall be commenced against such Person an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or any case, proceeding or other action for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its Property or for the winding up or liquidation of its affairs, and such involuntary case or other case, proceeding or other action shall remain undismissed, undischarged or unbonded for a period of sixty (60) consecutive days; or (iii) such Person shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person or for any substantial part of its Property or make any general assignment for the benefit of creditors; or (iv) such Person shall be unable to, or shall admit in writing its inability to, pay its debts generally as they become due.

"Base Rate" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest whole multiple of 1/100 of 1%) equal to the greater of (a) the Federal Funds Rate in effect on such day plus 1/2 of 1% or (b) the Prime Rate in effect on such day. If for any reason the Administrative Agent shall have determined (which

determination shall be conclusive absent manifest error) that it is unable after due inquiry to ascertain the Federal Funds Rate for any reason, including the inability or failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms hereof, the Base Rate shall be determined without regard to clause (a) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Rate shall be effective on the effective date of such change in the Prime Rate or the Federal Funds Rate, respectively.

"Base Rate Loan" means any Loan bearing interest at a rate determined by reference to the Base Rate.

"Borrower" means School Specialty, Inc., a Delaware corporation, as referenced in the opening paragraph, its successors and permitted assigns.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized or required by law to close, except that, when used in connection with a Eurodollar Loan, such day shall also be a day on which dealings between banks are carried on in U.S. dollar deposits in London, England.

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"Capital Expenditures" means, for any period, without duplication, all expenditures (whether paid in cash or other consideration) during such period that, in accordance with GAAP, are or should be included in additions to property, plant and equipment or similar items reflected in the consolidated statement of cash flows for such period; provided, that Capital Expenditures shall not include, for purposes hereof, (i) expenditures of proceeds of insurance settlements, condemnation awards and other settlements in respect of lost, destroyed, damaged or condemned assets, equipment or other property to the extent such expenditures are made to replace or repair such lost, destroyed, damaged or condemned assets, equipment or other property or otherwise to acquire assets or properties useful in the business of the members of the Consolidated Group within 12 months of receipt of such proceeds.

"Capital Lease" means, as applied to any Person, any lease of any Property (whether real, personal or mixed) by that Person as lessee which, in accordance with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

"Capital Lease Obligation" means the capital lease obligations relating to a Capital Lease determined in accordance with GAAP.

"Cash Equivalents" means (a) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof) having maturities of not more than twelve months from the date of acquisition, (b) U.S. dollar denominated time deposits and certificates of deposit of (i) any Lender, or (ii) any domestic commercial bank of recognized standing (y) having capital and surplus in excess of \$500,000,000 and (z) whose short-term commercial paper rating from S&P is at least A-1 or the equivalent thereof or from Moody's is at least P-1 or the equivalent thereof (any such bank being an "Approved Bank"), in each case with maturities of not more than 270 days from the date of acquisition, (c) commercial paper and variable or fixed rate notes issued by any Approved Bank (or by the parent company thereof) or any variable rate notes issued by, or guaranteed by, any domestic

corporation rated A-1 (or the equivalent thereof) or better by S&P or P-1 (or the equivalent thereof) or better by Moody's and maturing within six months of the date of acquisition, (d) repurchase agreements entered into by a Person with a bank or trust company (including any of the Lenders) or recognized securities dealer having capital and surplus in excess of \$500,000,000 for direct obligations issued by or fully guaranteed by the United States of America in which such Person shall have a perfected first priority security interest (subject to no other Liens) and having, on the date of purchase thereof, a fair market value of at least 100% of the amount of the repurchase obligations, (e) obligations of any State of the United States or any political subdivision thereof, the interest with respect to which is exempt from federal income taxation under Section 103 of the Code, having a long term rating of at least AA- or Aa-3 by S&P or Moody's, respectively, and maturing within three years from the date of acquisition thereof, (f) Investments in municipal auction preferred stock (i) rated AAA (or the equivalent thereof) or better by S&P or Aaa (or the equivalent thereof) or better by Moody's and (ii)

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with dividends that reset at least once every 365 days and (g) Investments, classified in accordance with GAAP as current assets, in money market investment programs registered under the Investment Company Act of 1940, as amended, which are administered by reputable financial institutions having capital of at least \$100,000,000 and the portfolios of which are limited to Investments of the character described in the foregoing subdivisions (a) through (f).

"Change of Control" means the occurrence of any of the following events: (i) any Person or two or more Persons acting in concert shall have acquired beneficial ownership, directly or indirectly, of, or shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation, will result in its or their acquisition of or control over, Voting Stock of the Borrower (or other securities convertible into such Voting Stock) representing 35% or more of the combined voting power of all Voting Stock of the Borrower, or (ii) during any period of up to 24 consecutive months, commencing after the Closing Date, individuals who at the beginning of such 24 month period were directors of the Borrower (together with any new director whose election by the Borrower's Board of Directors or whose nomination for election by the Borrower's shareholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors of the Borrower then in office. As used herein, "beneficial ownership" shall have the meaning provided in Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934.

"Closing Date" means the date hereof.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor statute thereto, as interpreted by the rules and regulations issued thereunder, in each case as in effect from time to time. References to sections of the Code shall be construed also to refer to any successor sections.

"Commitment" means the Revolving Commitment, the LOC Commitment and the Swingline Commitment.

"Commitment Fee" shall have the meaning given such term in Section 3.5(a).



"Commitment Period" means the period from and including the Closing Date to but not including the earlier of (i) the Termination Date, or (ii) the date on which the Commitments terminate in accordance with the provisions of this Credit Agreement.

"Consolidated EBITDA" means for any period for the Consolidated Group, the sum of Consolidated Net Income plus Consolidated Interest Expense plus all provisions for any Federal, state or other domestic and foreign income taxes plus depreciation and amortization plus (minus) one-time non-recurring and/or restructuring charges deducted (added) in calculating Consolidated Net Income, in each case on a consolidated basis

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determined in accordance with GAAP applied on a consistent basis, but excluding for purposes hereof extraordinary gains and losses and related tax effects thereon (to the extent such items are not taken into consideration for purposes of determining Consolidated Net Income). Except as otherwise expressly provided, the applicable period shall be for the four consecutive fiscal quarters ending as of the date of determination.

"Consolidated Fixed Charge Coverage Ratio" means for any period, the ratio of Consolidated EBITDA to Consolidated Fixed Charges.

"Consolidated Fixed Charges" means for any period for the Consolidated Group, the cash portion of Consolidated Interest Expense, in each case on a consolidated basis determined in accordance with GAAP applied on a consistent basis. Except as otherwise expressly provided, the applicable period shall be for the four consecutive fiscal quarters ending as of the date of determination.

"Consolidated Funded Debt" means Funded Debt of the Consolidated Group determined on a consolidated basis in accordance with GAAP applied on a consistent basis.

"Consolidated Group" means the Borrower and its consolidated subsidiaries, as determined in accordance with GAAP.

"Consolidated Interest Expense" means for any period for the Consolidated Group, all interest expense, including the amortization of debt discount and premium, the interest component under Capital Leases and the implied interest component under Securitization Transactions, in each case on a consolidated basis determined in accordance with GAAP applied on a consolidated basis. Except as expressly provided otherwise, the applicable period shall be for the four consecutive quarters ending as of the date of determination.

"Consolidated Leverage Ratio" means, as of the last day of any fiscal quarter, the ratio of Consolidated Funded Debt on such day to Consolidated EBITDA for the period of four consecutive fiscal quarters ending as of such day.

"Consolidated Net Income" means for any period for the Consolidated Group, net income on a consolidated basis determined in accordance with GAAP applied on a consistent basis, but excluding for purposes of determining the Consolidated Leverage Ratio and Consolidated Fixed Charge Coverage Ratio, any extraordinary gains or losses and related tax effects thereon. Except as expressly provided otherwise, the applicable period shall be for the four consecutive quarters ending as of the date of determination.

"Consolidated Net Worth" means, as for any date for the Consolidated Group, shareholders' equity or net worth as determined in

accordance with GAAP.

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"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any material agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

"Credit Documents" means a collective reference to this Credit Agreement, the Notes, the LOC Documents, Security Agreement, Pledge Agreement, Mortgages, each Joinder Agreement, the Administrative Agent's Fee Letter, and all other related agreements and documents issued or delivered hereunder or thereunder or pursuant hereto or thereto.

"Credit Party" means any of the Borrower and the Guarantors.

"Debt Transaction" means, with respect to any member of the Consolidated Group, any sale, issuance or placement of Funded Debt, whether or not evidenced by promissory note or other written evidence of indebtedness, other than under the Credit Documents.

"Default" means any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulting Lender" means, at any time, any Lender that, at such time, (i) has failed to make an Extension of Credit required pursuant to the terms of this Credit Agreement, (ii) has failed to pay to the Administrative Agent or any Lender an amount owed by such Lender pursuant to the terms of the Credit Agreement or any other of the Credit Documents, or (iii) has been deemed insolvent or has become subject to a bankruptcy or insolvency proceeding or to a receiver, trustee or similar proceeding.

"Dollars" and "\$" means dollars in lawful currency of the United States of America.

"Domestic Credit Party" means any Credit Party which is incorporated or organized under the laws of any State of the United States or the District of Columbia.

"Domestic Subsidiary" means any Subsidiary which is incorporated or organized under the laws of any State of the United States or the District of Columbia.

"Environmental Laws" means any and all lawful and applicable Federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

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"Equity Transaction" means, with respect to any member of the

Consolidated Group, any issuance of shares of its capital stock or other equity interest, other than an issuance (i) to a member of the Consolidated Group, (ii) in connection with a conversion of debt securities to equity, (iii) in connection with exercise by a present or former employee, officer or director under a stock incentive plan, stock option plan or other equity-based compensation plan or arrangement or (iv) in connection with the Spin-Off Transactions.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor statute thereto, as interpreted by the rules and regulations thereunder, all as the same may be in effect from time to time. References to sections of ERISA shall be construed also to refer to any successor sections.

"ERISA Affiliate" means an entity which is under common control with any Credit Party within the meaning of Section 4001(a)(14) of ERISA, or is a member of a group which includes the Borrower and which is treated as a single employer under Sections 414(b) or (c) of the Code.

"ERISA Event" means (i) with respect to any Plan, the occurrence of a Reportable Event or the substantial cessation of operations (within the meaning of Section 4062(e) of ERISA); (ii) the withdrawal by the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year in which it was a substantial employer (as such term is defined in Section 4001 of ERISA), or the termination of a Multiple Employer Plan; (iii) the distribution of a notice of intent to terminate or the actual termination of a Plan pursuant to Section 4041(a)(2) or 4041A of ERISA; (iv) the institution of proceedings to terminate or the actual termination of a Plan by the PBGC under Section 4042 of ERISA; (v) any event or condition which could reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan; (vi) the complete or partial withdrawal of the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate from a Multiemployer Plan; (vii) the conditions for imposition of a lien under Section 302(f) of ERISA exist with respect to any Plan; or (viii) the adoption of an amendment to any Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA.

"Eurodollar Loan" means any Loan bearing interest at a rate determined by reference to the Eurodollar Rate.

"Eurodollar Rate" means, for the Interest Period for each Eurodollar Loan comprising part of the same borrowing (including conversions, extensions and renewals), a per annum interest rate determined pursuant to the following formula:

$$\text{Eurodollar Rate} = \frac{\text{Interbank Offered Rate}}{1 - \text{Eurodollar Reserve Percentage}}$$

"Eurodollar Reserve Percentage" means for any day, that percentage (expressed as a decimal) which is in effect from time to time under Regulation D of the Board of Governors of the Federal Reserve System (or any successor), as such regulation may be amended from time to time or any successor regulation, as the maximum reserve requirement (including, without limitation, any basic, supplemental, emergency, special, or marginal reserves) applicable with respect to Eurocurrency liabilities as that term is defined in Regulation D (or against any other category of liabilities that includes deposits by reference to which the interest rate of Eurodollar Loans is

determined), whether or not Lender has any Eurocurrency liabilities subject to such reserve requirement at that time. Eurodollar Loans shall be deemed to constitute Eurocurrency liabilities and as such shall be deemed subject to reserve requirements without benefits of credits for proration, exceptions or offsets that may be available from time to time to a Lender. The Eurodollar Rate shall be adjusted automatically on and as of the effective date of any change in the Eurodollar Reserve Percentage. As of the date hereof, the Eurodollar Reserve Percentage is zero.

"Event of Default" means such term as defined in Section 9.1.

"Existing Letters of Credit" means those Letters of Credit outstanding on the Closing Date and identified on Schedule 2.2(b)-1.

"Extension of Credit" means, as to any Lender, the making of, or participation in, a Loan by such Lender or the issuance or extension of, or participation in, a Letter of Credit.

"Fees" means all fees payable pursuant to Section 3.5.

"Federal Funds Rate" means, for any day, the rate of interest per annum (rounded upwards, if necessary, to the nearest whole multiple of 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (A) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day and (B) if no such rate is so published on such next preceding Business Day, the Federal Funds Rate for such day shall be the average rate quoted to the Administrative Agent on such day on such transactions as determined by the Administrative Agent.

"Foreign Credit Party" means a Credit Party which is not a Domestic Credit Party.

"Foreign Subsidiary" means a Subsidiary which is not a Domestic Subsidiary.

"Funded Debt" means, with respect to any Person, without duplication, (i) all Indebtedness of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (iii) all purchase money Indebtedness (including for

purposes hereof, indebtedness and obligations described in clauses (iii) and (iv) of the definition of "Indebtedness") of such Person, including without limitation the principal portion of all obligations of such Person under Capital Leases, (iv) all Support Obligations of such Person with respect to Funded Indebtedness of another Person, (v) the maximum available amount of all standby letters of credit or acceptances issued or created for the account of such Person, (vi) all Funded Debt of another Person secured by a Lien on any Property of such Person, whether or not such Funded Indebtedness has been assumed, provided that for purposes hereof the amount of such Funded Debt shall be limited to the greater of (A) the amount of such Funded Debt as to which there is recourse to such Person and (B) the fair market value of the property which is subject to the Lien (but not greater than the amount of Funded Debt secured thereby), (vii) the outstanding Attributed Principal Amount under any Securitization Transaction, and (viii) the principal balance outstanding under any synthetic lease, tax

retention operating lease, off-balance sheet loan or similar off-balance sheet financing product to which such Person is a party, where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP (but specifically excluding, for purposes of this subsection (viii), leases which are treated as operating leases both for purposes of GAAP and for tax purposes). The Funded Debt of any Person shall include the Funded Debt of any partnership or joint venture in which such Person is a general partner or joint venturer, but only to the extent to which there is recourse to such Person for the payment of such Funded Debt.

"GAAP" means generally accepted accounting principles in the United States applied on a consistent basis and subject to the terms of Section 1.3 hereof.

"Governmental Authority" means any Federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Guarantor" means each of those other Persons identified as a "Guarantor" on the signature pages hereto, and each other Person which may hereafter become a Guarantor by execution of a Joinder Agreement, together with their successors and permitted assigns.

"Guaranteed Obligations" means, as to each Guarantor, without duplication, (i) all obligations of the Borrower (including interest accruing after a Bankruptcy Event, regardless of whether such interest is allowed as a claim under the Bankruptcy Code) to the Lenders and the Administrative Agent, whenever arising, under this Credit Agreement, the Notes or the Credit Documents, and (ii) all liabilities and obligations, whenever arising, owing from the Borrower to any Lender, or any Affiliate of a Lender, arising under any Hedging Agreement relating to Obligations hereunder.

"Hedging Agreements" means any interest rate protection agreement or foreign currency exchange agreement between the Borrower and any Lender, or any Affiliate of a Lender.

"Indebtedness" of any Person means, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (iii) all obligations of such Person under conditional sale or other title retention agreements relating to Property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (iv) all obligations of such Person issued or assumed as the deferred purchase price of Property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within twelve months of the incurrence thereof) which would appear as liabilities on a balance sheet of such Person, (v) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements, (vi) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, Property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, provided that for purposes hereof the amount of such Indebtedness shall be limited to the greater of (A) the amount of such Indebtedness as to which there is recourse to such Person and (B) the fair market value of the property which is subject to the Lien (but not greater than the amount of Indebtedness secured thereby), (vii) all

Support Obligations of such Person, (viii) the principal portion of all obligations of such Person under Capital Leases, (ix) all obligations of such Person in respect of interest rate protection agreements, foreign currency exchange agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging agreements (including, but not limited to, the Hedging Agreements), (x) the maximum amount of all standby letters of credit issued or bankers' acceptances facilities created for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed), (xi) all preferred stock issued by such Person and required by the terms thereof to be redeemed, or for which mandatory sinking fund payments are due, by a fixed date, (xii) the outstanding Attributed Principal Amount under any Securitization Transaction and (xiii) the principal balance outstanding under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product to which such Person is a party, where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease in accordance with GAAP (but specifically excluding, for purposes of this subsection (xiii), leases which are treated as operating leases both for purposes of GAAP and for tax purposes). The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which such Person is a general partner or a joint venturer, but only to the extent to which there is recourse to such Person for payment of such Indebtedness.

"Interbank Offered Rate" means, for the Interest Period for each Eurodollar Loan comprising part of the same borrowing (including conversions, extensions and renewals), a per annum interest rate (rounded upwards, if necessary, to the nearest whole multiple of 1/100 of 1%) equal to the rate of interest, determined by the Administrative Agent on the basis of the offered rates for deposits in dollars for a period of time corresponding to such Interest Period (and commencing on the first day of such Interest Period), appearing on

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Telerate Page 3750 (or, if, for any reason, Telerate Page 3750 is not available, the Reuters Screen LIBO Page) as of approximately 11:00 A.M. (London time) two (2) Business Days before the first day of such Interest Period. As used herein, "Telerate Page 3750" means the display designated as page 3750 by Dow Jones Markets, Inc. (or such other page as may replace such page on that service for the purpose of displaying the British Bankers Association London interbank offered rates) and "Reuters Screen LIBO Page" means the display designated as page "LIBO" on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBO page on that service for the purpose of displaying London interbank offered rates of major banks).

"Interest Payment Date" means (i) as to any Base Rate Loan, the last day of each March, June, September and December, the date of repayment of principal of such Loan and the Termination Date and (ii) as to any Eurodollar Loan and Swingline Loan, the last day of each Interest Period for such Loan, the date of repayment of principal of such Loan and on the Termination Date, and in addition where the applicable Interest Period is more than three months, then also on the date three months from the beginning of the Interest Period, and each three months thereafter. If an Interest Payment Date falls on a date which is not a Business Day, such Interest Payment Date shall be deemed to be the next succeeding Business Day.

"Interest Period" means (i) as to any Eurodollar Loan, a period of one, two, three or six month's duration, as the Borrower may elect, commencing in each case, on the date of the borrowing (including conversions, extensions and renewals), and (ii) as to any Swingline

Loan, a period of such duration, not to exceed 30 days, as the Borrower may request and the Swingline Lender may agree in accordance with the provisions of Section 2.3(b)(i), commencing in each case, on the date of borrowing; provided, however, (A) if any Interest Period would end on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day (except that in the case of Eurodollar Loans where the next succeeding Business Day falls in the next succeeding calendar month, then on the next preceding Business Day), (B) no Interest Period shall extend beyond the Termination Date, and (C) in the case of Eurodollar Loans, where an Interest Period begins on a day for which there is no numerically corresponding day in the calendar month in which the Interest Period is to end, such Interest Period shall end on the last day of such calendar month.

"Invested Amount" shall have the meaning given such term in the definition of Attributed Principal Amount.

"Investment", in any Person, means any loan or advance to such Person, any purchase or other acquisition of any capital stock, warrants, rights, options, obligations or other securities of, or equity interest in, such Person, any capital contribution to such Person or any other investment in such Person, including, without limitation, any Support Obligation incurred for the benefit of such Person.

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"IPO" means the completion of the initial public offering of common stock, par value \$.001 per share, of the Borrower.

"Issuing Lender" means, initially, NationsBank and, hereafter, any Lender which the Borrower may request and such Lender may agree.

"Issuing Lender Fees" shall have the meaning assigned to such term in Section 3.5(b)(ii).

"Joinder Agreement" means a Joinder Agreement substantially in the form of Schedule 7.11 hereto, executed and delivered by an Additional Credit Party in accordance with the provisions of Section 7.11.

"Knowledge" of any Person means the actual knowledge of the Responsible Officers of such Person and the knowledge they would acquire through the exercise of reasonable diligence in the ordinary course of duties.

"Lenders" means each of the Persons identified as a "Lender" on the signature pages hereto, and their successors and assigns.

"Letter of Credit" means the Existing Letters of Credit and any letter of credit issued by the Issuing Lender for the account of the Borrower in accordance with the terms of Section 2.2.

"Letter of Credit Fee" shall have the meaning given such term in Section 3.5(b)(i).

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance, lien (statutory or otherwise), preference, priority or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the Uniform Commercial Code as adopted and in effect in the relevant jurisdiction or other similar recording or notice statute, and any lease in the nature thereof).

"Loan" or "Loans" means the Revolving Loans and/or Swingline Loans.

"LOC Commitment" means the commitment of the Issuing Lender to issue, and to honor payment obligations under, Letters of Credit hereunder and with respect to each Lender, the commitment of each Lender to purchase participation interests in the Letters of Credit up to such Lender's LOC Committed Amount as specified in Schedule 2.1(a), as such amount may be reduced from time to time in accordance with the provisions hereof.

"LOC Committed Amount" means, collectively, the aggregate amount of all of the LOC Commitments of the Lenders to issue and participate in Letters of Credit as

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referenced in Section 2.2(a) and, individually, the amount of each Lender's LOC Commitment as specified in Schedule 2.1(a).

"LOC Documents" means, with respect to any Letter of Credit, such Letter of Credit, any amendments thereto, any documents delivered in connection therewith, any application therefor, and any agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (i) the rights and obligations of the parties concerned or at risk or (ii) any collateral security for such obligations.

"LOC Obligations" means, at any time, the sum of (i) the maximum amount which is, or at any time thereafter may become, available to be drawn under Letters of Credit then outstanding, assuming compliance with all requirements for drawings referred to in such Letters of Credit plus (ii) the aggregate amount of all drawings under Letters of Credit honored by the Issuing Lender but not theretofore reimbursed.

"Material Acquisition" means any acquisition the Borrower consummates with an acquisition value of \$50,000,000 or greater.

"Material Adverse Effect" means a material adverse effect on (i) the condition (financial or otherwise), operations, business, assets, liabilities or prospects of the Consolidated Group taken as a whole, (ii) the ability of the Credit Parties taken as a whole to perform any material obligation under the Credit Documents to which it is a party or (iii) the rights and remedies of the Lenders under the Credit Documents.

"Materials of Environmental Concern" means any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Laws, including, without limitation, asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

"Moody's" means Moody's Investors Service, Inc., or any successor or assignee of the business of such company in the business of rating securities.

"Mortgages" means those mortgages, deeds of trust, security deeds or like instruments given to the Administrative Agent for the benefit of the Lenders to secure the Obligations hereunder, as amended and modified.

"Mortgaged Property" means the property which is the subject of a Mortgage as referenced therein.



"Multiemployer Plan" means a Plan which is a multiemployer plan as defined in Sections 3(37) or 4001(a)(3) of ERISA.

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"Multiple Employer Plan" means a Plan of which the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate and at least one employer other than the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate are contributing sponsors.

"NationsBank" means NationsBank, N.A. and its successors.

"Net Proceeds" means gross cash proceeds (including any cash received by way of deferred payment pursuant to a promissory note, receivable or otherwise, but only as and when received) received in connection with an Asset Disposition, Equity Transaction, Debt Transaction or Securitization Transaction (relating, in the case of a Securitization Transaction, to the Attributed Principal Amount thereof), net of (i) reasonable transaction costs, including in the case of an Equity Transaction or a Debt Transaction, underwriting discounts and commissions and in the case of an Asset Disposition occurring in connection with a claim under an insurance policy, costs incurred in connection with adjustment and settlement of the claim, (ii) estimated taxes payable in connection therewith, and (iii) in the case of an Asset Disposition, Debt Transaction or Securitization Transaction, any amounts payable in respect of Funded Debt, including without limitation principal, interest, premiums and penalties, which is secured by, or otherwise related to, any property or asset which is the subject thereof to the extent that such Funded Debt and any payments in respect thereof are paid with a portion of the proceeds therefrom.

"Non-Excluded Taxes" means such term as is defined in Section 3.10.

"Note" or "Notes" means any Revolving Note.

"Notice of Borrowing" means a written notice of borrowing in substantially the form of Schedule 2.1(b)(i), as required by Section 2.1(b)(i).

"Notice of Extension/Conversion" means the written notice of extension or conversion in substantially the form of Schedule 3.2, as required by Section 3.2.

"Obligations" means, collectively, the Revolving Loans, Swingline Loans and the LOC Obligations.

"Operating Lease" means, as applied to any Person, any lease (including, without limitation, leases which may be terminated by the lessee at any time) of any Property (whether real, personal or mixed) which is not a Capital Lease other than any such lease in which that Person is the lessor.

"Participation Interest" means the purchase by a Lender of a participation in LOC Obligations as provided in Section 2.2(c), in Swingline Loans as provided in Section 2.3(b)(iii) and in Loans as provided in Section 3.13.

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"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA and any successor thereof.

"Permitted Investments" means Investments which are either (i) cash and Cash Equivalents; (ii) accounts receivable created, acquired or made in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; (iii) Investments consisting of stock, obligations, securities or other property received in settlement of accounts receivable (created in the ordinary course of business) from bankrupt obligors; (iv) Investments existing as of the Closing Date and set forth in Schedule 8.5, (v) Support Obligations permitted by Section 8.1; (vi) acquisitions permitted by Section 8.4(c); (vii) transactions permitted by Section 8.6, (viii) loans to employees, directors or officers in connection with the award of convertible bonds or stock under a stock incentive plan, stock option plan or other equity-based compensation plan or arrangement in the aggregate not to exceed \$5,000,000 (calculated on the exercise price for any such shares) in the aggregate at any time outstanding; (ix) other advances or loans to employees, directors, officers or agents not to exceed \$2,000,000 in the aggregate at any time outstanding; (x) advances or loans to customers or suppliers that do not exceed \$5,000,000 in the aggregate at any one time outstanding, (xi) Investments by a member of the Consolidated Group or an Affiliate of a member of the Consolidated Group in connection with a Permitted Securitization Transaction, (xii) Investments by members of the Consolidated Group in their Subsidiaries and Affiliates existing on the Closing Date, (xiii) Investments by one Credit Party in and to another Credit Party which is, at the time such Investment is made, not subject to a Bankruptcy Event, and (xiv) other loans, advances and investments of a nature not contemplated in the foregoing subsections in an amount not to exceed \$5,000,000 in the aggregate at any time outstanding.

"Permitted Liens" means:

(i) Liens in favor of the Administrative Agent on behalf of the Lenders;

(ii) Liens in favor of a Lender or an Affiliate of a Lender pursuant to a Hedging Agreement permitted hereunder, but only (A) to the extent such Liens secure obligations under such agreements permitted under Section 8.1, (B) to the extent such Liens are on the same collateral as to which the Lenders also have a Lien and (C) if such provider and the Lender shall share pari passu in the collateral subject to such Liens;

(iii) Liens (other than Liens created or imposed under ERISA) for taxes, assessments or governmental charges or levies not yet due or Liens for taxes being contested in good faith by appropriate proceedings for which adequate reserves determined in accordance with GAAP have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

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(iv) Liens of landlords or of mortgagees of landlords arising by operation of law or pursuant to the terms of real property laws and Liens of carriers, warehousemen, mechanics, materialmen and suppliers and other Liens imposed by law or pursuant to customary reservations or retentions of title arising in the ordinary course of business, provided that such Liens secure only amounts not yet due and payable

or, if due and payable, are unfiled and no other action has been taken to enforce the same, or are being contested in good faith by appropriate proceedings for which adequate reserves determined in accordance with GAAP have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);

(v) Liens (other than Liens created or imposed under ERISA) incurred or deposits made by the Borrower and its Subsidiaries in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(vi) Liens in connection with attachments or judgments (including judgment or appeal bonds) provided that the judgments secured shall, within 30 days after the entry thereof, have been bonded, discharged or execution thereof stayed pending appeal, or shall have been discharged within 30 days after the expiration of any such stay;

(vii) easements, rights-of-way, restrictions (including zoning restrictions), minor defects or irregularities in title and other similar charges or encumbrances not, in any material respect, impairing the use of the encumbered Property for its intended purposes;

(viii) Liens securing purchase money and sale/leaseback Indebtedness (including Capital Leases) to the extent permitted under Section 8.1(c), provided that any such Lien attaches only to the Property financed or leased and such Lien attaches thereto concurrently with or within 90 days after the acquisition thereof in connection with the purchase money transactions and within 30 days after the closing of any sale/leaseback transaction;

(ix) leases or subleases granted to others not interfering in any material respect with the business of any member of the Consolidated Group;

(x) any interest of title of a lessor under, and Liens arising from UCC financing statements (or equivalent filings, registrations or agreements in foreign jurisdictions) relating to, leases permitted by this Credit Agreement;

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(xi) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(xii) Liens created or deemed to exist in connection with a Permitted Securitization Transaction (including any related filings of any financing statements), but only to the extent that any such Lien relates to the applicable receivables and related property actually sold, contributed or otherwise conveyed pursuant to such transaction;

(xiii) Liens deemed to exist in connection with Investments in repurchase agreements permitted under Section 8.5;

(xiv) normal and customary rights of setoff upon deposits of cash in favor of banks or other depository institutions;

(xv) Liens existing as of the Closing Date and set forth on Schedule 6.8; provided that (a) no such Lien shall at any time be extended to or cover any Property other than the Property subject thereto on the Closing Date or replacement property and (b) the principal amount of the Indebtedness secured by such Liens shall not be increased;

(xvi) mortgage liens on real property of a Person that becomes a Subsidiary or is merged into the Borrower or a Subsidiary after the Closing Date securing Indebtedness permitted by subsection 8.1(h); provided that (A) such mortgage Liens existed at the time such Person became a Subsidiary or was merged into the Borrower or a Subsidiary and were not created in anticipation thereof, (B) no such mortgage Lien is spread to cover any other property or assets after the time such Person becomes a Subsidiary or is merged into the Borrower or a Subsidiary and (C) such mortgage Liens are released or otherwise satisfied by the end of the Acquired Mortgaged Property Disposition Period provided in Section 7.15; and

(xvii) Additional Liens not otherwise permitted by the preceding clauses that secure obligations not to exceed \$5,000,000 in the aggregate at any time outstanding.

"Permitted Securitization Transaction" means any Securitization Transaction; provided that (i) the Administrative Agent and the Required Lenders shall be reasonably satisfied with the structure and documentation for any such transaction and that the terms of such transaction entered into after the Closing Date, including the discount applicable to the Receivables which are subject of such financing and any termination events, shall be (in the good faith understanding of the Administrative Agent and the Required Lenders) consistent with those prevailing in the market at the time of commitment thereto for similar transactions involving a receivables originator/servicer of similar credit quality

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and a receivables pool or other similar characteristics and (ii) the documentation for such transaction shall not be amended or modified in a way which is materially detrimental to the Lenders without the prior written approval of the Administrative Agent and the Required Lenders.

"Person" means any individual, partnership, joint venture, firm, corporation, limited liability company, association, trust or other enterprise (whether or not incorporated) or any Governmental Authority.

"Plan" means any employee benefit plan (as defined in Section 3(3) of ERISA) which is covered by ERISA and with respect to which the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" within the meaning of Section 3(5) of ERISA.

"Pledge Agreement" means the Pledge Agreement dated as of the Closing Date given by the Borrower and the other pledgors identified therein to NationsBank, N.A., as Administrative Agent, to secure the obligations hereunder, as amended and modified.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by NationsBank as its prime rate in effect at its principal office in Charlotte, North Carolina, with each change in the Prime Rate being effective on the date such change is publicly announced as effective (it being understood and agreed that the Prime Rate is a reference rate used by NationsBank in determining interest rates on certain loans and is not intended to be the lowest rate of interest charged on any extension of credit by NationsBank to any debtor).

"Pro Forma Basis" means, with respect to any transaction, that such transaction shall be deemed to have occurred as of the first day of the four fiscal-quarter period ending as of the most recent fiscal quarter end preceding the date of such transaction with respect to which the Administrative Agent and the Lenders have received the officer's certificate in accordance with the provisions of Section 7.2(b). As used herein, "Transaction" means (i) any corporate merger or consolidation as referred to in Section 8.4(a), (ii) any sale or other disposition of assets as referred to in Section 8.4(b), (iii) any acquisition of capital stock or securities or any purchase, lease or other acquisition of property as referred to in Section 8.4(c) or (iv) the making of any Restricted Payment as referred to in Section 8.10.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Receivables" means any right of payment from or on behalf of any obligor, whether constituting an account, chattel paper, instrument, general intangible or otherwise, arising from the sale or financing by a member of the Consolidated Group of merchandise or services, and monies due thereunder, security in the merchandise and services financed thereby, records related thereto, and the right to payment of any interest

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or finance charges and other obligations with respect thereto, proceeds from claims on insurance policies related thereto, any other proceeds related thereto, and any other related rights.

"Receivables Financier" means, in connection with a Securitization Transaction, the Person which provides financing for such transaction whether by purchase, loan or otherwise in respect of Receivables.

"Register" shall have the meaning given such term in Section 11.3(c).

"Regulation T, U, or X" means Regulation T, U or X, respectively, of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping or disposing into the environment (including the abandonment or discarding of barrels, containers and other closed receptacles containing any Materials of Environmental Concern).

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than those events as to which the notice requirement has been waived by regulation.

"Required Lenders" means, at any time, Lenders having more

than fifty percent (50%) of the Commitments, or if the Commitments have been terminated, Lenders having more than fifty percent (50%) of the aggregate principal amount of the Obligations outstanding (taking into account in each case Participation Interests or obligation to participate therein); provided that the Commitments of, and outstanding principal amount of Obligations (taking into account Participation Interests therein) owing to, a Defaulting Lender shall be excluded for purposes hereof in making a determination of Required Lenders.

"Requirement of Law" means, as to any Person, the certificate of incorporation and by-laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its material property is subject.

"Responsible Officer" means the President, Chief Executive Officer, the Chief Financial Officer and the Controller.

"Restricted Payment" means (i) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock now or hereafter outstanding, except (A) a dividend payable solely in shares of that class to the holders of that class and (B) dividends and other distributions payable to a Credit Party, (ii) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any

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shares of any class of stock now or hereafter outstanding and (iii) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock now or hereafter outstanding.

"Revolving Commitment" means, with respect to each Lender, the commitment of such Lender to make Revolving Loans in an aggregate principal amount at any time outstanding of up to such Lender's Revolving Committed Amount.

"Revolving Commitment Percentage" means, for each Lender, a fraction (expressed as a decimal) the numerator of which is the Revolving Committed Amount of such Lender at such time and the denominator of which is the Aggregate Revolving Committed Amount at such time. The initial Revolving Commitment Percentages are set out on Schedule 2.1(a).

"Revolving Committed Amount" means, collectively, the aggregate amount of all of the Revolving Commitments and, individually, the amount of each Lender's Revolving Commitment as specified in Schedule 2.1(a), as such amounts may be reduced from time to time in accordance with the provisions hereof.

"Revolving Loans" shall have the meaning assigned to such term in Section 2.1(a).

"Revolving Note" or "Revolving Notes" means the promissory notes of the Borrower in favor of each of the Lenders evidencing the Revolving Loans and Swingline Loans in substantially the form attached as Schedule 2.1(e), individually or collectively, as appropriate, as such promissory notes may be amended, modified, supplemented, extended, renewed or replaced from time to time.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw Hill, Inc., or any successor or assignee of the business of such division in the business of rating securities.

"Securitization Transaction" means any financing transaction or series of financing transactions that have been or may be entered into by a member of the Consolidated Group pursuant to which such member of the Consolidated Group may sell, convey or otherwise transfer to (i) a Subsidiary or affiliate (a "Securitization Subsidiary"), or (ii) any other Person, or may grant a security interest in, any Receivables or interests therein secured by merchandise or services financed thereby (whether such Receivables are then existing or arising in the future) of such member of the Consolidated Group, and any assets related thereto, including without limitation, all security interests in merchandise or services financed thereby, the proceeds of such Receivables, and other assets which are customarily sold or in respect of which security interests are customarily granted in connection with securitization transactions involving such assets.

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"Security Agreement" means the Security Agreement dated as of the Closing Date given by the Borrower and the other grantors identified therein to NationsBank, N.A., as Administrative Agent, to secure the obligations hereunder, as amended and modified.

"Single Employer Plan" means any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan or a Multiple Employer Plan.

"Spin-Off Transactions" shall have the meaning given to such term in Section 5.1(b).

"Subordinated Debt" means any Indebtedness of a member of the Consolidated Group which by its terms is expressly subordinated in right of payment to the prior payment of the obligations under the Credit Agreement and the other Credit Documents on terms and conditions satisfactory to the Required Lenders.

"Subsidiary" means, as to any Person, (a) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries, and (b) any partnership, association, joint venture or other entity in which such Person directly or indirectly through Subsidiaries has more than 50% of the voting interests at any time. Unless otherwise identified, "Subsidiary" or "Subsidiaries" shall mean Subsidiaries of the Borrower.

"Support Obligations" means, with respect to any Person, without duplication, any obligations of such Person (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) guaranteeing or intended to guarantee any Indebtedness of any other Person in any manner, whether direct or indirect, and including without limitation any obligation, whether or not contingent, (i) to purchase any such Indebtedness or any Property constituting security therefor, (ii) to advance or provide funds or other support for the payment or purchase of any such Indebtedness or to maintain working capital, solvency or other balance sheet condition of such other Person (including without limitation keep well agreements, maintenance agreements, comfort letters or similar agreements or arrangements) for the benefit of any holder of Indebtedness of such other Person, (iii) to lease or purchase Property, securities or services primarily for the purpose of assuring the holder of such Indebtedness, or (iv) to otherwise assure or hold harmless the holder of such Indebtedness against loss in respect thereof. Subject to

any limits set forth in the agreements evidencing such Support Obligations, the amount of any Support Obligation shall be deemed to be an amount equal to the outstanding principal amount (or maximum principal amount, if larger) of the Indebtedness in respect of which such Support Obligation is made.

"Swingline Commitment" means the commitment of the Swingline Lender to make Swingline Loans in an aggregate principal amount at any time outstanding up to the

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Swingline Committed Amount and the commitment of the Lenders to purchase participation interests in the Swingline Loans up to their respective Revolving Commitment Percentage as provided in Section 2.3(b)(iii), as such amounts may be reduced from time to time in accordance with the provisions hereof.

"Swingline Committed Amount" means the amount of the Swingline Lender's Commitment as specified in Section 2.3(a).

"Swingline Lender" means NationsBank and its successors.

"Swingline Loan" means a swingline revolving loan made by the Swingline Lender pursuant to the provisions of Section 2.3.

"Termination Date" means June \_\_, 2003 (being five years from the Closing Date), or if extended with the written consent of each of the Lenders, such later date as to which the Termination Date may be extended.

"Voting Stock" means, with respect to any Person, capital stock or other equity or ownership interest issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

#### 1.2 Computation of Time Periods.

For purposes of computation of periods of time hereunder, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding."

#### 1.3 Accounting Terms.

Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Lenders hereunder shall be prepared, in accordance with GAAP applied on a consistent basis. All calculations made for the purposes of determining compliance with this Credit Agreement shall (except as otherwise expressly provided herein) be made by application of GAAP applied on a basis consistent with the most recent annual or quarterly financial statements delivered pursuant to Section 7.1 hereof (or, prior to the delivery of the first financial statements pursuant to Section 7.1 hereof, consistent with the annual unaudited financial statements referenced in Section 6.1(i) hereof); provided, however, if (a) the Borrower shall object to determining such compliance on such basis at the time of delivery of such financial statements due to any change in GAAP or the rules promulgated with respect thereto or (b) the Administrative Agent or the Required Lenders shall so object in writing within 30 days after delivery of such financial statements, then such calculations shall be made on a basis consistent with the most recent financial statements delivered by the Borrower to the Lenders as to which no such objection shall have been made.



It is further acknowledged and agreed that, except as expressly provided otherwise, for purposes of determining the Applicable Percentage and compliance with the financial covenants in Section 7.11 (and compliance therewith on a Pro Forma Basis), in the case of acquisitions and dispositions which have occurred during the applicable period to the extent permitted hereunder, adjustments shall be made to take into account historical performance relating thereto during such applicable period prior to the date of such acquisition or disposition, and the effect of any Indebtedness paid with proceeds from a disposition whether or not such adjustments are consistent with GAAP.

## SECTION 2

### CREDIT FACILITIES

#### 2.1 Revolving Loans.

(a) Revolving Commitment. During the Commitment Period, subject to the terms and conditions hereof, each Lender severally agrees to make revolving credit loans (the "Revolving Loans") to the Borrower from time to time in the amount of such Lender's Revolving Commitment Percentage of such Revolving Loans for the purposes hereinafter set forth; provided that (i) with regard to the Lenders collectively, the aggregate principal amount of Obligations outstanding at any time shall not exceed the Aggregate Revolving Committed Amount and (ii) with regard to each Lender individually, such Lender's Revolving Commitment Percentage of Obligations outstanding at any time shall not exceed such Lender's Revolving Committed Amount. Revolving Loans may consist of Base Rate Loans or Eurodollar Loans, or a combination thereof, as the Borrower may request, and may be repaid and reborrowed in accordance with the provisions hereof.

#### (b) Revolving Loan Borrowings.

(i) Notice of Borrowing. The Borrower shall request a Revolving Loan borrowing by written notice (or telephone notice promptly confirmed in writing) to the Administrative Agent not later than 11:00 A.M. (Charlotte, North Carolina time) on the Business Day prior to the date of the requested borrowing in the case of Base Rate Loans, and on the third Business Day prior to the date of the requested borrowing in the case of Eurodollar Loans. Each such request for borrowing shall be irrevocable and shall specify (A) that a Revolving Loan is requested, (B) the date of the requested borrowing (which shall be a Business Day), (C) the aggregate principal amount to be borrowed, and (D) whether the borrowing shall be comprised of Base Rate Loans, Eurodollar Loans or a combination thereof, and if Eurodollar Loans are requested, the Interest Period(s) therefor. If the Borrower shall fail to specify in any such Notice of Borrowing (I) an applicable Interest Period in the case of a Eurodollar Loan, then such notice shall be deemed to be a request for an Interest Period of one month, or (II) the type of Revolving Loan requested, then such notice shall be deemed to be a request for a Base Rate Loan hereunder. The Administrative Agent shall give notice to each Lender promptly upon receipt of each Notice

of Borrowing pursuant to this Section 2.1(b)(i), the contents thereof and each such Lender's share of any borrowing to be made pursuant thereto.

(ii) Minimum Amounts. Each Revolving Loan shall be in a minimum aggregate principal amount of \$5,000,000, in the case of

Eurodollar Loans, or \$500,000 (or the remaining Revolving Committed Amount, if less), in the case of Base Rate Loans, and integral multiples of \$500,000 in excess thereof.

(iii) Advances. Each Lender will make its Revolving Commitment Percentage of each Revolving Loan borrowing available to the Administrative Agent for the account of the Borrower, or in such other manner as the Administrative Agent may specify in writing, by 1:00 P.M. (Charlotte, North Carolina time) on the date specified in the applicable Notice of Borrowing in Dollars and in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Borrower by the Administrative Agent by crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent.

(c) Repayment. The principal amount of all Revolving Loans shall be due and payable in full on the Termination Date.

(d) Interest. Subject to the provisions of Section 3.1,

(i) Base Rate Loans. During such periods as Revolving Loans shall be comprised in whole or in part of Base Rate Loans, such Base Rate Loans shall bear interest at a per annum rate equal to the Base Rate plus the Applicable Percentage;

(ii) Eurodollar Loans. During such periods as Revolving Loans shall be comprised in whole or in part of Eurodollar Loans, such Eurodollar Loans shall bear interest at a per annum rate equal to the Eurodollar Rate plus the Applicable Percentage.

Interest on Revolving Loans shall be payable in arrears on each applicable Interest Payment Date (or at such other times as may be specified herein).

(e) Revolving Notes. The Revolving Loans shall be evidenced by a duly executed Revolving Note in favor of each Lender.

(f) Maximum Number of Eurodollar Loans. The Borrower will be limited to a maximum number of ten (10) Eurodollar Loans outstanding at any time. For purposes hereof, Eurodollar Loans with separate or different Interest Periods will be considered as separate Eurodollar Loans even if their Interest Periods expire on the same date.

## 2.2 Letter of Credit Subfacility.

(a) Issuance. During the Commitment Period, subject to the terms and conditions hereof and of the LOC Documents, if any, and such other terms and conditions which the Issuing Lender may reasonably require, the Issuing Lender shall issue, and the Lenders shall participate in, such Letters of Credit as the Borrower may request for its own account or for the account of any Subsidiary as provided herein, in a form acceptable to the Issuing Lender, for the purposes hereinafter set forth; provided that (i) the aggregate amount of LOC Obligations shall not exceed FIVE MILLION DOLLARS (\$5,000,000) at any time (the "LOC Committed Amount"), (ii) with regard to the Lenders collectively, the aggregate principal amount of Obligations outstanding at any time shall not exceed the Aggregate Revolving Committed Amount and (iii) with regard to each Lender individually, such Lender's Revolving Commitment Percentage of Obligations outstanding at any time shall not exceed such Lender's Revolving Committed Amount. Letters of Credit issued hereunder shall not have an original expiry date more than one year from the date of issuance or extension, nor an expiry date, whether as originally issued or by extension, extending beyond the Termination Date. Each Letter of Credit shall comply with the related LOC Documents. The issuance date of each Letter of Credit shall be a Business Day.

(b) Notice and Reports. Except for those Letters of Credit described on Schedule 2.2(b)-1 which shall be issued on the Closing Date, the request for the issuance of a Letter of Credit shall be submitted by the Borrower to the Issuing Lender at least three (3) Business Days prior to the requested date of issuance (or such shorter period as may be agreed by the Issuing Lender). A form of Notice of Request for Letter of Credit is attached as Schedule 2.2(b)-2. The Issuing Lender will provide to the Administrative Agent at least monthly, and more frequently upon request, a detailed summary report on its Letters of Credit and the activity thereon, in form and substance acceptable to the Administrative Agent. In addition, the Issuing Lender will provide to the Administrative Agent for dissemination to the Lenders at least quarterly, and more frequently upon request, a detailed summary report on its Letters of Credit and the activity thereon, including, among other things, the Credit Party for whose account the Letter of Credit is issued, the beneficiary, the face amount, and the expiry date. The Issuing Lender will provide copies of the Letters of Credit to the Administrative Agent and the Lenders promptly upon request.

(c) Participation. Each Lender, with respect to the Existing Letters of Credit, hereby purchases a participation interest in such Existing Letters of Credit, and with respect to Letters of Credit issued after the Closing Date, upon issuance of a Letter of Credit, shall be deemed to have purchased without recourse a risk participation from the applicable Issuing Lender in such Letter of Credit and the obligations arising thereunder, in each case in an amount equal to its pro rata share of the obligations under such Letter of Credit (based on the respective Revolving Commitment Percentages of the Lenders) and shall absolutely, unconditionally and irrevocably assume, as primary obligor and not as surety, and be obligated to pay to the Issuing Lender therefor and discharge when due, its pro rata share of the obligations arising under such Letter of Credit. Without limiting the scope and nature of each Lender's participation in any Letter of Credit, to the extent that the Issuing Lender has not been reimbursed as required hereunder or under any such Letter of Credit, each such Lender shall pay to the Issuing Lender its pro rata share of such unreimbursed drawing in same day funds on the day of notification by the Issuing Lender of an unreimbursed drawing pursuant to the provisions of subsection (d) hereof. The obligation of each Lender

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to so reimburse the Issuing Lender shall be absolute and unconditional and shall not be affected by the occurrence of a Default, an Event of Default or any other occurrence or event. Any such reimbursement shall not relieve or otherwise impair the obligation of the Borrower to reimburse the Issuing Lender under any Letter of Credit, together with interest as hereinafter provided.

(d) Reimbursement. In the event of any drawing under any Letter of Credit, the Issuing Lender will promptly notify the Borrower. Unless the Borrower shall immediately notify the Issuing Lender that the Borrower intends to otherwise reimburse the Issuing Lender for such drawing, the Borrower shall be deemed to have requested that the Lenders make a Revolving Loan in the amount of the drawing as provided in subsection (e) hereof on the related Letter of Credit, the proceeds of which will be used to satisfy the related reimbursement obligations. The Borrower promises to reimburse the Issuing Lender on the day of drawing under any Letter of Credit (either with the proceeds of a Revolving Loan obtained hereunder or otherwise) in same day funds. If the Borrower shall fail to reimburse the Issuing Lender as provided hereinabove, the unreimbursed amount of such drawing shall bear interest at a per annum rate equal to the Base Rate plus the sum of (i) the Applicable Percentage and (ii) two percent (2%). The Borrower's reimbursement obligations hereunder shall be absolute and unconditional under all circumstances irrespective of any rights of setoff, counterclaim or defense to payment the Borrower may claim or have against the Issuing Lender, the Administrative Agent, the Lenders, the beneficiary of the Letter of Credit drawn upon or any other Person, including without limitation any defense based on any failure of the Borrower or any other Credit Party to receive consideration or the legality, validity, regularity or unenforceability

of the Letter of Credit. The Issuing Lender will promptly notify the other Lenders of the amount of any unreimbursed drawing and each Lender shall promptly pay to the Administrative Agent for the account of the Issuing Lender in Dollars and in immediately available funds, the amount of such Lender's pro rata share of such unreimbursed drawing. Such payment shall be made on the day such notice is received by such Lender from the Issuing Lender if such notice is received at or before 2:00 P.M. (Charlotte, North Carolina time) otherwise such payment shall be made at or before 12:00 Noon (Charlotte, North Carolina time) on the Business Day next succeeding the day such notice is received. If such Lender does not pay such amount to the Issuing Lender in full upon such request, such Lender shall, on demand, pay to the Administrative Agent for the account of the Issuing Lender interest on the unpaid amount during the period from the date of such drawing until such Lender pays such amount to the Issuing Lender in full at a rate per annum equal to, if paid within two (2) Business Days of the date that such Lender is required to make payments of such amount pursuant to the preceding sentence, the Federal Funds Rate and thereafter at a rate equal to the Base Rate. Each Lender's obligation to make such payment to the Issuing Lender, and the right of the Issuing Lender to receive the same, shall be absolute and unconditional, shall not be affected by any circumstance whatsoever and without regard to the termination of this Credit Agreement or the Commitments hereunder, the existence of a Default or Event of Default or the acceleration of the obligations of the Borrower hereunder and shall be made without any offset, abatement, withholding or reduction whatsoever. Simultaneously with the making of each such payment by a Lender to the Issuing Lender, such Lender shall, automatically and without any further action on the part of the Issuing Lender or such Lender, acquire a participation in an amount equal to such payment (excluding the portion of such payment constituting interest owing to the Issuing Lender) in the related unreimbursed drawing portion of

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the LOC Obligation and in the interest thereon and in the related LOC Documents, and shall have a claim against the Borrower with respect thereto.

(e) Repayment with Revolving Loans. On any day on which the Borrower shall have requested, or been deemed to have requested, a Revolving Loan advance to reimburse a drawing under a Letter of Credit, the Administrative Agent shall give notice to the Lenders that a Revolving Loan has been requested or deemed requested by the Borrower to be made in connection with a drawing under a Letter of Credit, in which case a Revolving Loan advance comprised of Base Rate Loans (or Eurodollar Loans to the extent the Borrower has complied with the procedures of Section 2.1(b)(i) with respect thereto) shall be immediately made to the Borrower by all Lenders (notwithstanding any termination of the Commitments pursuant to Section 9.2) pro rata based on the respective Revolving Commitment Percentages of the Lenders (determined before giving effect to any termination of the Commitments pursuant to Section 9.2) and the proceeds thereof shall be paid directly to the Issuing Lender for application to the respective LOC Obligations. Each such Lender hereby irrevocably agrees to make its pro rata share of each such Revolving Loan immediately upon any such request or deemed request in the amount, in the manner and on the date specified in the preceding sentence notwithstanding (i) the amount of such borrowing may not comply with the minimum amount for advances of Revolving Loans otherwise required hereunder, (ii) whether any conditions specified in Section 5.2 are then satisfied, (iii) whether a Default or an Event of Default then exists, (iv) failure for any such request or deemed request for Revolving Loan to be made by the time otherwise required hereunder, (v) whether the date of such borrowing is a date on which Revolving Loans are otherwise permitted to be made hereunder or (vi) any termination of the Commitments relating thereto immediately prior to or contemporaneously with such borrowing. In the event that any Revolving Loan cannot for any reason be made on the date otherwise required above (including, without limitation, as a result of the commencement of a proceeding under the Bankruptcy Code with respect to the Borrower or any Credit Party), then each such Lender hereby agrees that it shall forthwith purchase (as of the date such borrowing would otherwise have occurred, but adjusted for any payments received from the Borrower on or after such date and prior to such purchase) from the

Issuing Lender such participation in the outstanding LOC Obligations as shall be necessary to cause each such Lender to share in such LOC Obligations ratably (based upon the respective Revolving Commitment Percentages of the Lenders (determined before giving effect to any termination of the Commitments pursuant to Section 9.2)), provided that in the event such payment is not made on the day of drawing, such Lender shall pay in addition to the Issuing Lender interest on the amount of its unfunded Participation Interest at a rate equal to, if paid within two (2) Business Days of the date of drawing, the Federal Funds Rate, and thereafter at the Base Rate.

(f) Designation of Subsidiaries as Account Parties. Notwithstanding anything to the contrary set forth in this Credit Agreement, including without limitation Section 2.2(a) hereof, a Letter of Credit issued hereunder may contain a statement to the effect that such Letter of Credit is issued for the account of a Subsidiary, provided that notwithstanding such statement, the Borrower shall be the actual account party for all purposes of this Credit Agreement for such Letter of Credit and such statement shall not affect the Borrower's reimbursement obligations hereunder with respect to such Letter of Credit.

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(g) Renewal, Extension. The renewal or extension of any Letter of Credit shall, for purposes hereof, be treated in all respects the same as the issuance of a new Letter of Credit hereunder.

(h) Uniform Customs and Practices. The Issuing Lender may have the Letters of Credit be subject to The Uniform Customs and Practice for Documentary Credits, as published as of the date of issue by the International Chamber of Commerce (the "UCP"), in which case the UCP may be incorporated therein and deemed in all respects to be a part thereof.

(i) Indemnification; Nature of Issuing Lender's Duties.

(i) In addition to its other obligations under this Section 2.2, the Borrower hereby agrees to protect, indemnify, pay and save the Issuing Lender harmless from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees) that the Issuing Lender may incur or be subject to as a consequence, direct or indirect, of (A) the issuance of any Letter of Credit or (B) the failure of the Issuing Lender to honor a drawing under a Letter of Credit as a result of any act or omission, whether rightful or wrongful, of any present or future de jure or de facto government or governmental authority (all such acts or omissions, herein called "Government Acts").

(ii) As between the Borrower and the Issuing Lender, the Borrower shall assume all risks of the acts, omissions or misuse of any Letter of Credit by the beneficiary thereof. The Issuing Lender shall not be responsible: (A) for the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for and issuance of any Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (B) for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, that may prove to be invalid or ineffective for any reason; (C) for errors, omissions, interruptions or delays (other than by the Issuing Lender) in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (D) for any loss or delay (other than by the Issuing Lender) in the transmission or otherwise of any document required in order to make a drawing under a Letter of Credit or of the proceeds thereof; and (E) for any consequences arising from causes beyond the control of the Issuing

Lender, including, without limitation, any Government Acts. None of the above shall affect, impair, or prevent the vesting of the Issuing Lender's rights or powers hereunder.

(iii) In furtherance and extension and not in limitation of the specific provisions hereinabove set forth, any action taken or omitted by the Issuing Lender, under or in connection with any Letter of Credit or the related certificates, if taken or omitted in good faith and not constituting gross negligence, shall not put such Issuing Lender under any resulting liability to the Borrower or any other Credit Party. It is the intention of the parties

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that this Credit Agreement shall be construed and applied to protect and indemnify the Issuing Lender against any and all risks involved in the issuance of the Letters of Credit, all of which risks are hereby assumed by the Borrower (on behalf of itself and each of the other Credit Parties), including, without limitation, any and all Government Acts. The Issuing Lender shall not, in any way, be liable for any failure by the Issuing Lender or anyone else to pay any drawing under any Letter of Credit as a result of any Government Acts or any other cause beyond the control of the Issuing Lender.

(iv) Nothing in this subsection (i) is intended to limit the reimbursement obligations of the Borrower contained in subsection (d) above. The obligations of the Borrower under this subsection (i) shall survive the termination of this Credit Agreement. No act or omissions of any current or prior beneficiary of a Letter of Credit shall in any way affect or impair the rights of the Issuing Lender to enforce any right, power or benefit under this Credit Agreement.

(v) Notwithstanding anything to the contrary contained in this subsection (i), the Borrower shall have no obligation to indemnify the Issuing Lender in respect of any liability incurred by the Issuing Lender (A) arising out of the negligence or willful misconduct of the Issuing Lender, as determined by a court of competent jurisdiction, or (B) caused by the Issuing Lender's failure to pay under any Letter of Credit after presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit, as determined by a court of competent jurisdiction, unless such payment is prohibited by any law, regulation, court order or decree.

(j) Responsibility of Issuing Lender. It is expressly understood and agreed that the obligations of the Issuing Lender hereunder to the Lenders are only those expressly set forth in this Credit Agreement and that the Issuing Lender shall be entitled to assume that the conditions precedent set forth in Section 5.2 have been satisfied unless it shall have acquired actual knowledge that any such condition precedent has not been satisfied; provided, however, that nothing set forth in this Section 2.2 shall be deemed to prejudice the right of any Lender to recover from the Issuing Lender any amounts made available by such Lender to the Issuing Lender pursuant to this Section 2.2 in the event that it is determined by a court of competent jurisdiction that the payment with respect to a Letter of Credit constituted gross negligence or willful misconduct on the part of the Issuing Lender.

(k) Conflict with LOC Documents. In the event of any conflict between this Credit Agreement and any LOC Document (including any letter of credit application), this Credit Agreement shall control.

### 2.3 Swingline Loan Subfacility.

(a) Swingline Commitment. Subject to the terms and conditions hereof and in reliance upon the representations and warranties set forth herein, the Swingline Lender, in its individual capacity, agrees to make certain revolving

credit loans requested by the Borrower in Dollars to the Borrower (each a "Swingline Loan" and, collectively, the "Swingline Loans") from time to time

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from the Closing Date until the Termination Date for the purposes hereinafter set forth; provided, however, (i) the aggregate principal amount of Swingline Loans outstanding at any time shall not exceed TWENTY MILLION DOLLARS (\$20,000,000) (the "Swingline Committed Amount") and (ii) with regard to the Lenders collectively, the aggregate principal amount of Obligations outstanding at any time shall not exceed the Aggregate Revolving Committed Amount. Swingline Loans hereunder shall be made as Base Rate Loans, and may be repaid and reborrowed in accordance with the provisions hereof.

(b) Swingline Loan Advances.

(i) Notices; Disbursement. Whenever the Borrower desires a Swingline Loan advance hereunder it shall give written notice (or telephonic notice promptly confirmed in writing) to the Swingline Lender not later than 11:00 A.M. (Charlotte, North Carolina time) on the Business Day of the requested Swingline Loan advance. Each such notice shall be irrevocable and shall specify (A) that a Swingline Loan advance is requested, (B) the date of the requested Swingline Loan advance (which shall be a Business Day) and (C) the principal amount of and Interest Period for the Swingline Loan advance requested. Each Swingline Loan shall have such maturity date as the Swingline Lender and the Borrower shall agree upon receipt by the Swingline Lender of any such notice from the Borrower. The Swingline Lender shall initiate the transfer of funds representing the Swingline Loan advance to the Borrower by 3:00 P.M. (Charlotte, North Carolina time) on the Business Day of the requested borrowing.

(ii) Minimum Amounts. Each Swingline Loan advance shall be in a minimum principal amount of \$500,000 and in integral multiples of \$100,000 in excess thereof (or the remaining amount of the Swingline Committed Amount, if less).

(iii) Repayment of Swingline Loans. Swingline Loans shall not be outstanding more than 30 days from the date of advance and may not extend beyond the Termination Date, on which date the Swingline Loans shall be due and payable in full. The Swingline Lender may, at any time, in its sole discretion, by written notice to the Borrower and the Lenders, demand repayment of its Swingline Loans by way of a Revolving Loan advance, in which case the Borrower shall be deemed to have requested a Revolving Loan advance comprised solely of Base Rate Loans in the amount of such Swingline Loans; provided, however, that any such demand shall be deemed to have been given one Business Day prior to the Termination Date and on the date of the occurrence of any Event of Default described in Section 9.1 and upon acceleration of the indebtedness hereunder and the exercise of remedies in accordance with the provisions of Section 9.2. Each Lender hereby irrevocably agrees to make its pro rata share of each such Revolving Loan in the amount, in the manner and on the date specified in the preceding sentence notwithstanding (I) the amount of such borrowing may not comply with the minimum amount for advances of Revolving Loans otherwise required hereunder, (II) whether any conditions specified in Section 5.2 are then satisfied, (III) whether a Default or an Event of Default then exists, (IV) failure of any such request or deemed request for Revolving Loan to be made by the time otherwise required hereunder, (V) whether the date of such borrowing is a date on which Revolving Loans are

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otherwise permitted to be made hereunder or (VI) any termination of the Commitments relating thereto immediately prior to or contemporaneously with such borrowing. In the event that any Revolving Loan cannot for any reason be made on the date otherwise required above (including, without limitation, as a result of the commencement of a proceeding under the Bankruptcy Code with respect to the Borrower or any other Credit Party), then each Lender hereby agrees that it shall forthwith purchase (as of the date such borrowing would otherwise have occurred, but adjusted for any payments received from the Borrower on or after such date and prior to such purchase) from the Swingline Lender such Participations Interest in the outstanding Swingline Loans as shall be necessary to cause each such Lender to share in such Swingline Loans ratably based upon its Revolving Commitment Percentage of the Revolving Committed Amount (determined before giving effect to any termination of the Commitments pursuant to Section 3.4), provided that (A) all interest payable on the Swingline Loans shall be for the account of the Swingline Lender until the date as of which the respective Participation Interest is purchased and (B) at the time any purchase of Participation Interests pursuant to this sentence is actually made, the purchasing Lender shall be required to pay to the Swingline Lender, to the extent not paid to the Swingline Lender by the Borrower in accordance with the terms of subsection (c)(ii) below, interest on the principal amount of Participation Interests purchased for each day from and including the day upon which such borrowing would otherwise have occurred to but excluding the date of payment for such Participation Interests, at the rate equal to the Federal Funds Rate.

(c) Interest on Swingline Loans.

Subject to the provisions of Section 3.1, each Swingline Loan shall bear interest at a per annum rate (computed on the basis of the actual number of days elapsed over a year of 365 days) equal to the Base Rate. Interest on Swingline Loans shall be payable in arrears on each applicable Interest Payment Date (or at such other times as may be specified herein), unless accelerated sooner pursuant to Section 9.2.

(d) Swingline Note. The Swingline Loans shall be evidenced by the Revolving Note.

### SECTION 3

#### OTHER PROVISIONS RELATING TO CREDIT FACILITIES

##### 3.1 Default Rate.

Upon the occurrence, and during the continuance, of an Event of Default, the principal of and, to the extent permitted by law, interest on the Loans and any other amounts owing hereunder or under the other Credit Documents shall bear interest, payable on demand, at a per annum rate 2% greater than the rate which would otherwise be applicable (or if no rate is applicable, whether in respect of interest, fees or other amounts, then 2% greater than the Base Rate).

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##### 3.2 Extension and Conversion.

Subject to the terms of Section 5.2, the Borrower shall have the option, on any Business Day, to extend existing Loans into a subsequent permissible Interest Period or to convert Loans into Loans of another interest rate type; provided, however, that (i) except as provided in Section 3.8, Eurodollar Loans may be converted into Base Rate Loans only on the last day of the Interest Period applicable thereto, (ii) Eurodollar Loans may be extended,



and Base Rate Loans may be converted into Eurodollar Loans, only if no Default or Event of Default is in existence on the date of extension or conversion, (iii) Loans extended as, or converted into, Eurodollar Loans shall be subject to the terms of the definition of "Interest Period" set forth in Section 1.1 and shall be in such minimum amounts as provided in Section 2.1(b)(ii), and (iv) any request for extension or conversion of a Eurodollar Loan which shall fail to specify an Interest Period shall be deemed to be a request for an Interest Period of one month. Each such extension or conversion shall be effected by the Borrower by giving a Notice of Extension/Conversion (or telephone notice promptly confirmed in writing) to the Administrative Agent prior to 11:00 A.M. (Charlotte, North Carolina time) on the Business Day of, in the case of the conversion of a Eurodollar Loan into a Base Rate Loan, and on the third Business Day prior to, in the case of the extension of a Eurodollar Loan as, or conversion of a Base Rate Loan into, a Eurodollar Loan, the date of the proposed extension or conversion, specifying the date of the proposed extension or conversion, the Loans to be so extended or converted, the types of Loans into which such Loans are to be converted and, if appropriate, the applicable Interest Periods with respect thereto. Each request for extension or conversion shall be irrevocable and shall constitute a representation and warranty by the Borrower of the matters specified in subsections (a) through (e) of Section 5.2. In the event the Borrower fails to request extension or conversion of any Eurodollar Loan in accordance with this Section, or any such conversion or extension is not permitted or required by this Section, then such Eurodollar Loan shall be automatically converted into a Base Rate Loan at the end of the Interest Period applicable thereto. The Administrative Agent shall give each Lender notice as promptly as practicable of any such proposed extension or conversion affecting any Loan.

### 3.3 Prepayments.

(a) Voluntary Prepayments. Revolving Loans and Swingline Loans may be repaid in whole or in part without premium or penalty; provided that (i) Eurodollar Loans may be prepaid only upon three (3) Business Days' prior written notice to the Administrative Agent and must be accompanied by payment of any amounts owing under Section 3.11, and (ii) partial prepayments shall be minimum principal amounts of \$5,000,000, in the case of Eurodollar Loans, and \$500,000, in the case of Base Rate Loans, and in integral multiples of \$500,000 in excess thereof.

(b) Mandatory Prepayments. If at any time, (A) the aggregate principal amount of Obligations shall exceed the Aggregate Revolving Committed Amount, (B) the aggregate amount of LOC Obligations shall exceed the LOC Committed Amount, or (C) the aggregate amount of Swingline Loans shall exceed the Swingline Committed Amount, the Borrower shall immediately make payment on the Revolving Loans and/or to a cash collateral account in respect of the LOC Obligations, in an amount sufficient to eliminate the deficiency.

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(c) Application. Unless otherwise specified by the Borrower, prepayments made hereunder shall be applied first to Swingline Loans, then to Revolving Loans which are Base Rate Loans, then to Revolving Loans which are Eurodollar Loans in direct order of Interest Period maturities, and then to a cash collateral account to secure LOC Obligations. Amounts prepaid hereunder may be reborrowed in accordance with the provisions hereof.

### 3.4 Termination and Reduction of Commitments

(a) Voluntary Reductions. The Revolving Commitments may be terminated or permanently reduced by the Borrower in whole or in part upon three (3) Business Days' prior written notice to the Administrative Agent, provided that (i) after giving effect to any voluntary reduction the aggregate amount of Obligations shall not exceed the Aggregate Revolving Committed Amount, as reduced, and (ii) partial reductions by the Borrower shall be minimum principal amount of \$5,000,000, and in integral multiples of \$1,000,000 in excess thereof.

(b) Mandatory Reductions. The Revolving Commitments shall be permanently reduced in an amount equal to one hundred percent (100%) of the Net Proceeds received from Asset Dispositions in any fiscal year; but only to the extent that (i) such Net Proceeds are not reinvested in other property or assets within six (6) months of the date of sale, lease, disposition, casualty, theft or loss giving rise thereto, and (ii) the aggregate amount of such Net Proceeds not reinvested in accordance with the foregoing subsection (i) in any fiscal year shall exceed five percent (5%) of total assets for the Consolidated Group as of the end of the immediately preceding fiscal year.

(c) Termination. The Commitments hereunder shall terminate on the Termination Date.

### 3.5 Fees.

(a) Commitment Fee. In consideration of the Revolving Commitments hereunder, the Borrower agrees to pay to the Administrative Agent for the ratable benefit of the Lenders a commitment fee (the "Commitment Fee") equal to the Applicable Percentage per annum on the average daily unused amount of the Revolving Committed Amount for the applicable period. The Commitment Fee shall be payable quarterly in arrears on the 15th day following the last day of each calendar quarter for the immediately preceding quarter (or portion thereof) beginning with the first such date to occur after the Closing Date. For purposes of computation of the Commitment Fee, Swingline Loans shall not be counted toward or considered usage under the Revolving Loan facility.

#### (b) Letter of Credit Fees.

(i) Letter of Credit Fee. In consideration of the LOC Commitment hereunder, the Borrower agrees to pay to the Administrative Agent for the ratable benefit of the Lenders a fee (the "Letter of Credit Fee") equal to the Applicable Percentage per

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annum on the average daily maximum amount available to be drawn under Letters of Credit from the date of issuance to the date of expiration. The Letter of Credit Fee shall be payable quarterly in arrears on the 15th day following the last day of each calendar quarter for the immediately preceding quarter (or portion thereof) beginning with the first such date to occur after the Closing Date.

(ii) Issuing Lender Fee. In addition to the Letter of Credit Fee, the Borrower agrees to pay to the Issuing Lender for its own account without sharing by the other Lenders (A) a fronting and negotiation fee of .125% per annum on the average daily maximum amount available to be drawn under Letters of Credit issued by it from the date of issuance to the date of expiration, and (B) customary charges of the Issuing Lender with respect to the issuance, amendment, transfer, administration, cancellation and conversion of, and drawings under, such Letters of Credit (collectively, the "Issuing Lender Fees").

(c) Administrative Fees. The Borrower agrees to pay to the Administrative Agent, for its own account, an annual administrative fee and such other fees, if any, referred to in the Administrative Agent's Fee Letter (collectively, the "Administrative Agent Fees").

### 3.6 Capital Adequacy.

If any Lender has determined, after the date hereof, that the adoption or the becoming effective of, or any change in, or any change by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof in the interpretation or administration

of, any applicable law, rule or regulation regarding capital adequacy, or compliance by such Lender with any request or directive of general applicability regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on such Lender's capital or assets as a consequence of its commitments or obligations hereunder to a level below that which such Lender could have achieved but for such adoption, effectiveness, change or compliance (taking into consideration such Lender's policies with respect to capital adequacy applied on a consistent basis), then, upon notice from such Lender to the Borrower, the Borrower shall be obligated to pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction. Each determination by any such Lender of amounts owing under this Section shall, absent manifest error, be conclusive and binding on the parties hereto.

### 3.7 Inability To Determine Interest Rate.

If prior to the first day of any Interest Period, the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, the Administrative Agent shall give telecopy or telephonic notice thereof to the Borrower and the Lenders as soon as practicable thereafter. If such notice is given (a) any Eurodollar Loans requested to be made on the first day of such Interest Period shall be made as Base Rate Loans and (b) any Loans that were to have been

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converted on the first day of such Interest Period to or continued as Eurodollar Loans shall be converted to or continued as Base Rate Loans. The Administrative Agent shall withdraw such notice promptly after such circumstances cease to exist. Until such notice has been withdrawn by the Administrative Agent, no further Eurodollar Loans shall be made or continued as such, nor shall the Borrower have the right to convert Base Rate Loans to Eurodollar Loans.

### 3.8 Illegality.

Notwithstanding any other provision herein, if the adoption of or any change in any Requirement of Law or in the interpretation or application thereof occurring after the Closing Date shall make it unlawful for any Lender to make or maintain Eurodollar Loans as contemplated by this Credit Agreement, (a) such Lender shall promptly give written notice of such circumstances to the Borrower and the Administrative Agent (which notice shall be withdrawn whenever such circumstances no longer exist), (b) the commitment of such Lender hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert a Base Rate Loan to Eurodollar Loans shall forthwith be canceled and, until such time as it shall no longer be unlawful for such Lender to make or maintain Eurodollar Loans, such Lender shall then have a commitment only to make a Base Rate Loan when a Eurodollar Loan is requested and (c) such Lender's Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Loans or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Borrower shall pay to such Lender such amounts, if any, as may be required pursuant to Section 3.11.

### 3.9 Requirements of Law.

Subject to Section 3.16, if, after the date hereof, the adoption of or any change in any Requirement of Law or in the interpretation or application thereof applicable to any Lender, or compliance by any Lender with any request or directive of general applicability (whether or not having the force of law) from any central bank or other Governmental Authority, in each case made subsequent to the Closing Date (or, if later, the date on which such Lender

becomes a Lender):

(a) shall subject such Lender to any tax of any kind whatsoever with respect to any Letter of Credit, any Eurodollar Loans made by it or its obligation to make Eurodollar Loans, or change the basis of taxation of payments to such Lender in respect thereof (except for (i) Non-Excluded Taxes covered by Section 3.10 (including Non-Excluded Taxes imposed solely by reason of any failure of such Lender to comply with its obligations under Section 3.10(b)) and (ii) changes in taxes measured by or imposed upon the overall net income, or franchise tax (imposed in lieu of such net income tax), of such Lender or its applicable lending office, branch, or any affiliate thereof));

(b) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other

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acquisition of funds by, any office of such Lender which is not otherwise included in the determination of the Eurodollar Rate hereunder; or

(c) shall impose on such Lender any other condition (excluding any tax of any kind whatsoever);

and the result of any of the foregoing is to increase the cost to such Lender, by an amount which such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or issuing or participating in Letters of Credit or to reduce any amount receivable hereunder in respect thereof, then, in any such case, upon notice to the Borrower from such Lender, through the Administrative Agent, in accordance herewith, the Borrower shall be obligated to promptly pay such Lender, upon its demand, any additional amounts (net of any amounts paid pursuant to Section 3.6) necessary to compensate such Lender for such increased cost or reduced amount receivable, provided that, in any such case, the Borrower may elect to convert the Eurodollar Loans made by such Lender hereunder to Base Rate Loans by giving the Administrative Agent at least one Business Day's notice of such election, in which case the Borrower shall promptly pay to such Lender, upon demand, without duplication, such amounts, if any, as may be required pursuant to Section 3.11. If any Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall provide prompt notice thereof to the Borrower, through the Administrative Agent, certifying (x) that one of the events described in this paragraph (a) has occurred and describing in reasonable detail the nature of such event, (y) as to the increased cost or reduced amount resulting from such event and (z) as to the additional amount demanded by such Lender and a reasonably detailed explanation of the calculation thereof. Such a certificate as to any additional amounts payable pursuant to this subsection submitted by such Lender, through the Administrative Agent, to the Borrower shall be conclusive and binding on the parties hereto in the absence of manifest error. This covenant shall survive the termination of this Credit Agreement and the payment of the Loans and all other amounts payable hereunder.

### 3.10 Taxes.

(a) Except as provided below in this subsection, all payments made by the Borrower under this Credit Agreement and any Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any court, or governmental body, agency or other official, excluding taxes (the "Excluded Taxes") that are measured by or imposed upon the overall net income of the Administrative Agent or any Lender or its

applicable lending office, or any branch or affiliate thereof, and all franchise taxes, branch taxes, taxes on doing business or taxes on the overall capital or net worth of the Administrative Agent or any Lender or its applicable lending office, or any branch or affiliate thereof, in each case imposed in lieu of net income taxes, imposed: (i) by the jurisdiction under the laws of which the Administrative Agent or such Lender, applicable lending office, branch or affiliate is organized or is located, or in which its principal executive office is located, or any nation within which such jurisdiction is located or any political subdivision thereof; or (ii) by reason of any connection between the jurisdiction imposing such tax and the Administrative Agent or such Lender, applicable lending office, branch or affiliate other than a

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connection arising solely from such Lender having executed, delivered or performed its obligations, or received payment under or enforced, this Credit Agreement or any Notes. If any such taxes, levies, imposts, duties, charges, fees, deductions or withholdings other than the Excluded Taxes ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Administrative Agent or any Lender hereunder or under any Notes, (A) the amounts so payable to the Administrative Agent or such Lender shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Credit Agreement and any Notes, provided, however, that the Borrower shall be entitled to deduct and withhold any Non-Excluded Taxes and shall not be required to increase any such amounts payable to any Lender that is not organized under the laws of the United States of America or a state thereof if such Lender fails to comply with the requirements of paragraph (b) of this subsection whenever any Non-Excluded Taxes are payable by the Borrower, and (B) as promptly as possible thereafter the Borrower shall send to the Administrative Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Administrative Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure. If the Administrative Agent or any Lender receives a refund or tax benefit in respect of Non-Excluded Taxes for which the Borrower had made additional payments pursuant to this Section 3.10(a), the Administrative Agent or such Lender, as the case may be, shall promptly pay such refund (together with any interest with respect thereto received from the relevant taxing authority) to the Borrower; provided, however, that the Borrower agrees promptly to return such refund (together with any interest with respect thereto due to the relevant taxing authority) to the Administrative Agent or the applicable Lender, as the case may be, upon receipt of a notice that such refund is required to be repaid to the relevant taxing authority. The agreements in this subsection shall survive the termination of this Credit Agreement and the payment of the Loans and all other amounts payable hereunder.

(b) Each Lender that is not incorporated under the laws of the United States of America or a state thereof shall:

(X) (i) on or before the date of any payment by the Borrower under this Credit Agreement or Notes to such Lender, deliver to the Borrower and the Administrative Agent (A) two (2) duly completed copies of United States Internal Revenue Service Form 1001 or 4224, or successor applicable form, as the case may be, certifying that it is entitled to receive payments under this Credit Agreement and any Notes without deduction or withholding of any United States federal income taxes and (B) an Internal Revenue Service Form W-8 or W-9, or successor applicable form, as the case may be, certifying that it is entitled to an exemption from United States backup withholding tax;

(ii) deliver to the Borrower and the Administrative Agent two (2) further copies of any such form or certification on or before the date that any such form or certification

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expires or becomes obsolete and after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower; and

(iii) obtain such extensions of time for filing and complete such forms or certifications as may reasonably be requested by the Borrower or the Administrative Agent; or

(Y) in the case of any such Lender that is not a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (i) represent to the Borrower (for the benefit of the Borrower and the Administrative Agent) that it is not a bank within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code, (ii) agree to furnish to the Borrower on or before the date of any payment by the Borrower, with a copy to the Administrative Agent two (2) accurate and complete original signed copies of Internal Revenue Service Form W-8, or successor applicable form certifying to such Lender's legal entitlement at the date of such certificate to an exemption from U.S. withholding tax under the provisions of Section 881(c) of the Internal Revenue Code with respect to payments to be made under this Credit Agreement and any Notes (and to deliver to the Borrower and the Administrative Agent two (2) further copies of such form on or before the date it expires or becomes obsolete and after the occurrence of any event requiring a change in the most recently provided form and, if necessary, obtain any extensions of time reasonably requested by the Borrower or the Administrative Agent for filing and completing such forms), and (iii) agree, to the extent legally entitled to do so, upon reasonable request by the Borrower, to provide to the Borrower (for the benefit of the Borrower and the Administrative Agent) such other forms as may be reasonably required in order to establish the legal entitlement of such Lender to an exemption from withholding with respect to payments under this Credit Agreement and any Notes;

unless in any such case any change in treaty, law or regulation has occurred after the date such Person becomes a Lender hereunder which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender so advises the Borrower and the Administrative Agent. Each Person that shall become a Lender pursuant to subsection 11.3 shall, upon the effectiveness of the related transfer, be required to provide all of the forms, certifications and statements required pursuant to this subsection.

### 3.11 Indemnity.

The Borrower promises to indemnify each Lender and to hold each Lender harmless from any loss or expense which such Lender may sustain or incur (other than through such Lender's gross negligence or willful misconduct) as a consequence of (a) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Credit Agreement, (b) default by the Borrower in making any prepayment of a Eurodollar Loan after the Borrower has given a notice thereof in accordance with the provisions of this Credit Agreement or (c) the making of a prepayment of Eurodollar Loans on a day which is not the last day of an Interest Period with respect thereto. With respect to Eurodollar Loans, such indemnification may include an amount

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equal to the excess, if any, of (i) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of the applicable Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Percentage included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) which would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank Eurodollar market. The covenants of the Borrower set forth in this Section 3.11 shall survive the termination of this Credit Agreement and the payment of the Loans and all other amounts payable hereunder.

### 3.12 Pro Rata Treatment.

Except to the extent otherwise provided herein:

(a) Loans. Each Loan, each payment or prepayment of principal of any Loan (other than Swingline Loans) or reimbursement obligations arising from drawings under Letters of Credit, each payment of interest on the Loans or reimbursement obligations arising from drawings under Letters of Credit, each payment of Commitment Fees, each payment of the Letter of Credit Fee, each reduction of the Revolving Committed Amount and each conversion or extension of any Loan (other than Swingline Loans), shall be allocated pro rata among the Lenders in accordance with the respective principal amounts of their outstanding Loans and Participation Interests

(b) Advances. No Lender shall be responsible for the failure or delay by any other Lender in its obligation to make its ratable share of a borrowing hereunder; provided, however, that the failure of any Lender to fulfill its obligations hereunder shall not relieve any other Lender of its obligations hereunder. Unless the Administrative Agent shall have been notified in writing by any Lender prior to a borrowing that such Lender will not make the amount that would constitute its ratable share of such borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender is making such amount available to the Administrative Agent, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such amount is not made available to the Administrative Agent by such Lender within the time period specified therefor hereunder, such Lender shall pay to the Administrative Agent, on demand, such amount with interest thereon at a rate equal to the Federal Funds Rate for a period of two (2) Business Days, and thereafter at the Base Rate, for the period until such Lender makes such amount immediately available to the Administrative Agent. If such Lender does not pay such amounts to the Administrative Agent forthwith upon demand, the Administrative Agent may notify the Borrower and request the Borrower to immediately pay such amount to the Administrative Agent with interest at the Base Rate. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error.

### 3.13 Sharing of Payments.

The Lenders agree among themselves that, in the event that any Lender shall obtain payment in respect of any Loan, LOC Obligations or any other obligation owing to such Lender under this Credit Agreement through the exercise of a right of setoff, banker's lien or counterclaim, or pursuant to a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable bankruptcy, insolvency or other similar law or

otherwise, or by any other means, in excess of its pro rata share of such payment as provided for in this Credit Agreement, such Lender shall promptly purchase from the other Lenders a participation in such Loans, LOC Obligations and other obligations in such amounts, and make such other adjustments from time to time, as shall be equitable to the end that all Lenders share such payment in accordance with their respective ratable shares as provided for in this Credit Agreement. The Lenders further agree among themselves that if payment to a Lender obtained by such Lender through the exercise of a right of setoff, banker's lien, counterclaim or other event as aforesaid shall be rescinded or must otherwise be restored, each Lender which shall have shared the benefit of such payment shall, by purchase of a participation, return its share of that benefit (together with its share of any accrued interest payable with respect thereto) to each Lender whose payment shall have been rescinded or otherwise restored. The Borrower agrees that any Lender so purchasing such a participation may, to the fullest extent permitted by law, exercise all rights of payment, including setoff, banker's lien or counterclaim, with respect to such participation as fully as if such Lender were a holder of such Loan, LOC Obligations or other obligation in the amount of such participation. Except as otherwise expressly provided in this Credit Agreement, if any Lender or the Administrative Agent shall fail to remit to the Administrative Agent or any other Lender an amount payable by such Lender or the Administrative Agent to the Administrative Agent or such other Lender pursuant to this Credit Agreement on the date when such amount is due, such payments shall be made together with interest thereon for each date from the date such amount is due until the date such amount is paid to the Administrative Agent or such other Lender at a rate per annum equal to the Federal Funds Rate. If under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a setoff to which this Section 3.13 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders under this Section 3.13 to share in the benefits of any recovery on such secured claim.

#### 3.14 Payments, Computations, Etc.

(a) Except as otherwise specifically provided herein, all payments hereunder shall be made to the Administrative Agent in dollars in immediately available funds, without setoff, deduction, counterclaim or withholding of any kind, at the Administrative Agent's office specified in Section 11.1 not later than 2:00 P.M. (Charlotte, North Carolina time) on the date when due. Payments received after such time shall be deemed to have been received on the next succeeding Business Day. The Administrative Agent may (but shall not be obligated to) debit the amount of any such payment which is not made by such time to any ordinary deposit account of the Borrower maintained with the Administrative Agent (with notice to the Borrower). The Borrower shall, at the time it makes any payment under this Credit Agreement, specify to the Administrative Agent

the Loans, LOC Obligations, Fees, interest or other amounts payable by the Borrower hereunder to which such payment is to be applied (and in the event that it fails so to specify, or if such application would be inconsistent with the terms hereof, the Administrative Agent shall distribute such payment to the Lenders in such manner as the Administrative Agent may determine to be appropriate in respect of obligations owing by the Borrower hereunder, subject to the terms of Section 3.12(a)). The Administrative Agent will distribute such payments to such Lenders, if any such payment is received prior to 12:00 Noon (Charlotte, North Carolina time) on a Business Day in like funds as received prior to the end of such Business Day and otherwise the Administrative Agent will distribute such payment to such Lenders on the next succeeding Business Day. Whenever any payment hereunder shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day (subject to accrual of interest and Fees for the period of such extension), except that in the case of Eurodollar Loans, if the extension would cause the payment to be made in the next following calendar



month, then such payment shall instead be made on the next preceding Business Day. Except as expressly provided otherwise herein, all computations of interest and fees shall be made on the basis of actual number of days elapsed over a year of 360 days, except with respect to computation of interest on Base Rate Loans which (unless the Base Rate is determined by reference to the Federal Funds Rate) shall be calculated based on a year of 365 or 366 days, as appropriate. Interest shall accrue from and include the date of borrowing, but exclude the date of payment.

(b) Allocation of Payments After Event of Default. Notwithstanding any other provisions of this Credit Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Administrative Agent or any Lender on account of the Guaranteed Obligations or any other amounts outstanding under any of the Credit Documents shall be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation reasonable attorneys' fees) of the Administrative Agent in connection with enforcing the rights of the Lenders under the Credit Documents;

SECOND, to payment of any fees owed to the Administrative Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees) of each of the Lenders in connection with enforcing its rights under the Credit Documents or otherwise with respect to the Obligations owing to such Lender;

FOURTH, to the payment of all accrued interest and fees on or in respect of the Obligations;

FIFTH, to the payment of the outstanding principal amount of the Guaranteed Obligations (including the payment or cash collateralization of the outstanding LOC Obligations);

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SIXTH, to all other Obligations and other obligations which shall have become due and payable under the Credit Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.

In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; and (ii) each of the Lenders shall receive an amount equal to its pro rata share (based on the proportion that the then outstanding Obligations held by such Lender bears to the aggregate then outstanding Obligations) of amounts available to be applied pursuant to clauses "FOURTH", "FIFTH" and "SIXTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding Letters of Credit, such amounts shall be held by the Administrative Agent in a cash collateral account and applied (A) first, to reimburse the Issuing Lender for any drawings under such Letters of Credit and (B) then, following the expiration of all Letters of Credit, to all other obligations of the types described in clauses "FIFTH" and "SIXTH" above in the manner provided in this Section 3.14(b).

### 3.15 Evidence of Debt.

(a) Each Lender shall maintain an account or accounts evidencing each

Loan made by such Lender to the Borrower from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time under this Credit Agreement. Each Lender will make reasonable efforts to maintain the accuracy of its account or accounts and to promptly update its account or accounts from time to time, as necessary.

(b) The Administrative Agent shall maintain the Register pursuant to Section 11.3(c) hereof, and a subaccount for each Lender, in which Register and subaccounts (taken together) shall be recorded (i) the amount, type and Interest Period of each such Loan hereunder, (ii) the amount of any principal or interest due and payable or to become due and payable to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder from or for the account of the Borrower and each Lender's share thereof. The Administrative Agent will make reasonable efforts to maintain the accuracy of the subaccounts referred to in the preceding sentence and to promptly update such subaccounts from time to time, as necessary.

(c) The entries made in the accounts, Register and subaccounts maintained pursuant to subsection (b) of this Section 3.15 (and, if consistent with the entries of the Administrative Agent, subsection (a)) shall be prima facie evidence of the existence and amounts of the obligations of the Borrower therein recorded; provided, however, that the failure of any Lender or the Administrative Agent to maintain any such account, such Register or such subaccount, as applicable, or any error therein, shall not in any manner affect the obligation of the Borrower to repay the Loans made by such Lender in accordance with the terms hereof.

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3.16 Certain Rules Relating to the Payment of Additional Amounts. (a) Upon the request and at the expense of the Borrower, each Lender to which the Borrower is required to pay any additional amount pursuant to Section 3.9 or 3.10 shall reasonably afford the Borrower the opportunity to contest, and shall reasonably cooperate with the Borrower in contesting, the imposition of any Non-Excluded Tax giving rise to such payment; provided that (i) such Lender shall not be required to afford the Borrower the opportunity to so contest unless the Borrower shall have confirmed in writing to such Lender its obligation to pay such amounts pursuant to this Agreement and (ii) the Borrower shall reimburse such Lender for its reasonable attorney's and accountant's fees and disbursements incurred in so cooperating with the Borrower in contesting the imposition of such Non-Excluded Tax.

(b) If a Lender changes its applicable lending office (other than pursuant to paragraph (c) below) or engages in a combination with another financial institution and the effect of the change or combination, as of the date of the change or combination, would be to cause the Borrower to become obligated to pay any additional amount under subsection 3.9 or 3.10, the Borrower shall not be obligated to pay such additional amount.

(c) If a condition or an event occurs that would, or would upon the passage of time or giving of notice, result in the payment of any additional amount to any Lender by the Borrower pursuant to Section 3.9 or 3.10, such Lender shall promptly notify the Borrower and the Administrative Agent and shall take such steps as may reasonably be available to it and acceptable to the Borrower to mitigate the effects of such condition or event (which shall include efforts to rebook the Revolving Loans held by such Lender at another lending office, or through another branch or an affiliate, of such Lender); provided that such Lender shall not be required to take any step that, in its reasonable judgment, would be disadvantageous to its business or operations in any material respect or would require it to incur additional costs (unless the Borrower agrees to reimburse such Lender for the reasonable incremental out-of-pocket costs thereof).

(d) If the Borrower shall become obligated to pay additional amounts pursuant to Section 3.9 or 3.10 and any affected Lender shall not have promptly

taken steps necessary to avoid the need for payments under Section 3.9 or 3.10, the Borrower shall have the right, for so long as such obligation remains, with the assistance of the Administrative Agent, to seek one or more substitute Lenders reasonably satisfactory to the Administrative Agent and the Borrower to purchase the affected Revolving Loans, in whole or in part, at an aggregate price no less than such Revolving Loans' principal amount plus accrued interest, and assume the affected obligations under this Agreement. In such case, the Borrower, the Administrative Agent, the affected Lender, and any substitute Lender shall execute and deliver an appropriately completed Assignment pursuant to Section 11.3(b) to effect the assignment of rights to, and the assumption of obligations by, the substitute Lender; provided that any fees required to be paid pursuant to Section 11.3(b) in connection with such assignment shall be paid by the Borrower.

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#### SECTION 4

##### GUARANTY

###### 4.1 The Guarantee.

Each of the Guarantors hereby jointly and severally guarantees to each Lender, to each Affiliate of a Lender that enters into a Hedging Agreement and to the Administrative Agent as hereinafter provided the prompt payment of the Guaranteed Obligations in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration, as mandatory cash collateralization or otherwise) strictly in accordance with the terms thereof. The Guarantors hereby further agree that if any of the Guaranteed Obligations are not paid in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration, as mandatory cash collateralization or otherwise), the Guarantors will, jointly and severally, promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, as a mandatory prepayment, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

Notwithstanding any provision to the contrary contained herein or in any other of the Credit Documents or Hedging Agreements, to the extent the obligations of a Guarantor shall be adjudicated to be invalid or unenforceable for any reason (including, without limitation, because of any applicable state or federal law relating to fraudulent conveyances or transfers) then the obligations of each Guarantor hereunder shall be limited to the maximum amount that is permissible under applicable law (whether federal or state and including, without limitation, the Bankruptcy Code).

###### 4.2 Obligations Unconditional.

The obligations of the Guarantors under Section 4.1 hereof are joint and several, absolute and unconditional, irrespective of the value, genuineness, validity, regularity or enforceability of any of the Credit Documents or Hedging Agreements, or any other agreement or instrument referred to therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 4.2 that the obligations of the Guarantors hereunder shall be absolute and unconditional under any and all circumstances. Each Guarantor agrees that such Guarantor shall have no right of subrogation, indemnity, reimbursement or contribution against the Borrower or any other Guarantor of the Guaranteed Obligations for amounts paid under this Guaranty until such time as the Lenders (and any Affiliates of Lenders entering into Hedging Agreements) have been paid in full, all Commitments under the Credit Agreement have been terminated and no Person or Governmental Authority

shall have any right to request any return or reimbursement of funds from the Lenders in connection with monies received under the Credit Documents or Hedging Agreements. Without limiting the generality of the foregoing, it is agreed that, to the fullest extent permitted by law, the

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occurrence of any one or more of the following shall not alter or impair the liability of any Guarantor hereunder which shall remain absolute and unconditional as described above:

(i) at any time or from time to time, without notice to any Guarantor, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

(ii) any of the acts mentioned in any of the provisions of any of the Credit Documents, any Hedging Agreement or any other agreement or instrument referred to in the Credit Documents or Hedging Agreements shall be done or omitted;

(iii) the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be modified, supplemented or amended in any respect, or any right under any of the Credit Documents, any Hedging Agreement or any other agreement or instrument referred to in the Credit Documents or Hedging Agreements shall be waived or any other guarantee of any of the Guaranteed Obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with;

(iv) any Lien granted to, or in favor of, the Administrative Agent or any Lender or Lenders as security for any of the Guaranteed Obligations shall fail to attach or be perfected; or

(v) any of the Guaranteed Obligations shall be determined to be void or voidable (including, without limitation, for the benefit of any creditor of any Guarantor) or shall be subordinated to the claims of any Person (including, without limitation, any creditor of any Guarantor).

With respect to its obligations hereunder, each Guarantor hereby expressly waives diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that the Administrative Agent or any Lender exhaust any right, power or remedy or proceed against any Person under any of the Credit Documents, any Hedging Agreement or any other agreement or instrument referred to in the Credit Documents or Hedging Agreements, or against any other Person under any other guarantee of, or security for, any of the Guaranteed Obligations.

#### 4.3 Reinstatement.

The obligations of the Guarantors under this Section 4 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of any Person in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, and each Guarantor agrees that it will indemnify the Administrative Agent and each Lender on demand for all reasonable costs and expenses (including, without limitation, fees and expenses of counsel) incurred by the Administrative Agent or such Lender in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any

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claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

#### 4.4 Certain Additional Waivers.

Each Guarantor agrees that such Guarantor shall have no right of recourse to security for the Guaranteed Obligations, except through the exercise of the rights of subrogation pursuant to Section 4.2.

#### 4.5 Remedies.

The Guarantors agree that, to the fullest extent permitted by law, as between the Guarantors, on the one hand, and the Administrative Agent and the Lenders, on the other hand, the Guaranteed Obligations may be declared to be forthwith due and payable as provided in Section 9.2 hereof (and shall be deemed to have become automatically due and payable in the circumstances provided in said Section 9.2) for purposes of Section 4.1 hereof notwithstanding any stay, injunction or other prohibition preventing such declaration (or preventing the Guaranteed Obligations from becoming automatically due and payable) as against any other Person and that, in the event of such declaration (or the Guaranteed Obligations being deemed to have become automatically due and payable), the Guaranteed Obligations (whether or not due and payable by any other Person) shall forthwith become due and payable by the Guarantors for purposes of said Section 4.1.

#### 4.6 Rights of Contribution.

The Guarantors hereby agree, as among themselves, that if any Guarantor shall become an Excess Funding Guarantor (as defined below), each other Guarantor shall, on demand of such Excess Funding Guarantor (but subject to the succeeding provisions of this Section 4.6), pay to such Excess Funding Guarantor an amount equal to such Guarantor's Pro Rata Share (as defined below and determined, for this purpose, without reference to the properties, assets, liabilities and debts of such Excess Funding Guarantor) of such Excess Payment (as defined below). The payment obligation of any Guarantor to any Excess Funding Guarantor under this Section 4.6 shall be subordinate and subject in right of payment to the prior payment in full of the obligations of such Guarantor under the other provisions of this Section 4, and such Excess Funding Guarantor shall not exercise any right or remedy with respect to such excess until payment and satisfaction in full of all of such obligations. For purposes hereof, (i) "Excess Funding Guarantor" shall mean, in respect of any obligations arising under the other provisions of this Section 4 (hereafter, the "Guaranteed Obligations"), a Guarantor that has paid an amount in excess of its Pro Rata Share of the Guaranteed Obligations; (ii) "Excess Payment" shall mean, in respect of any Guaranteed Obligations, the amount paid by an Excess Funding Guarantor in excess of its Pro Rata Share of such Guaranteed Obligations; and (iii) "Pro Rata Share", for the purposes of this Section 4.6, shall mean, for any Guarantor, the ratio (expressed as a percentage) of (a) the amount by which the aggregate present fair saleable value of all of its assets and properties exceeds the amount of all debts and liabilities of such Guarantor (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of such Guarantor hereunder) to (b) the amount by which the aggregate present fair saleable value of all assets and other properties of the

Borrower and all of the Guarantors exceeds the amount of all of the debts and liabilities (including contingent, subordinated, unmatured, and unliquidated liabilities, but excluding the obligations of the Borrower and the Guarantors hereunder) of the Borrower and all of the Guarantors, all as of the Closing Date (if any Guarantor becomes a party hereto subsequent to the Closing Date, then for the purposes of this Section 4.6 such subsequent Guarantor shall be deemed to have been a Guarantor as of the Closing Date and the information pertaining

to, and only pertaining to, such Guarantor as of the date such Guarantor became a Guarantor shall be deemed true as of the Closing Date).

4.7 Continuing Guarantee.

The guarantee in this Section 4 is a continuing guarantee, and shall apply to all Guaranteed Obligations whenever arising.

SECTION 5

CONDITIONS

5.1 Conditions to Closing.

This Credit Agreement shall become effective, and the initial Extensions of Credit may be made, upon the satisfaction of the following conditions precedent:

(a) Execution of Credit Agreement and Credit Documents. Receipt of (i) multiple counterparts of this Credit Agreement, (ii) a Revolving Note for each Lender, (iii) multiple counterparts of the Pledge Agreement, the Security Agreement and the UCC financing statements relating thereto, if any, in each case executed by a duly authorized officer of each party thereto and in each case conforming to the requirements of this Credit Agreement.

(b) Consummation of Spin-off. Evidence of consummation of the spin-off of the Borrower from USOP (the "Spin-off Transactions") as described in the Distribution Agreement among Workflow Graphics, Inc., Aztec Technology Partners, Navigant International, Inc. and the Borrower (collectively, the "Spin-Off Companies") and USOP, the Tax Allocation Agreement among the Spin-Off Companies and USOP, the Employee Benefits Agreement among the Spin-Off Companies and USOP and the Tax Indemnity Agreement among the Spin-Off Companies, all of which are attached as exhibits to the Borrower's Registration Statement on Form S-1 under the Securities Act of 1933, and the transactions contemplated in connection therewith, including receipt of all shareholder, governmental and other necessary consents, approvals and authorizations (including the passage of all waiting periods).

(c) Pro Forma Balance Sheet. Receipt of a pro forma balance sheet for the Borrower and its Subsidiaries upon consummation of the spin-off and the transactions contemplated in connection therewith after giving effect to the initial Extensions of Credit hereunder.

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(d) Legal Opinions. Receipt of multiple counterparts of opinions of counsel for the Credit Parties relating to the Credit Documents and the transactions contemplated herein, in form and substance satisfactory to the Administrative Agent and the Required Lenders.

(e) Stock Certificates. Receipt of original stock certificates evidencing the ownership interests of the Credit Parties pledged pursuant to the Pledge Agreement, together in each case with original undated stock powers executed in blank.

(f) Financial Information. Receipt of financial information regarding the Borrower and its subsidiaries, as may be requested by, and in each case in form and substance satisfactory to the Administrative Agent and the Lenders.

(g) Evidence of Insurance. Receipt of insurance certificates or policies evidencing flood hazard insurance (for improvements located in areas having "special flood hazards"), casualty insurance (including builders' risk and all-risk permanent policies) and liability insurance conforming to the requirements of this Credit Agreement and the other Credit Documents, showing

the Administrative Agent as loss payee with respect to the flood hazard and casualty insurance, together with evidence of payment of premiums thereon.

(h) Absence of Legal Proceedings. The absence of any action, suit, investigation or proceeding pending in any court or before any arbitrator or governmental instrumentality which could reasonably be expected to have a Material Adverse Effect on the Consolidated Group taken as a whole.

(i) Corporate Documents. Receipt of the following (or their equivalent) for each of the Credit Parties:

(i) Articles of Incorporation. Copies of the articles of incorporation or charter documents certified to be true and complete as of a recent date by the appropriate governmental authority of the state of its incorporation.

(ii) Resolutions. Copies of resolutions of the Board of Directors approving and adopting the respective Credit Documents, the transactions contemplated therein and authorizing execution and delivery thereof, certified by a secretary or assistant secretary as of the Closing Date to be true and correct and in force and effect as of such date.

(iii) Bylaws. Copies of the bylaws certified by a secretary or assistant secretary as of the Closing Date to be true and correct and in force and effect as of such date.

(iv) Good Standing. Copies, where applicable, of (A) certificates of good standing, existence or its equivalent certified as of a recent date by the appropriate governmental authorities of the state of incorporation and each other state in which the failure to so qualify and be in good standing would in the aggregate have a Material

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Adverse Effect and (B) a certificate indicating payment of all corporate franchise taxes certified as of a recent date by the appropriate governmental taxing authorities.

(v) Officer's Certificate. An officer's certificate for each of the Credit Parties dated as of the Closing Date substantially in the form of Schedule 5.1(i)(v) with appropriate insertions and attachments.

(j) Fees. Receipt of all fees, if any, owing pursuant to the Administrative Agent's Fee Letter, Section 3.5 or otherwise.

(k) Subsection 5.2 Conditions. The conditions specified in Section 5.2 shall be satisfied.

(l) Additional Matters. All other documents and legal matters in connection with the transactions contemplated by this Credit Agreement shall be reasonably satisfactory in form and substance to the Agents and the Required Lenders.

## 5.2 Conditions to All Extensions of Credit.

The obligation of each Lender to make any Extension of Credit hereunder (including the initial Extension of Credit to be made hereunder) is subject to the satisfaction of the following conditions precedent on the date of making such Extension of Credit:

(a) Representations and Warranties. The representations and warranties made by the Credit Parties herein or in any other Credit Documents or

which are contained in any certificate furnished at any time under or in connection herewith shall be true and correct in all material respects on and as of the date of such Extension of Credit as if made on and as of such date (except for those which expressly relate to an earlier date).

(b) No Default or Event of Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the Extension of Credit to be made on such date unless such Default or Event of Default shall have been waived in accordance with this Credit Agreement.

(c) No Bankruptcy Event. No Bankruptcy Event shall have occurred and be continuing with respect to any of the Credit Parties.

(d) No Material Adverse Effect. No circumstances, events or conditions shall have occurred since the date of the audited financial statements referenced in Section 6.1 which could reasonably be expected to have a Material Adverse Effect.

(e) Additional Conditions to Revolving Loans. If a Revolving Loan is made pursuant to Section 2.1, all conditions set forth therein shall have been satisfied.

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(f) Additional Conditions to Letters of Credit. If such Extension of Credit is made pursuant to Section 2.2, all conditions set forth therein shall have been satisfied.

(g) Additional Conditions to Swingline Loans. If a Swingline Loan is made pursuant to Section 2.3, all conditions set forth therein shall have been satisfied.

Each request for Extension of Credit (including extensions and conversions) and each acceptance by the Borrower of an Extension of Credit (including extensions and conversions) shall be deemed to constitute a representation and warranty by the Borrower as of the date of such Extension of Credit that the applicable conditions in paragraphs (a), (b), (c) and (d), and in (e), (f) or (g) of this subsection have been satisfied.

### 5.3 Conditions Subsequent to Closing.

As of the Closing Date, it is the present intention of the Borrower, as a general matter, to lease, rather than own, real property in its business. To that end, the Borrower plans to market real property owned by it with an intent to lease back the real property necessary and useful in its operations and to dispose of real property which is not needed in the operation of its business. The Borrower agrees that to the extent domestic members of the Consolidated Group shall continue to own real property owned as of the Closing Date twelve (12) months after the Closing Date, the following conditions subsequent shall be satisfied:

(a) Execution of Mortgages. Receipt of multiple counterparts of the Mortgages in each case executed by a duly authorized officer of each party thereto and in each case conforming to the requirements of the Credit Agreement.

(b) Surveys. Receipt of copies of recent ALTA surveys of each of the Mortgaged Properties by registered engineers or land surveyors, in form and detail (including the location of special flood hazard areas) acceptable to the Administrative Agent.

(c) Title Policies. Receipt of standard ALTA mortgagee policies insuring the priority of the Mortgages in amounts and from companies acceptable to the Administrative Agent and the Required Lenders. The title



policies shall include only such exceptions as are acceptable to the Administrative Agent. Copies of recorded documentation relating to all such exceptions will be provided to the Administrative Agent.

(d) Appraisals. Receipt of appraisals of certain of the Mortgaged Property, in form and content satisfactory to the Administrative Agent.

(e) Environmental Reports. Receipt of copies of environmental assessment reports and other environmental documentation, if any, relating to the Mortgaged Properties, which reports shall be in form and detail and which results and conclusions shall be satisfactory to the Administrative Agent and the Required Lenders.

## SECTION 6

### REPRESENTATIONS AND WARRANTIES

To induce the Lenders to enter into this Credit Agreement and to make Extensions of Credit herein provided for, each of the members of the Consolidated Group parties hereto hereby represents and warrants to the Administrative Agent and to each Lender that:

#### 6.1 Financial Condition.

Each of the financial statements described below (copies of which have heretofore been provided to the Administrative Agent for distribution to the Lenders), have been prepared in accordance with GAAP consistently applied throughout the periods covered thereby, are complete and correct in all material respects and present fairly the financial condition and results from operations of the entities and for the periods specified, subject in the case of interim company-prepared statements to normal year-end adjustments:

(i) a consolidated and consolidating balance sheet of the Borrower and its consolidated subsidiaries dated as of April 26, 1997, together with related statements income and cash flows certified by Price Waterhouse LLP, certified public accountants; and

(ii) a consolidated and consolidating balance sheet of the Borrower and its consolidated subsidiaries dated as of January 24, 1998 certified by Price Waterhouse LLP, certified public accountants.

#### 6.2 No Changes or Restricted Payments.

Since the date of the financial statements referenced in Section 6.1(i), there has been no circumstance, development or event relating to or affecting the members of the Consolidated Group which has had or would be reasonably expected to have a Material Adverse Effect.

#### 6.3 Organization; Existence; Compliance with Law.

Each of the members of the Consolidated Group (a) is duly organized, validly existing in good standing under the laws of the jurisdiction of its incorporation or organization, (b) has the corporate or other necessary power and authority, and the legal right to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign entity and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, other than in such jurisdictions where the failure to be so qualified and in good standing would not, in the aggregate, have a Material Adverse Effect, and (d) is in compliance with all Requirements of Law, except to the extent that the failure to comply therewith would not, in the aggregate, be

reasonably expected to have a Material Adverse Effect.

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6.4 Power; Authorization; Enforceable Obligations.

Each of the Credit Parties has the corporate or other necessary power and authority, and the legal right, to make, deliver and perform the Credit Documents to which it is a party and has taken all necessary corporate or other action to authorize the execution, delivery and performance by it of the Credit Documents to which it is a party. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with acceptance of extensions of credit or the making of the guaranties hereunder or with the execution, delivery or performance of any Credit Documents by the Credit Parties (other than those which have been obtained, such filings as are required by the Securities and Exchange Commission and to fulfill other reporting requirements with Governmental Authorities) or with the validity or enforceability of any Credit Document against the Credit parties (except such filings as are necessary in connection with the perfection of the Liens created by such Credit Documents). Each Credit Document to which it is a party constitutes a legal, valid and binding obligation of such Credit Party enforceable against such Credit Party in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law.

6.5 No Legal Bar.

The execution, delivery and performance of the Credit Documents, the borrowings hereunder and the use of the Extensions of Credit will not violate any Requirement of Law or any Contractual Obligation of any member of the Consolidated Group (except those as to which waivers or consents have been obtained), and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues pursuant to any Requirement of Law or Contractual Obligation other than the Liens arising under or contemplated in connection with the Credit Documents. No member of the Consolidated Group is in default under or with respect to any of its Contractual Obligations in any respect which could reasonably be expected to have a Material Adverse Effect.

6.6 No Material Litigation.

No claim, litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the best knowledge of the Credit Parties, threatened by or against, any members of the Consolidated Group or against any of their respective properties or revenues which (a) relate to the Credit Documents or any of the transactions contemplated hereby or thereby, (b) if adversely determined, could reasonably be expected to have a Material Adverse Effect. Set forth on Schedule 6.6 is a summary of all claims, litigation, investigations and proceedings pending or, to the best knowledge of the Credit Parties, threatened by or against the members of the Consolidated Group or against any of their respective properties or revenues seeking damages in excess of \$100,000 in each case, and none of such actions, individually or in the aggregate, is reasonably expected to have a Material Adverse Effect.

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6.7 No Default.

No Default or Event of Default has occurred and is continuing.

6.8 Ownership of Property; Liens.

Each of members of the Consolidated Group has good record and marketable title in fee simple to, or a valid leasehold interest in, all its material real property, and good title to, or a valid leasehold interest in, all its other material property, and none of such property is subject to any Lien, except for Permitted Liens.

6.9 Intellectual Property.

Each of the members of the Consolidated Group owns, or has the legal right to use, all United States trademarks, tradenames, copyrights, technology, know-how and processes, if any, necessary for each of them to conduct its business as currently conducted (the "Intellectual Property") except for those the failure to own or have such legal right to use could not be reasonably expected to have a Material Adverse Effect. No claim has been asserted and is pending by any Person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual Property, nor does any Credit Party know of any such claim, and the use of such Intellectual Property by the members of the Consolidated Group does not infringe on the rights of any Person, except for such claims and infringements that in the aggregate, could not be reasonably expected to have a Material Adverse Effect.

6.10 No Burdensome Restrictions.

No Requirement of Law or Contractual Obligation of the members of the Consolidated Group could be reasonably expected to have a Material Adverse Effect.

6.11 Taxes.

Each of the members of the Consolidated Group has filed or caused to be filed all United States federal income tax returns and all other material tax returns which, to the best knowledge of the Credit Parties, are required to be filed and has paid (a) all taxes shown to be due and payable on said returns or (b) all taxes shown to be due and payable on any assessments of which it has received notice made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any (i) taxes, fees or other charges with respect to which the failure to pay, in the aggregate, could not reasonably be expected to have a Material Adverse Effect or (ii) taxes, fees or other charges the amount or validity of which are currently being contested and with respect to which reserves in conformity with GAAP have been provided on the books of such Person), and no tax Lien has been filed, and, to the best knowledge of the Credit Parties, no claim is being asserted, with respect to any such tax, fee or other charge.

6.12 ERISA

Except as could not reasonably be expected to have a Material Adverse Effect:

(a) To the knowledge of the Credit Parties, during the five-year period prior to the date on which this representation is made or deemed made: (i) no ERISA Event has occurred and no event or condition has occurred or exists as a result of which any ERISA Event could reasonably be expected to occur, with respect to any Plan; (ii) no "accumulated funding deficiency," as such term is defined in Section 302 of ERISA and Section 412 of the Code, whether or not waived, has occurred with respect to any Plan; (iii) each Plan has been maintained, operated, and funded in compliance with its own terms and in material compliance with the provisions of ERISA, the Code, and any other

applicable federal or state laws; and (iv) no lien in favor of the PBGC or a Plan has arisen or is reasonably likely to arise on account of any Plan.

(b) The actuarial present value of all "benefit liabilities" (as defined in Section 4001(a)(16) of ERISA), whether or not vested, under each Single Employer Plan, as of the last annual valuation date prior to the date on which this representation is made or deemed made (determined, in each case, in accordance with Financial Accounting Standards Board Statement 87, utilizing the actuarial assumptions used in such Plan's most recent actuarial valuation report), did not exceed as of such valuation date the fair market value of the assets of such Plan.

(c) No member of the Consolidated Group nor any ERISA Affiliate has incurred, or, to the best knowledge of the Credit Parties, could be reasonably expected to incur, any withdrawal liability under ERISA to any Multiemployer Plan or Multiple Employer Plan. No member of the Consolidated Group nor any ERISA Affiliate would become subject to any withdrawal liability under ERISA if any member of the Consolidated Group or any ERISA Affiliate were to withdraw completely from all Multiemployer Plans and Multiple Employer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made. No member of the Consolidated Group nor any ERISA Affiliate has received any notification that any Multiemployer Plan is in reorganization (within the meaning of Section 4241 of ERISA), is insolvent (within the meaning of Section 4245 of ERISA), or has been terminated (within the meaning of Title IV of ERISA), and no Multiemployer Plan is, to the best knowledge of the Credit Parties, reasonably expected to be in reorganization, insolvent, or terminated.

(d) No prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) or breach of fiduciary responsibility has occurred with respect to a Plan which has subjected or may subject any member of the Consolidated Group or any ERISA Affiliate to any liability under Sections 406, 409, 502(i), or 502(l) of ERISA or Section 4975 of the Code, or under any agreement or other instrument pursuant to which any member of the Consolidated Group or any ERISA Affiliate has agreed or is required to indemnify any person against any such liability.

(e) No member of the Consolidated Group nor any ERISA Affiliates has any material liability with respect to "expected post-retirement benefit obligations" within the meaning of the Financial Accounting Standards Board Statement 106. Each Plan which is a welfare plan (as

defined in Section 3(1) of ERISA) to which Sections 601-609 of ERISA and Section 4980B of the Code apply has been administered in compliance in all material respects of such sections.

#### 6.13 Governmental Regulations, Etc.

(a) No part of the proceeds of the Extensions of Credit hereunder will be used, directly or indirectly, for the purpose of purchasing or carrying any "margin stock" within the meaning of Regulation U, or for the purpose of purchasing or carrying or trading in any securities. If requested by any Lender or the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U. No indebtedness being reduced or retired out of the proceeds of the Extensions of Credit hereunder was or will be incurred for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U or any "margin security" within the meaning of Regulation T. "Margin stock" within the meanings of Regulation U does not constitute more than 25% of the value of the consolidated assets of the Borrower and its Subsidiaries. None of the transactions contemplated by this Credit Agreement (including, without limitation, the direct or indirect use of the proceeds of the Loans) will violate or result in a violation of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as

amended, or regulations issued pursuant thereto, or Regulation T, U or X.

(b) None of the members of the Consolidated Group is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act or the Investment Company Act of 1940, each as amended. In addition, none of the members of the Consolidated Group is (i) an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, and is not controlled by such a company, or (ii) a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(c) No director, executive officer or principal shareholder of any member of the Consolidated Group is a director, executive officer or principal shareholder of any Lender. For the purposes hereof the terms "director", "executive officer" and "principal shareholder" (when used with reference to any Lender) have the respective meanings assigned thereto in Regulation O issued by the Board of Governors of the Federal Reserve System.

(d) Each of the members of the Consolidated Group has obtained all material licenses, permits, franchises or other governmental authorizations necessary to the ownership of its respective Property and to the conduct of its business.

(e) None of the members of the Consolidated Group is in violation of any applicable statute, regulation or ordinance of the United States of America, or of any state, city, town, municipality, county or any other jurisdiction, or of any agency thereof (including without limitation, environmental laws and regulations), which violation could reasonably be expected to have a Material Adverse Effect.

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(f) Each of the members of the Consolidated Group is current with all material reports and documents, if any, required to be filed with any state or federal securities commission or similar agency and is in full compliance in all material respects with all applicable rules and regulations of such commissions.

#### 6.14 Subsidiaries.

Set forth on Schedule 6.14 are all the Subsidiaries of the Borrower at the Closing Date, the jurisdiction of their incorporation and the direct or indirect ownership interest of the Borrower therein.

#### 6.15 Purpose of Extensions of Credit.

Extensions of Credit hereunder may be used to refinance existing indebtedness (including intercompany indebtedness owing to USOP), to finance working capital, capital expenditures and other lawful corporate purposes, including acquisitions permitted hereunder.

#### 6.16 Environmental Matters.

Except as could not reasonably be expected to have a Material Adverse Effect:

(a) Each of the facilities and properties owned, leased or operated by the members of the Consolidated Group (the "Properties") and, to the knowledge of the Credit Parties, all operations at the Properties are in compliance with all applicable Environmental Laws, and there is no violation of any Environmental Law with respect to the Properties or the businesses operated by the members of the Consolidated Group (the "Businesses"), and, to the knowledge of the Credit Parties, there are no conditions relating to the Businesses or Properties that could reasonably be expected to give rise to liability under any applicable Environmental Laws.

(b) None of the Properties contains, or, to the knowledge of the Credit Parties, has previously contained, any Materials of Environmental Concern at, on or under the Properties in amounts or concentrations that constitute or constituted a violation of, or could reasonably be expected to give rise to liability under, Environmental Laws.

(c) None of the Credit Parties has received any written or verbal notice of, or inquiry from any Governmental Authority regarding, any violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Properties or the Businesses, nor does any Credit Party have knowledge or reason to believe that any such notice will be received or is being threatened.

(d) To the knowledge of the Credit Parties, Materials of Environmental Concern have not been transported or disposed of from the Properties, or generated, treated, stored or disposed of at, on or under any of the Properties or any other location, in each case by or on behalf any

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members of the Consolidated Group in violation of, or in a manner that would be reasonably likely to give rise to liability under, any applicable Environmental Law.

(e) No judicial proceeding or governmental or administrative action is pending or, to the knowledge of any Credit Party, threatened, under any Environmental Law to which any member of the Consolidated Group is or is reasonably likely to be named as a party, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to any member of the Consolidated Group, the Properties or the Businesses.

(f) To the knowledge of the Credit Parties, there has been no release or, threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations (including, without limitation, disposal) of any member of the Consolidated Group in connection with the Properties or otherwise in connection with the Businesses, in violation of or in amounts or in a manner that could reasonably be expected to give rise to liability under Environmental Laws.

## SECTION 7

### AFFIRMATIVE COVENANTS

Each of the Credit Parties covenants and agrees that on the Closing Date, and so long as this Credit Agreement is in effect and until the Commitments have been terminated, no Obligations remain outstanding and all amounts owing hereunder or in connection herewith have been paid in full, each of the members of the Consolidated Group party hereto shall:

#### 7.1 Financial Statements.

Furnish, or cause to be furnished, to the Administrative Agent for distribution to the Lenders:

(a) Audited Financial Statements. As soon as available, but in any event within 120 days after the end of each fiscal year, an audited consolidated balance sheet of the Borrower and its subsidiaries as of the end of the fiscal year and the related consolidated statements of income, retained earnings, shareholders' equity and cash flows for the year, audited by Price Waterhouse LLP, or other firm of independent certified public accountants of nationally recognized standing reasonably acceptable to the Required Lenders, setting forth in each

case in comparative form the figures for the previous year, reported without a "going concern" or like qualification or exception, or qualification indicating that the scope of the audit was inadequate to permit such independent certified public accountants to certify such financial statements without such qualification.

(b) Company-Prepared Financial Statements. As soon as available, but in any event

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(i) within 50 days after the end of each of the first three fiscal quarters, a company-prepared consolidated balance sheet of the Borrower and its subsidiaries as of the end of the quarter and related company-prepared consolidated statements of income, retained earnings, shareholders' equity and cash flows for such quarterly period and for the fiscal year to date;

(ii) within 60 days after the end of the fourth fiscal quarter, a company-prepared consolidated balance sheet of the Borrower and its subsidiaries as of the end of the quarter and related company-prepared consolidated statements of income, retained earnings, shareholders' equity and cash flows for such quarterly period and for the fiscal year to date;

(iii) Prior to the end of each fiscal year, an annual business plan and budget for the members of the Consolidated Group, containing, among other things, pro forma financial statements for the next fiscal year,

in each case setting forth in comparative form the consolidated figures for the corresponding period or periods of the preceding fiscal year or the portion of the fiscal year ending with such period, as applicable, in each case subject to normal recurring year-end audit adjustments.

All such financial statements shall be complete and correct in all material respects (subject, in the case of interim statements, to normal recurring year-end audit adjustments) and shall be prepared in reasonable detail and, in the case of the annual and quarterly financial statements provided in accordance with subsections (a) and (b) above, in accordance with GAAP (subject to the adjustments specified in Section 1.3) applied consistently throughout the periods reflected therein and further accompanied by a description of, and an estimation of the effect on the financial statements on account of, a change in the application of accounting principles as provided in Section 1.3.

## 7.2 Certificates; Other Information.

Furnish, or cause to be furnished, to the Administrative Agent for distribution to the Lenders:

(a) Accountant's Certificate and Reports. Concurrently with the delivery of the financial statements referred to in subsection 7.1(a) above, a certificate of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default with respect to the financial covenants contained in Section 7.9, except as specified in such certificate.

(b) Officer's Certificate. Concurrently with the delivery of the financial statements referred to in Sections 7.1(a) and 7.1(b) above, a certificate of a Responsible

Officer stating that, to the best of such Responsible Officer's knowledge and belief, (i) the financial statements fairly present in all material respects the financial condition of the parties covered by such financial statements, (ii) during such period the members of the Consolidated Group have observed or performed in all material respects the covenants and other agreements hereunder and under the other Credit Documents relating to them, and satisfied in all material respects the conditions, contained in this Credit Agreement to be observed, performed or satisfied by them, and (iii) such Responsible Officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate. Such certificate shall include the calculations required to indicate compliance with Section 7.9. A form of Officer's Certificate is attached as Schedule 7.2(b).

(c) Accountants' Reports. Promptly upon receipt, a copy of any final (as distinguished from a preliminary or discussion draft) "management letter" or other similar report submitted by independent accountants or financial consultants to the members of the Consolidated Group in connection with any annual, interim or special audit.

(d) Capital Budget Reports. Annually, within 30 days after the end of each fiscal year, a capital expenditures budget for the Consolidated Group, and quarterly within 45 days after the end of each fiscal quarter, a report of capital expenditures, asset sales and dispositions (including sale-leasebacks and the terms thereof) and reinvestment of net proceeds thereof for the fiscal quarter and including information for the fiscal year-to-date and a comparison against both the prior fiscal year and the capital budget, in form reasonably acceptable to the Administrative Agent, demonstrating, among other things, compliance with the provisions of Sections 3.4(b), 7.9(d) and 8.4(b).

(e) Public Information. Within thirty days after the same are sent, copies of all reports (other than those otherwise provided pursuant to subsection 7.1) and other financial information which any member of the Consolidated Group sends to its public stockholders, and within thirty days after the same are filed, copies of all financial statements and non-confidential reports which any member of the Consolidated Group may make to, or file with, the Securities and Exchange Commission or any successor or analogous Governmental Authority.

(f) Other Information. Promptly, such additional financial and other information as the Administrative Agent, at the request of any Lender, may from time to time reasonably request.

### 7.3 Notices.

Give notice to the Administrative Agent (which shall promptly transmit such notice to each Lender) of:

(a) Defaults. Immediately (and in any event within two (2) Business Days) after a Responsible Officer of any Credit Party acquires actual knowledge of the occurrence of any Default or Event of Default.

(b) Contractual Obligations. Promptly, the occurrence of any default or event of default by any member of the Consolidated Group under any Contractual Obligation to which it is a party which could reasonably be expected to have a Material Adverse Effect.



(c) Legal Proceedings. Promptly, any litigation, or any investigation or proceeding (including without limitation, any environmental proceeding) of which any member of the Consolidated Group has knowledge, or any material development in respect thereof of which any member of the Consolidated Group has knowledge, affecting any member of the Consolidated Group which has a reasonable possibility of an adverse determination, is not covered by insurance and could reasonably be expected to have a Material Adverse Effect.

(d) ERISA. Promptly, after any Responsible Officer of the Borrower knows or has reason to know of the likely occurrence of a Material Adverse Effect as a result of (i) any event or condition, including, but not limited to, any Reportable Event, that constitutes, or can reasonably be expected to lead to, an ERISA Event; (ii) with respect to any Multiemployer Plan, the receipt of notice as prescribed in ERISA or otherwise of any withdrawal liability assessed against any of their ERISA Affiliates, or of a determination that any Multiemployer Plan is in reorganization or insolvent (both within the meaning of Title IV of ERISA); (iii) the failure to make full payment on or before the due date (including extensions) thereof of all amounts which the members of the Consolidated Group or any ERISA Affiliate are required to contribute to each Plan pursuant to its terms and as required to meet the minimum funding standard set forth in ERISA and the Code with respect; or (iv) any change in the funding status of any Plan that reasonably could be expected to have a Material Adverse Effect; together with a description of any such event or condition or a copy of any such notice and a statement by the chief financial officer of the Borrower briefly setting forth the details regarding such event, condition, or notice, and the action, if any, which has been or is being taken or is proposed to be taken by the Credit Parties with respect thereto. Promptly upon request, the members of the Consolidated Group shall furnish the Administrative Agent and the Lenders with such additional information concerning any Plan as may be reasonably requested, including, but not limited to, copies of each annual report/return (Form 5500 series), as well as all schedules and attachments thereto required to be filed with the Department of Labor and/or the Internal Revenue Service pursuant to ERISA and the Code, respectively, for each "plan year" (within the meaning of Section 3(39) of ERISA).

(e) Other. Promptly, any other development or event which a Responsible Officer of the Borrower determines could reasonably be expected to have a Material Adverse Effect.

Each notice pursuant to this subsection shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the relevant Credit Parties propose to take with respect thereto.

#### 7.4 Payment of Obligations.

Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, in accordance with prudent business practice (subject, where applicable, to specified grace periods) all material obligations of each member of the Consolidated Group of whatever nature and any additional costs that are imposed as a result of any failure to so pay, discharge or otherwise satisfy such obligations, except when the amount or validity of such obligations and costs is currently being contested in good faith by appropriate proceedings and reserves, if applicable, in conformity with GAAP with respect thereto have been provided on the books of the Consolidated Group, as the case may be.

7.5 Conduct of Business and Maintenance of Existence.

Continue to engage in business of the same general type as now conducted by it on the date hereof and similar or related businesses with, and preserve, renew and keep in full force and effect its corporate existence and take all reasonable action to maintain all rights, privileges, licenses and franchises necessary or desirable in the normal conduct of its business; comply with all Contractual Obligations and Requirements of Law applicable to it except to the extent that failure to comply therewith would not, in the aggregate, have a Material Adverse Effect.

7.6 Maintenance of Property; Insurance.

Keep all material property used in its business in reasonably good working order and condition (ordinary wear and tear excepted); maintain with financially sound and reputable insurance companies casualty, liability and such other insurance (which may include plans of self-insurance) with such coverage and deductibles, and in such amounts as are consistent with prudent business practice and in any event consistent with normal industry practice (except to any greater extent as may be required by the terms of any of the other Credit Documents); and furnish to the Administrative Agent, upon written request, full information as to the insurance carried.

7.7 Inspection of Property; Books and Records; Discussions.

Keep proper books of records and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its businesses and activities; and permit, during regular business hours and upon reasonable notice by the Administrative Agent, the Administrative Agent to visit and inspect any of its properties and examine and make abstracts (including photocopies) from any of its books and records (other than materials protected by the attorney-client privilege or materials which the Credit Parties may not disclose without violation of a confidentiality obligation binding upon them) at any reasonable time, and to discuss the business, operations, properties

and financial and other condition of the members of the Consolidated Group with officers and employees of the members of the Consolidated Group and with their independent certified public accountants. The cost of the inspection referred to in the preceding sentence shall be for the account of the Lenders unless an Event of Default has occurred and is continuing, in which case the cost of such inspection shall be for the account of the Credit Parties.

7.8 Environmental Laws.

(a) Comply in all material respects with, and take reasonable actions to ensure compliance in all material respects by all tenants and subtenants, if any, with, all applicable Environmental Laws and obtain and comply in all material respects with and maintain, and take reasonable actions to ensure that all tenants and subtenants obtain and comply in all material respects with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect;

(b) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply in all material respects with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws except to the extent that the same are being contested in good faith by appropriate proceedings and the failure to do or the pendency of such proceedings could not reasonably be expected to have a Material Adverse Effect; and

(c) Defend, indemnify and hold harmless the Administrative Agent and the Lenders, and their respective employees, agents, officers and directors, from and against any and all claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of the members of the Consolidated Group or the Properties, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, reasonable attorney's and consultant's fees, investigation and laboratory fees, response costs, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the gross negligence or willful misconduct of the party seeking indemnification therefor. The agreements in this paragraph shall survive repayment of the Loans and all other amounts payable hereunder, and termination of the Commitments.

7.9 Financial Covenants.

(a) Consolidated Leverage Ratio. As of the end of each fiscal quarter, the Consolidated Leverage Ratio shall be not greater than

for the fiscal quarter ending on or about October 30, 1998	4.30:1.0
for the fiscal quarter ending on or about July 30 of each year thereafter	4.75:1.0
for each other fiscal quarter ending after the fiscal quarter ending on or about October 30, 1998	4.0:1.0

(b) Consolidated Fixed Charge Coverage Ratio. As of the end of each fiscal quarter to occur during the periods shown, the Consolidated Fixed Charge Coverage Ratio shall be not less than 3.0:1.0.

(c) Consolidated Net Worth. As of the end of each fiscal quarter (after giving effect to the IPO), Consolidated Net Worth shall be not less than \$90,000,000 plus the net cash proceeds from the IPO plus on the last day of each fiscal quarter to occur after the Closing Date, 50% of Consolidated Net Income for the fiscal quarter then ended, such increases to be cumulative, plus 100% of the net proceeds from Equity Transactions occurring after the Closing Date.

(d) Capital Expenditures. Members of the Consolidated Group will not make Capital Expenditures in any fiscal year in excess of:

Fiscal year 1998	\$5,000,000
Fiscal year 1999	\$6,000,000
Fiscal year 2000	\$7,000,000
Fiscal year 2001	\$8,000,000
Fiscal year 2002	\$9,000,000
Fiscal year 2003	\$10,000,000

The unused portion of Capital Expenditures permitted but not used in any fiscal year may be carried over and used in the next fiscal year (one-year carry-over).

7.10 Agency Fees.

Pay to the Administrative Agent the annual agency fee and comply with the other agreements provided for in the Administrative Agent's Fee Letter.

7.11 Additional Guaranties and Stock Pledges.

(a) Domestic Subsidiaries. Where Domestic Subsidiaries of the Borrower which are not Credit Parties hereunder (the "Non-Guarantor Subsidiaries") shall at any time constitute more than (the "Threshold Requirement"):

(i) in any instance for any such Non-Guarantor Subsidiary, five percent (5%) of consolidated assets for the Consolidated Group or five percent (5%) of consolidated revenues for the Consolidated Group, or

(ii) in the aggregate for all such Non-Guarantor Subsidiaries, ten percent (10%) of consolidated assets for the Consolidated Group or ten percent (10%) of consolidated revenues for the Consolidated Group,

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then the Borrower shall (i) promptly notify the Administrative Agent thereof, and promptly cause such Domestic Subsidiary or Subsidiaries to become a Guarantor by execution of a Joinder Agreement, such that immediately after joinder as a Guarantor, the remaining Non-Guarantor Subsidiaries shall not in any instance, or collectively, exceed the Threshold Requirement, (ii) deliver with the Joinder Agreement, supporting resolutions, incumbency certificates, corporate formation and organizational documentation and opinions of counsel as the Administrative Agent may reasonably request, and (iii) deliver stock certificates and related pledge agreements or pledge joinder agreements evidencing the pledge of 100% of the Voting Stock of all Domestic Subsidiaries (whether or not they are Guarantors) and 65% of the Voting Stock of all Foreign Subsidiaries, together with undated stock transfer powers executed in blank.

(b) Foreign Subsidiaries. At any time any Person becomes a Foreign Subsidiary, the Borrower will promptly notify the Administrative Agent thereof and cause (i) delivery of supporting resolutions, incumbency certificates, corporation formation and organizational documentation and opinions of counsel as the Administrative Agent may reasonably request, and (ii) delivery of stock certificates (where required for perfection under local law) and a related pledge agreement or pledge joinder agreement evidencing the pledge of 65% of the Voting Stock of such Foreign Subsidiary and of 65% of the Voting Stock of each of its Domestic Subsidiaries and 65% of the Voting Stock of each of its Foreign Subsidiaries, together in each case with undated stock transfer powers executed in blank.

7.12 Ownership of Subsidiaries.

Except to the extent otherwise permitted in Section 8.4(b) and Section 8.7 and to the extent as would not cause a Change of Control and except as set forth on Schedule 6.14, the Borrower shall, directly or indirectly, own at all times 100% of the Voting Stock of each of its Subsidiaries.

7.13 Use of Proceeds.

Extensions of Credit will be used solely for the purposes provided in Section 6.15.

7.14 Year 2000 Compatibility.

Take all action necessary to assure that its computer based systems are able to operate and effectively process data including dates on and after January 1, 2000, and, at the reasonable request of the Administrative Agent or the Required Lenders, provide evidence to the Lenders of such year 2000 compatibility.

7.15 Further Assurances in respect of Assumed Mortgage  
Indebtedness.

As of the Closing Date, it is the present intention of the Borrower, as a general matter, to lease, rather than own, real property in its business. To that end, the Borrower plans to market real property owned by it with an intent to lease back the real property necessary and useful in its operations and to dispose of real property which is not needed in the operation of its business.

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Consistent with this approach, the Borrower agrees that in respect of real property constituting an acquisition permitted under Section 8.4, including such real property which is subject to a mortgage lien permitted hereunder ("Acquired Real Property"), it will, and will cause its Domestic Subsidiaries to, sell and lease-back or sell and dispose of such Acquired Real Property, within 18 months from the date of acquisition, in the case of Acquired Real Property with a fair market value of less than \$5 million for any individual property, and within 12 months from the date of acquisition in the case of Acquired Real Property with a fair market value of \$5 million or more for any individual property (the "Acquired Real Property Disposition Period"). In the event that any Acquired Real Property remains at the end of the applicable Acquired Real Property Disposition Period, (i) in the case of properties with a fair market value of \$5 million or more for any individual property, the Borrower will cause such properties to be released from the mortgage Liens in favor of other lenders, if any, and grant mortgage Liens in favor of the Administrative Agent to secure the Obligations hereunder, together with the items referenced in Section 5.3; and (ii) in the case of properties with a fair market value of less than \$5 million for any individual property, then if and to the extent the fair market value of all such properties shall exceed \$15 million in the aggregate, the Borrower will cause a sufficient number of such properties to be released from the mortgage Liens in favor of other lenders, if any, and grant mortgage Liens in favor of the Administrative Agent to secure the Obligations hereunder, together with the items referenced in Section 5.3, such that after giving effect thereto the fair market value of such properties not subject to the mortgage Liens in favor of the Administrative Agent to secure the Obligations hereunder shall not exceed \$15 million in the aggregate. Failure to release Acquired Real Property from the mortgage Liens and to provide mortgage Liens in favor of the Administrative Agent to secure the Obligations as required hereunder (together with the other items referenced in Section 5.3) by the end of the Acquired Real Property Disposition Period will constitute a default under Section 8.2, in the absence of a consent by the Required Lenders.

SECTION 8

NEGATIVE COVENANTS

Each of the Credit Parties covenants and agrees that on the Closing Date, and so long as this Credit Agreement is in effect and until the Commitments have been terminated, no Obligations remain outstanding and all amounts owing hereunder or in connection herewith, have been paid in full, no member of the Consolidated Group shall:

8.1 Indebtedness.

Contract, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness arising or existing under this Credit Agreement and the other Credit Documents;

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(b) Indebtedness set forth in Schedule 8.1, and renewals, refinancings and extensions thereof on terms and conditions no less favorable than for such existing Indebtedness;

(c) Capital Lease Obligations and Indebtedness incurred, in each case, to provide all or a portion of the purchase price or costs of construction of an asset or, in the case of a sale/leaseback transaction as described in Section 8.11, to finance the value of such asset owned by a member of the Consolidated Group, provided that (i) such Indebtedness when incurred shall not exceed the purchase price or cost of construction of such asset or, in the case of a sale/leaseback transaction, the fair market value of such asset, (ii) no such Indebtedness shall be refinanced for a principal amount in excess of the principal balance outstanding thereon at the time of such refinancing plus the reasonable expenses of such refinancing, and (iii) the total amount of all such Indebtedness shall not exceed \$5,000,000 at any time outstanding;

(d) Indebtedness and obligations in connection with Permitted Securitization Transactions; provided that the total Attributed Principal Amount for all such financings shall not exceed \$50,000,000 at any time;

(e) Indebtedness and obligations owing under interest rate protection agreements relating to the Obligations hereunder and under interest rate, commodities and foreign currency exchange protection agreements entered into in the ordinary course of business to manage existing or anticipated risks and not for speculative purposes;

(f) unsecured intercompany Indebtedness owing by a member of the Consolidated Group to another member of the Consolidated Group;

(g) Subordinated Debt of the Borrower;

(h) mortgage Indebtedness assumed in connection with an acquisition permitted under Section 8.4, and any refinancing, refunding, renewal or extension thereof, provided that (i) such Indebtedness was in existence as of the date of the acquisition and was not incurred or assumed in contemplation thereof, (ii) the amount of any such mortgage Indebtedness shall not be increased in connection with any refinancing, refunding, renewal or extension (exclusive of reasonable premiums, fees and expenses in connection therewith), and (iii) the Borrower shall be compliance with the requirements of Section 7.15;

(i) other unsecured Indebtedness of the Borrower of up to \$5,000,000 in the aggregate at any time outstanding; and

(j) Support Obligations with respect to Indebtedness permitted under this Section 8.1.

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## 8.2 Liens.

Contract, create, incur, assume or permit to exist any Lien with respect to any of their respective property or assets of any kind (whether real or personal, tangible or intangible), whether now owned or hereafter acquired, except for Permitted Liens.

## 8.3 Nature of Business.

Alter the character of their business in any material respect from that

conducted as of the Closing Date and similar or related businesses.

8.4 Consolidation, Merger, Sale or Purchase of Assets, etc.

Other than those transactions contemplated in the Borrower's Form S-1 Registration Statement under the Securities Act of 1933 with respect to the IPO,

(a) Enter into a transaction of merger or consolidation, except

(i) a member of the Consolidated Group may be a party to a transaction of merger or consolidation with another member of the Consolidated Group, provided that (A) if the Borrower is a party thereto, it shall be the surviving corporation, (B) if a Guarantor is a party thereto and the Borrower is not a party thereto, a Guarantor shall be the surviving corporation or the surviving corporation shall be a Domestic Subsidiary and shall become a Guarantor hereunder as an Additional Credit Party pursuant to Section 7.11 concurrently therewith, and (C) no Default or Event of Default shall exist either immediately prior to or immediately after giving effect thereto; and

(ii) a member of the Consolidated Group (other than the Borrower) may be a party to a transaction of merger or consolidation with any other Person, provided that (A) the provisions of Section 7.11 regarding joinder of certain Subsidiaries as Additional Credit Parties hereunder shall be complied with, (B) no Default or Event of Default shall exist either immediately prior to or immediately after giving effect thereto, and (C) the provisions of subsection (c) of this Section shall be complied with.

(b) Sell, lease, transfer or otherwise dispose of assets, property and/or operations (including any sale-leaseback transaction, but excluding the sale of inventory in the ordinary course of business, the sale or disposition of plant, property and equipment which is no longer useful in the business or as to which the proceeds therefrom are reinvested in plant, property and equipment within six months thereof), other than to another Credit Party, which

(i) in the aggregate in any fiscal year shall constitute more than ten percent (10%) of total assets for the Consolidated Group as of the immediately preceding fiscal year, or in the aggregate in any fiscal year shall account for more than ten percent (10%) of Consolidated Net Income for the immediately preceding fiscal year; or

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(ii) would cause a Default or Event of Default to exist after giving effect thereto on a Pro Forma Basis,

without the prior written consent of the Required Lenders (which consent shall not be unreasonably withheld or delayed).

(c) Acquire all or any portion of the capital stock or other ownership interest in any Person which is not a Subsidiary or all or any substantial portion of the assets, property and/or operations of a Person which is not a Subsidiary, without the prior written consent of the Required Lenders (which consent shall not be unreasonably withheld or delayed), unless

(i) in the case of an acquisition of capital stock or other ownership interest after giving effect thereto, such Person will not be a Subsidiary, then such acquisition will not cause a violation of Section 8.5;

(ii) in the case of an acquisition of capital stock

or other ownership interest, after giving effect thereto, such Person will be a Subsidiary, or in the case of an acquisition of assets, property and/or operations, then

(A) the cost of any such acquisition (or series of related transactions) shall not exceed \$50 million in any instance;

(B) the acquisition is in the same or a similar or related line of business as that of the Credit Parties;

(C) the Board of Directors of the Person which is the subject of the acquisition shall have approved the acquisition; and

(D) no Default or Event of Default would exist after giving effect thereto on a Pro Forma Basis.

(d) In the case of the Borrower and any Subsidiary which is not wholly-owned, liquidate, wind-up or dissolve, whether voluntarily or involuntarily (or suffer to permit any such liquidation or dissolution).

#### 8.5 Advances, Investments and Loans.

Lend money or extend credit or make advances to any Person, or purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, or otherwise make an Investment in, any Person except for Permitted Investments.

#### 8.6 Transactions with Affiliates.

Enter into or permit to exist any transaction or series of transactions, whether or not in the ordinary course of business, with any officer, director, shareholder or Affiliate other than (i)

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transactions permitted by Section 8.1, Section 8.4(b), Section 8.5 or Section 8.10, (ii) customary fees and expenses paid to directors, (iii) transactions between the Borrower and a wholly owned Domestic Guarantor, (iv) transactions pursuant to agreements existing as of the Closing Date and set forth on Schedule 8.6 hereto [to include Ledecy Services Agreement described on p. 38 of Form S-1], and (v) any other transaction that is on terms and conditions substantially as favorable as would be obtainable in a comparable arm's-length transaction with a Person other than an officer, director, shareholder or Affiliate.

#### 8.7 Ownership of Equity Interests.

Issue, sell, transfer, pledge or otherwise dispose of any partnership interests, shares of capital stock or other equity or ownership interests ("Equity Interests") in any member of the Consolidated Group, except (i) issuance, sale or transfer of Equity Interests to a Credit Party by a Subsidiary of such Credit Party, (ii) in connection with a transaction permitted by Section 8.4, or (iii) as needed to qualify directors under applicable law.

#### 8.8 Fiscal Year.

Change its fiscal year end from the last Saturday in April of each year.

#### 8.9 Prepayments of Indebtedness, etc.

(a) After the issuance thereof, amend or modify (or permit the amendment or modification of), the terms of any other Indebtedness in a manner



adverse to the interests of the Lenders (including specifically shortening any maturity or average life to maturity or requiring any payment sooner than previously scheduled or increasing the interest rate or fees applicable thereto);

(b) Make any prepayment, redemption, defeasance or acquisition for value of (including without limitation, by way of depositing money or securities with the trustee with respect thereto before due for the purpose of paying when due), or refund, refinance or exchange of any Funded Debt (other than the Obligations or intercompany Indebtedness permitted hereunder) other than (a) regularly scheduled payments of principal and interest, (b) Funded Debt having an interest rate in excess of the Base Rate, and (c) other Funded Debt not exceeding \$250,000 in any instance and \$500,000 in the aggregate in any calendar year.

8.10 Restricted Payments.

Make or permit any Restricted Payments, unless and to the extent that no Default or Event of Default shall exist immediately prior or after giving effect thereto on a Pro Forma Basis.

8.11 No Further Negative Pledges.

Except with respect to prohibitions against other encumbrances on specific Property encumbered to secure payment of particular Indebtedness (which Indebtedness relates solely to

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such specific Property, and improvements and accretions thereto, and is otherwise permitted hereby), no member of the Consolidated Group will enter into, assume or become subject to any agreement prohibiting or otherwise restricting the creation or assumption of any Lien upon its material properties or assets, whether now owned or hereafter acquired, or requiring the grant of any material security for such obligation if security is given for some other obligation.

SECTION 9

EVENTS OF DEFAULT

9.1 Events of Default.

An Event of Default shall exist upon the occurrence of any of the following specified events (each an "Event of Default"):

(a) Payment. Any Credit Party shall

(i) default in the payment when due of any principal of any of the Loans or of any reimbursement obligations arising from drawings under Letters of Credit and such default shall continue for the lesser of three (3) Business Days or until the Termination Date; or

(ii) default, and such defaults shall continue for three (3) or more Business Days, in the payment when due of any interest on the Loans or on any reimbursement obligations arising from drawings under Letters of Credit, or of any Fees or other amounts owing hereunder, under any of the other Credit Documents or in connection herewith or therewith; or

(b) Representations. Any representation, warranty or statement made or deemed to be made herein, in any of the other Credit Documents, or in any statement or certificate delivered or required to be delivered pursuant hereto or thereto shall prove untrue in any material respect on the date as of which it was deemed to have been made; or

(c) Covenants.

(i) Default in the due performance or observance of any term, covenant or agreement contained in Section 7.3(a), 7.9, 7.11, 7.13 or 8.1 through 8.12, inclusive, or any condition contained in Section 5.3;

(ii) Default in the due performance or observance by it of any term, covenant or agreement (other than those referred to in subsections (a), (b) or (c)(i) of this Section 9.1) contained in this Credit Agreement and such default shall continue unremedied for a period of at least 30 days after the earlier of a responsible officer of a Credit Party becoming aware of such default or notice thereof by the Administrative Agent; or

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(d) Other Credit Documents. (i) Any Credit Party shall default in the due performance or observance of any material term, covenant or agreement in any of the other Credit Documents (subject to applicable grace or cure periods, if any), or (ii) except as to the Credit Party which is dissolved, released or merged or consolidated out of existence as the result of or in connection with a dissolution, merger or disposition permitted by Section 8.4(a), Section 8.4(b) or Section 8.4(c), any Credit Document shall fail to be in full force and effect or to give the Administrative Agent and/or the Lenders any material part of the Liens, rights, powers and privileges purported to be created thereby; or

(e) Guaranties. Except as to the Credit Party which is dissolved, released or merged or consolidated out of existence as the result of or in connection with a dissolution, merger or disposition permitted by Section 8.4(a), Section 8.4(b) or Section 8.4(c), the guaranty given by any Guarantor hereunder or any material provision thereof shall cease to be in full force and effect, or any Guarantor hereunder or any Person acting by or on behalf of such Guarantor shall deny or disaffirm such Guarantor's obligations under such guaranty, or any Guarantor shall default (subject to applicable grace or cure period, if any) in the due performance or observance of any term, covenant or agreement on its part to be performed or observed pursuant to any guaranty; or

(f) Bankruptcy, etc. Any Bankruptcy Event shall occur with respect to any Credit Party; or

(g) Defaults under Other Agreements. With respect to any Indebtedness (other than Indebtedness outstanding under this Credit Agreement) in excess of \$5,000,000 in the aggregate for the Consolidated Group taken as a whole, (A) (1) any member of the Consolidated Group shall default in any payment (beyond the applicable grace period with respect thereto, if any) with respect to any such Indebtedness, or (2) the occurrence and continuance of a default in the observance or performance relating to such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event or condition shall occur or condition exist, the effect of which default or other event or condition is to cause, or permit, the holder or holders of such Indebtedness (or trustee or agent on behalf of such holders) to cause (determined without regard to whether any notice or lapse of time is required), any such Indebtedness to become due prior to its stated maturity; or (B) any such Indebtedness shall be declared due and payable, or required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof; or

(h) Judgments. Any member of the Consolidated Group shall fail within 60 days of the date due and payable to pay, bond or otherwise discharge any judgment, settlement or order for the payment of money which judgment, settlement or order, when aggregated with all other such judgments, settlements or orders due and unpaid at such time, exceeds \$1,000,000, and which is not covered by insurance, stayed on appeal (or for which no motion for stay is pending) or is not otherwise being executed; or

(i) ERISA. Any of the following events or conditions, if such event or condition could reasonably be expected to have a Material Adverse Effect: (1) any "accumulated funding

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deficiency," as such term is defined in Section 302 of ERISA and Section 412 of the Code, whether or not waived, shall exist with respect to any Plan, or any lien shall arise on the assets of a member of the Consolidated Group or any ERISA Affiliate in favor of the PBGC or a Plan; (2) an ERISA Event shall occur with respect to a Single Employer Plan, which is, in the reasonable opinion of the Administrative Agent, likely to result in the termination of such Plan for purposes of Title IV of ERISA; (3) an ERISA Event shall occur with respect to a Multiemployer Plan or Multiple Employer Plan, which is, in the reasonable opinion of the Administrative Agent, likely to result in (i) the termination of such Plan for purposes of Title IV of ERISA, or (ii) a member of the Consolidated Group or any ERISA Affiliate incurring any liability in connection with a withdrawal from, reorganization of (within the meaning of Section 4241 of ERISA), or insolvency of (within the meaning of Section 4245 of ERISA) such Plan; or (4) any prohibited transaction (within the meaning of Section 406 of ERISA or Section 4975 of the Code) or breach of fiduciary responsibility shall occur which may subject a member of the Consolidated Group or any ERISA Affiliate to any liability under Sections 406, 409, 502(i), or 502(l) of ERISA or Section 4975 of the Code, or under any agreement or other instrument pursuant to which a member of the Consolidated Group or any ERISA Affiliate has agreed or is required to indemnify any person against any such liability; or

(j) Ownership. There shall occur a Change of Control.

#### 9.2 Acceleration; Remedies.

Upon the occurrence and during the continuance of an Event of Default, and at any time thereafter, the Administrative Agent shall, upon the request and direction of the Required Lenders, by written notice to the Credit Parties take any of the following actions:

(i) Termination of Commitments. Declare the Commitments terminated whereupon the Commitments shall be immediately terminated.

(ii) Acceleration. Declare the unpaid principal of and any accrued interest in respect of all Loans, any reimbursement obligations arising from drawings under Letters of Credit and any and all other indebtedness or obligations of any and every kind owing by the Credit Parties to the Administrative Agent and/or any of the Lenders hereunder to be due whereupon the same shall be immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each of the Credit Parties.

(iii) Cash Collateral. Direct the Borrowers to pay (and each Borrower agrees that upon receipt of such notice, or upon the occurrence of an Event of Default under Section 9.1(f), it will immediately pay) to the Administrative Agent additional cash, to be held by the Administrative Agent, for the benefit of the Lenders, in a cash collateral account as additional security for the LOC Obligations in respect of subsequent drawings under all then outstanding Letters of Credit in an amount equal to the maximum aggregate amount which may be drawn under all Letters of Credits then outstanding.

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(iv) Enforcement of Rights. Enforce any and all rights and

interests created and existing under the Credit Documents and all rights of set-off.

Notwithstanding the foregoing, if an Event of Default specified in Section 9.1(f) shall occur, then (a) if such Event of Default occurs with respect to the Borrower, (i) with respect to the Borrower, the Commitments shall automatically terminate and all Loans, all reimbursement obligations arising from drawings under Letters of Credit, all accrued interest in respect thereof, all accrued and unpaid Fees and other indebtedness or obligations owing to the Administrative Agent and/or any of the Lenders hereunder automatically shall immediately become due and payable without presentment, demand, protest or the giving of any notice or other action by the Administrative Agent or the Lenders, all of which are hereby waived by the Credit Parties, and (ii) with respect to any other Credit Party, all obligations of such Credit Party hereunder automatically shall immediately become due and payable without presentment, demand, protest or the giving of any notice or other action by the Administrative Agent or the Lenders, all of which are hereby waived by such Credit Party; (b) if such Event of Default occurs with respect to any other Credit Party, all obligations of such Credit Party hereunder automatically shall immediately become due and payable without presentment, demand, protest or the giving of any notice or other action by the Administrative Agent or the Lenders, all of which are hereby waived by such Credit Party; and (c) nothing in this sentence shall be construed to prevent the Administrative Agent or the Lenders from exercising any other remedies it or they may have under this Section 9.2.

## SECTION 10

### AGENCY PROVISIONS

#### 10.1 Appointment.

Each Lender hereby designates and appoints NationsBank, N.A. as administrative agent (in such capacity, the "Administrative Agent") of such Lender to act as specified herein and the other Credit Documents, and each such Lender hereby authorizes the Administrative Agent as the Administrative Agent for such Lender, to take such action on its behalf under the provisions of this Credit Agreement and the other Credit Documents and to exercise such powers and perform such duties as are expressly delegated by the terms hereof and of the other Credit Documents, together with such other powers as are reasonably incidental thereto. Each Lender further directs and authorizes the Administrative Agent to execute releases (or similar agreements) to give effect to the provisions of this Credit Agreement and the other Credit Documents, including specifically without limitation the provisions of Section 8.4 hereof. Notwithstanding any provision to the contrary elsewhere herein and in the other Credit Documents, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein and therein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Credit Agreement or any of the other Credit Documents, or shall otherwise exist against the Administrative Agent. The provisions of this Section are solely for the benefit of the Administrative Agent and the Lenders and none of the Credit Parties shall have any rights as a third party beneficiary of the provisions hereof. In

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performing its functions and duties under this Credit Agreement and the other Credit Documents, the Administrative Agent shall act solely as Administrative Agent of the Lenders and does not assume and shall not be deemed to have assumed any obligation or relationship of agency or trust with or for any Credit Party or any of their respective Affiliates.

#### 10.2 Delegation of Duties.

The Administrative Agent may execute any of its duties hereunder or

under the other Credit Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

#### 10.3 Exculpatory Provisions.

The Administrative Agent and its officers, directors, employees, agents, attorneys-in-fact or affiliates shall not be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection herewith or in connection with any of the other Credit Documents (except for its or such Person's own gross negligence or willful misconduct), or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by any of the Credit Parties contained herein or in any of the other Credit Documents or in any certificate, report, document, financial statement or other written or oral statement referred to or provided for in, or received by the Administrative Agent under or in connection herewith or in connection with the other Credit Documents, or enforceability or sufficiency therefor of any of the other Credit Documents, or for any failure of any Credit Party to perform its obligations hereunder or thereunder. The Administrative Agent shall not be responsible to any Lender for the effectiveness, genuineness, validity, enforceability, collectability or sufficiency of this Credit Agreement, or any of the other Credit Documents or for any representations, warranties, recitals or statements made herein or therein or made by the Borrower or any Credit Party in any written or oral statement or in any financial or other statements, instruments, reports, certificates or any other documents in connection herewith or therewith furnished or made by the Administrative Agent to the Lenders or by or on behalf of the Credit Parties to the Administrative Agent or any Lender or be required to ascertain or inquire as to the performance or observance of any of the terms, conditions, provisions, covenants or agreements contained herein or therein or as to the use of the proceeds of the Loans or the use of the Letters of Credit or of the existence or possible existence of any Default or Event of Default or to inspect the properties, books or records of the Credit Parties or any of their respective Affiliates.

#### 10.4 Reliance on Communications.

The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to any of

the Credit Parties, independent accountants and other experts selected by the Administrative Agent with reasonable care). The Administrative Agent may deem and treat the Lenders as the owners of their respective interests hereunder for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent in accordance with Section 11.3(b) hereof. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Credit Agreement or under any of the other Credit Documents unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or under any of the other Credit Documents in accordance with a request of the Required Lenders (or to the extent specifically provided in Section 11.6, all the Lenders) and such request and any action taken or failure to act pursuant thereto shall be binding upon

all the Lenders (including their successors and assigns).

10.5 Notice of Default.

The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent has received notice from a Lender or a Credit Party referring to the Credit Document, describing such Default or Event of Default and stating that such notice is a "notice of default." In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders.

10.6 Non-Reliance on Administrative Agent and Other Lenders.

Each Lender expressly acknowledges that each of the Administrative Agent and its officers, directors, employees, Administrative Agents, attorneys-in-fact or affiliates has not made any representations or warranties to it and that no act by the Administrative Agent or any affiliate thereof hereinafter taken, including any review of the affairs of any Credit Party or any of their respective Affiliates, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, assets, operations, property, financial and other conditions, prospects and creditworthiness of the Borrower, the other Credit Parties or their respective Affiliates and made its own decision to make its Loans hereunder and enter into this Credit Agreement. Each Lender also represents that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Credit Agreement, and to make such investigation as it deems necessary to inform itself as to the business, assets, operations, property, financial and other conditions, prospects and creditworthiness of the Borrower, the other Credit Parties and their respective Affiliates. Except for notices, reports and other documents expressly required to be

furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, assets, property, financial or other conditions, prospects or creditworthiness of the Borrower, the other Credit Parties or any of their respective Affiliates which may come into the possession of the Administrative Agent or any of its officers, directors, employees, Administrative Agents, attorneys-in-fact or affiliates.

10.7 Indemnification.

The Lenders agree to indemnify the Administrative Agent in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Commitments (or if the Commitments have expired or been terminated, in accordance with the respective principal amounts of outstanding Loans and Participation Interests of the Lenders), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including without limitation at any time following the final payment of all of the obligations of the Borrower hereunder and under the other Credit Documents) be imposed on, incurred by or asserted against the Administrative Agent in its capacity as such in any way relating to or arising out of this Credit Agreement

or the other Credit Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Administrative Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the gross negligence or willful misconduct of the Administrative Agent. If any indemnity furnished to the Administrative Agent for any purpose shall, in the opinion of the Administrative Agent, be insufficient or become impaired, the Administrative Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished. The agreements in this Section shall survive the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder.

10.8 Administrative Agent in its Individual Capacity.

The Administrative Agent and its affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower, its Subsidiaries or their respective Affiliates as though the Administrative Agent were not the Administrative Agent hereunder. With respect to the Loans made by and all obligations of the Borrower hereunder and under the other Credit Documents, the Administrative Agent shall have the same rights and powers under this Credit Agreement as any Lender and may exercise the same as though it were not the Administrative Agent, and the terms "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

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10.9 Successor Administrative Agent.

The Administrative Agent may, at any time, resign upon 20 days' written notice to the Lenders, and may be removed, upon show of cause, by the Required Lenders upon 30 days' written notice to the Administrative Agent. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the notice of resignation or notice of removal, as appropriate, then the retiring Administrative Agent shall select a successor Administrative Agent provided such successor is a Lender hereunder or a commercial bank organized under the laws of the United States of America or of any State thereof and has a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations as Administrative Agent, as appropriate, under this Credit Agreement and the other Credit Documents and the provisions of this Section 10.9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Credit Agreement.

SECTION 11

MISCELLANEOUS

11.1 Notices.

Except as otherwise expressly provided herein, all notices and other communications shall have been duly given and shall be effective (i) when delivered, (ii) when transmitted via telecopy (or other facsimile device) to the number set out below with receipt confirmed by machine or voice, (iii) the day following the day on which the same has been delivered prepaid to a reputable national overnight air courier service, or (iv) the third Business Day following the day on which the same is sent by certified or registered mail, postage

prepaid, in each case to the respective parties at the address, in the case of the Borrower, Guarantors and the Administrative Agent, set forth below, and, in the case of the Lenders, set forth on Schedule 11.1, or at such other address as such party may specify by written notice to the other parties hereto:

if to the Borrower or the Guarantors:

School Specialty, Inc.  
100 N. Bluemound Drive  
Appleton, Wisconsin 54913-1579  
Attn: Donald J. Noskowiak  
Telephone: 920-734-2756, Ext. 258  
Telecopy: 920-734-6276

with a copy to:

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Joseph F. Franzoi, IV  
Franzoi & Franzoi, S.C.  
514 Racine Street  
Menasha, Wisconsin 54952-2398  
Telephone: 920-725-3916  
Telecopy: 920-725-0998

and a copy to:

Russell J. Bruemmer  
Wilmer, Cutler & Pickering  
2445 M Street, NW  
Washington, DC 20037-1420  
Telephone: 202-663-6804  
Telecopy: 202-663-6363

if to the Administrative Agent:

NationsBank, N.A.  
101 N. Tryon Street  
Independence Center, 15th Floor  
NC1-001-15-04  
Charlotte, North Carolina 28255  
Attn: Agency Services  
Telephone: (704) 388-1108  
Telecopy: (704) 388-9436

with a copy to:

NationsBank, N.A.  
Corporate Finance Group  
6610 Rockledge Drive, 6th Floor  
MD2-600-06-13  
Bethesda, Maryland 20817-1876  
Attn: Michael R. Heredia  
Telephone: (301) 571-0724  
Telecopy: (301) 571-0719

#### 11.2 Right of Set-Off.

In addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence and during the continuance of an Event of Default, each Lender is authorized at any time and from time to time, without presentment, demand, protest or other notice of any kind (all of which rights being hereby expressly



waived), to set-off and to appropriate and apply any and all deposits (general or special) and any other indebtedness at any time held or owing by such Lender (including, without limitation branches, agencies or Affiliates of such Lender wherever located) to or for the credit or the account of any Credit Party against obligations and liabilities of such Person to such Lender hereunder, under the Notes, the other Credit Documents or otherwise, irrespective of whether such Lender shall have made any demand hereunder and although such obligations, liabilities or claims, or any of them, may be contingent or unmatured, and any such set-off shall be deemed to have been made immediately upon the occurrence of an Event of Default even though such charge is made or entered on the books of such Lender subsequent thereto. Any Person purchasing a participation in the Loans and Commitments hereunder pursuant to Section 3.13 or Section 11.3(d) may exercise all rights of set-off with respect to its participation interest as fully as if such Person were a Lender hereunder.

### 11.3 Benefit of Agreement.

(a) Generally. This Credit Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; provided that none of the Credit Parties may assign or transfer any of its interests without prior written consent of the Lenders; provided further that the rights of each Lender to transfer, assign or grant participations in its rights and/or obligations hereunder shall be limited as set forth in this Section 11.3, provided however that nothing herein shall prevent or prohibit any Lender from (i) pledging its Loans hereunder to a Federal Reserve Bank in support of borrowings made by such Lender from such Federal Reserve Bank, or (ii) granting assignments or selling participations in such Lender's Loans and/or Commitments hereunder to its parent company and/or to any Affiliate or Subsidiary of such Lender.

(b) Assignments. Each Lender may assign all or a portion of its rights and obligations hereunder, pursuant to an assignment agreement substantially in the form of Schedule 11.3(b), to (i) any Lender or any Affiliate or Subsidiary of a Lender, or (ii) any other commercial bank, financial institution or "accredited investor" (as defined in Regulation D of the Securities and Exchange Commission) reasonably acceptable to the Administrative Agent and, so long as no Default or Event of Default has occurred and is continuing, the Borrower; provided that (i) any such assignment (other than any assignment to an existing Lender) shall be in a minimum aggregate amount of \$5,000,000 (or, if less, the remaining amount of the Commitment being assigned by such Lender) of the Commitments and in integral multiples of \$1,000,000 above such amount and (ii) each such assignment shall be of a constant, not varying, percentage of all such Lender's rights and obligations under this Credit Agreement. Any assignment hereunder shall be effective upon delivery to the Administrative Agent of written notice of the assignment together with a transfer fee of \$3,500 payable by the Assigning Lender to the Administrative Agent for its own account from and after the later of (i) the effective date specified in the applicable assignment agreement and (ii) the date of recording of such assignment in the Register pursuant to the terms of subsection (c) below. The assigning Lender will give prompt notice to the Administrative Agent and the Borrower of any such assignment. Upon the effectiveness of any such assignment (and after notice to, and (to the extent required pursuant to the terms hereof), with the consent of, the Borrower as provided herein), the assignee shall become a "Lender" for all purposes of this Credit Agreement

and the other Credit Documents and, to the extent of such assignment, the assigning Lender shall be relieved of its obligations hereunder to the extent of the Loans and Commitment components being assigned. Along such lines the Borrower agrees that upon notice of any such assignment and surrender of the

appropriate Note or Notes, it will promptly provide to the assigning Lender and to the assignee separate promissory notes in the amount of their respective interests substantially in the form of the original Note (but with notation thereon that it is given in substitution for and replacement of the original Note or any replacement notes thereof). By executing and delivering an assignment agreement in accordance with this Section 11.3(b), the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim; (ii) except as set forth in clause (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Credit Agreement, any of the other Credit Documents or any other instrument or document furnished pursuant hereto or thereto, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Credit Agreement, any of the other Credit Documents or any other instrument or document furnished pursuant hereto or thereto or the financial condition of any Credit Party or any of their respective Affiliates or the performance or observance by any Credit Party of any of its obligations under this Credit Agreement, any of the other Credit Documents or any other instrument or document furnished pursuant hereto or thereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such assignment agreement; (iv) such assignee confirms that it has received a copy of this Credit Agreement, the other Credit Documents and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such assignment agreement; (v) such assignee will independently and without reliance upon the Administrative Agent, such assigning Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Credit Agreement and the other Credit Documents; (vi) such assignee appoints and authorizes the Administrative Agent to take such action on its behalf and to exercise such powers under this Credit Agreement or any other Credit Document as are delegated to the Administrative Agent by the terms hereof or thereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Credit Agreement and the other Credit Documents are required to be performed by it as a Lender.

(c) Maintenance of Register. The Administrative Agent shall maintain at one of its offices in Charlotte, North Carolina a copy of each Lender assignment agreement delivered to it in accordance with the terms of subsection (b) above and a register for the recordation of the identity of the principal amount, type and Interest Period of each Loan outstanding hereunder, the names, addresses and the Commitments of the Lenders pursuant to the terms hereof from time to time (the "Register"). The Administrative Agent will make reasonable efforts to maintain the accuracy of the Register and to promptly update the Register from time to time, as necessary. The entries in the Register shall be conclusive in the absence of manifest error and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Credit Agreement. The Register

shall be available for inspection by the Borrower and each Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Each Lender may sell, transfer, grant or assign participations in all or any part of such Lender's rights, obligations, or rights and obligations hereunder (including all or a portion of its Commitments or its Loans); provided that (i) such selling Lender shall remain a "Lender" for all purposes under this Credit Agreement (such selling Lender's obligations under the Credit Documents remaining unchanged) and the participant shall not constitute a Lender hereunder, (ii) no such participant shall have, or be

granted, rights to approve any amendment or waiver relating to this Credit Agreement or the other Credit Documents except to the extent any such amendment or waiver would (A) reduce the principal of or rate of interest on or Fees in respect of any Loans in which the participant is participating, (B) postpone the date fixed for any payment of principal (including extension of the Termination Date or the date of any mandatory prepayment), interest or Fees in which the participant is participating, (C) except as expressly provided in the Credit Documents, release all or substantially all of the Guarantors from their guaranty obligations hereunder, or (D) except as permitted under Section 8.4(b), release all or substantially all of the collateral, and (iii) sub-participations by the participant (except to an affiliate, parent company or affiliate of a parent company of the participant) shall be prohibited. In the case of any such participation, the participant shall not have any rights under this Credit Agreement or the other Credit Documents (the participant's rights against the selling Lender in respect of such participation to be those set forth in the participation agreement with such Lender creating such participation) and all amounts payable by and other obligations of the Borrower hereunder shall be determined as if such Lender had not sold such participation, provided, however, that such participant shall be entitled to receive additional amounts under Sections 3.6, 3.9, 3.10 and 3.11 on the same basis as if it were a Lender (but not in excess of amounts available to the Lender from which the participant took its interest).

11.4 No Waiver; Remedies Cumulative.

No failure or delay on the part of the Administrative Agent or any Lender in exercising any right, power or privilege hereunder or under any other Credit Document and no course of dealing between the Administrative Agent or any Lender and any of the Credit Parties shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights and remedies provided herein are cumulative and not exclusive of any rights or remedies which the Administrative Agent or any Lender would otherwise have. No notice to or demand on any Credit Party in any case shall entitle the Borrower or any other Credit Party to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Administrative Agent or the Lenders to any other or further action in any circumstances without notice or demand.

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11.5 Payment of Expenses, etc.

The Borrower agrees to: (i) pay all reasonable out-of-pocket costs and expenses (A) of the Administrative Agent in connection with the negotiation, preparation, execution and delivery and administration of this Credit Agreement and the other Credit Documents and the documents and instruments referred to therein (including, without limitation, the reasonable fees and expenses of Moore & Van Allen, PLLC, special counsel to the Administrative Agent) and any amendment, waiver or consent relating hereto and thereto including, but not limited to, any such amendments, waivers or consents resulting from or related to any work-out, renegotiation or restructure relating to the performance by the Credit Parties under this Credit Agreement and (B) of the Administrative Agent and the Lenders in connection with enforcement of the Credit Documents and the documents and instruments referred to therein (including, without limitation, in connection with any such enforcement, the reasonable fees and disbursements of counsel for the Administrative Agent and each of the Lenders); (ii) pay and hold each of the Lenders harmless from and against any and all present and future stamp and other similar taxes with respect to the foregoing matters and save each of the Lenders harmless from and against any and all liabilities with respect to or resulting from any delay or omission (other than to the extent attributable to such Lender) to pay such taxes; and (iii) indemnify each Lender, its officers, directors, employees, representatives and Administrative Agents from and hold each of them harmless against any and all losses, liabilities,

claims, damages or expenses incurred by any of them as a result of, or arising out of, or in any way related to, or by reason of (A) any investigation, litigation or other proceeding (whether or not any Lender is a party thereto) related to the entering into and/or performance of any Credit Document or the use of proceeds of any Loans (including other extensions of credit) hereunder or the consummation of any other transactions contemplated in any Credit Document, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceeding or (B) the presence or Release of any Materials of Environmental Concern at, under or from any Property owned, operated or leased by the Borrower or any of its Subsidiaries, or the failure by the Borrower or any of its Subsidiaries to comply with any Environmental Law (but excluding, in the case of either of clause (A) or (B) above, any such losses, liabilities, claims, damages or expenses to the extent incurred by reason of gross negligence or willful misconduct on the part of the Person to be indemnified).

11.6 Amendments, Waivers and Consents.

Neither this Credit Agreement nor any other Credit Document nor any of the terms hereof or thereof may be amended, changed, waived, discharged or terminated unless such amendment, change, waiver, discharge or termination is in writing entered into by, or approved in writing by, the Required Lenders and the Borrower, provided, however, that:

(a) without the consent of each Lender affected thereby, neither this Credit Agreement nor any of the other Credit Documents may be amended to

(i) extend the final maturity of any Loan or the time of payment of any reimbursement obligation, or any portion thereof, arising from drawings under

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Letters of Credit, or extend or waive any principal amortization payment of any Loan, or any portion thereof,

(ii) reduce the rate or extend the time of payment of interest (other than as a result of waiving the applicability of any increase in interest rates after the occurrence of an Event of Default or on account of a failure to deliver financial statements on a timely basis) thereon or Fees hereunder,

(iii) reduce or waive the principal amount of any Loan or of any reimbursement obligation, or any portion thereof, arising from drawings under Letters of Credit,

(iv) increase the Commitment of a Lender over the amount thereof in effect (it being understood and agreed that a waiver of any Default or Event of Default or mandatory reduction in the Commitments shall not constitute a change in the terms of any Commitment of any Lender),

(v) except as permitted under Section 8.4(b), release all or substantially all of the collateral,

(vi) except as the result of or in connection with a dissolution, merger or disposition of a Subsidiary permitted under Section 8.4, release the Borrower or all or substantially all of the Guarantors from its or their obligations under the Credit Documents,

(vii) amend, modify or waive any provision of this Section 11.6 or Section 3.6, 3.7, 3.8, 3.9, 3.10, 3.11, 3.12,

3.13, 3.14, 9.1(a), 11.2, 11.3, 11.5 or 11.9,

(viii) reduce any percentage specified in, or otherwise modify, the definition of Required Lenders, or

(ix) consent to the assignment or transfer by the Borrower (or another Credit Party) of any of its rights and obligations under (or in respect of) the Credit Documents except as permitted thereby;

(b) without the consent of the Agent, no provision of Section 10 may be amended;

(c) without the consent of the Issuing Lender, no provision of Section 2.2 may be amended.

Notwithstanding the fact that the consent of all the Lenders is required in certain circumstances as set forth above, (x) each Lender is entitled to vote as such Lender sees fit on any bankruptcy reorganization plan that affects the Loans, and each Lender acknowledges that the

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provisions of Section 1126(c) of the Bankruptcy Code supersedes the unanimous consent provisions set forth herein and (y) the Required Lenders may consent to allow a Credit Party to use cash collateral in the context of a bankruptcy or insolvency proceeding.

#### 11.7 Counterparts.

This Credit Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. It shall not be necessary in making proof of this Credit Agreement to produce or account for more than one such counterpart.

#### 11.8 Headings.

The headings of the sections and subsections hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Credit Agreement.

#### 11.9 Survival.

All indemnities set forth herein, including, without limitation, in Section 2.2(i), 3.9, 3.11, 10.7 or 11.5 shall survive the execution and delivery of this Credit Agreement, the making of the Loans, the issuance of the Letters of Credit, the repayment of the Loans, LOC Obligations and other obligations under the Credit Documents and the termination of the Commitments hereunder, and all representations and warranties made by the Credit Parties herein shall survive delivery of the Notes and the making of the Loans hereunder.

#### 11.10 Governing Law; Submission to Jurisdiction; Venue.

(a) THIS CREDIT AGREEMENT AND THE OTHER CREDIT DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. Any legal action or proceeding with respect to this Credit Agreement or any other Credit Document may be brought in the courts of the State of New York in New York County, or of the United States for the Southern District of New York, and, by execution and delivery of this Credit Agreement, each of the Credit Parties hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the nonexclusive jurisdiction of such courts. Each of the Credit Parties further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding

by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at the address set out for notices pursuant to Section 11.1, such service to become effective three (3) days after such mailing. Nothing herein shall affect the right of the Administrative Agent to serve process in any other manner permitted by law or to commence legal proceedings or to otherwise proceed against any Credit Party in any other jurisdiction.

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(b) Each of the Credit Parties hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Credit Agreement or any other Credit Document brought in the courts referred to in subsection (a) hereof and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

(c) TO THE EXTENT PERMITTED BY LAW, EACH OF THE ADMINISTRATIVE AGENT, THE LENDERS, THE BORROWER AND THE CREDIT PARTIES HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS CREDIT AGREEMENT, ANY OF THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY.

11.11 Severability.

If any provision of any of the Credit Documents is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions.

11.12 Entirety.

This Credit Agreement together with the other Credit Documents represent the entire agreement of the parties hereto and thereto, and supersede all prior agreements and understandings, oral or written, if any, including any commitment letters or correspondence relating to the Credit Documents or the transactions contemplated herein and therein.

11.13 Binding Effect; Termination.

(a) This Credit Agreement shall become effective at such time on or after the Closing Date when it shall have been executed by the Borrower, the Guarantors and the Administrative Agent, and the Administrative Agent shall have received copies hereof (telexed or otherwise) which, when taken together, bear the signatures of each Lender, and thereafter this Credit Agreement shall be binding upon and inure to the benefit of the Borrower, the Guarantors, the Administrative Agent and each Lender and their respective successors and assigns.

(b) The term of this Credit Agreement shall be until no Loans, LOC Obligations or any other amounts payable hereunder or under any of the other Credit Documents shall remain outstanding and until all of the Commitments hereunder shall have expired or been terminated.

11.14 Confidentiality.

The Administrative Agent and the Lenders agree to keep confidential (and to cause their respective affiliates, officers, directors, employees, Administrative Agents and representatives to

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keep confidential) all information, materials and documents furnished to the Administrative Agent or any such Lender by or on behalf of any Credit Party (whether before or after the Closing Date) which relates to the Borrower or any of its Subsidiaries (the "Information"). Notwithstanding the foregoing, the Administrative Agent and each Lender shall be permitted to disclose Information (i) to its affiliates, officers, directors, employees, agents and representatives (provided they have been informed of the confidential nature of such Information and have agreed to abide by the provisions of this Section 11.14) in connection with its participation in any of the transactions evidenced by this Credit Agreement or any other Credit Documents or the administration of this Credit Agreement or any other Credit Documents; (ii) to the extent required by applicable laws and regulations or by any subpoena or similar legal process, or requested by any Governmental Authority, and, where permissible in connection therewith, after notice to the Borrower reasonably calculated to afford the Borrower an opportunity to contest the disclosure; (iii) to the extent such Information (A) becomes publicly available other than as a result of a breach of this Credit Agreement or any agreement entered into pursuant to clause (iv) below, (B) becomes available to the Administrative Agent or such Lender on a non-confidential basis from a source other than a Credit Party or (C) was available to the Administrative Agent or such Lender on a non-confidential basis prior to its disclosure to the Administrative Agent or such Lender by a Credit Party; (iv) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) first specifically agrees in a writing furnished to and for the benefit of the Credit Parties to be bound by the terms of this Section 11.14; or (v) to the extent that the Borrower shall have consented in writing to such disclosure. Nothing set forth in this Section 11.14 shall obligate the Administrative Agent or any Lender to return any materials furnished by the Credit Parties.

#### 11.15 Source of Funds.

Each of the Lenders hereby represents and warrants to the Borrower that at least one of the following statements is an accurate representation as to the source of funds to be used by such Lender in connection with the financing hereunder:

(a) no part of such funds constitutes assets allocated to any separate account maintained by such Lender in which any employee benefit plan (or its related trust) has any interest;

(b) to the extent that any part of such funds constitutes assets allocated to any separate account maintained by such Lender, such Lender has disclosed to the Borrower the name of each employee benefit plan whose assets in such account exceed 10% of the total assets of such account as of the date of such purchase (and, for purposes of this subsection (b), all employee benefit plans maintained by the same employer or employee organization are deemed to be a single plan);

(c) to the extent that any part of such funds constitutes assets of an insurance company's general account, such insurance company has complied with all of the requirements of the regulations issued under Section 401(c)(1)(A) of ERISA; or

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(d) such funds constitute assets of one or more specific benefit plans which such Lender has identified in writing to the Borrower.

As used in this Section 11.15, the terms "employee benefit plan" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

11.16 Conflict.

To the extent that there is a conflict or inconsistency between any provision hereof, on the one hand, and any provision of any Credit Document, on the other hand, this Credit Agreement shall control.

[Signature Page to Follow]

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Credit Agreement to be duly executed and delivered as of the date first above written.

BORROWER: SCHOOL SPECIALTY, INC.  
a Delaware corporation

By: /s/ David Vander Zanden  
-----

Name: David Vander Zanden  
Title: President

GUARANTORS: CHILDCRAFT EDUCATION CORP.,  
a New York corporation

By: /s/ Marla Anderson  
-----

Name: Marla Anderson  
Title: Assistant Secretary

RE-PRINT LLC,  
a Delaware limited liability company

By: /s/ Marla Anderson  
-----

Name: Marla Anderson  
Title: Assistant Secretary

BIRD-IN-HAND WOODWORKS, INC.,  
a New Jersey corporation

By: /s/ Marla Anderson  
-----

Name: Marla Anderson  
Title: Assistant Secretary

SAX ARTS & CRAFTS, INC.,  
a Delaware corporation

By: /s/ Marla Anderson  
-----

Name: Marla Anderson  
Title: Assistant Secretary

LENDERS: NATIONSBANK, N.A.,  
individually in its capacity as a  
Lender and in its capacity as Administrative Agent

By: /s/ Michael R. Heredia  
-----



Name: Michael R. Heredia  
Title: Senior Vice President

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the audited consolidated financial statements of the Company included in the Report on Form 10-K and is qualified in its entirety by reference to such financial statements.

</LEGEND>

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Exhibit 99.1

Description	Date	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts
Allowance for doubtful accounts.....	January 1, 1994	\$ 137,000	\$ 121,000	\$ -
	January 1, 1995	239,000	2,000	
	January 1, 1996	211,000	10,000	
	May 1, 1996	202,000	27,000	243,000 (b)
	April 27, 1997	471,000	(64,000)	293,000 (b)
Accumulated amortization of intangibles.....	January 1, 1994	1,540,000	757,000	
	January 1, 1995	2,297,000	1,098,000	
	January 1, 1996	2,614,000	203,000	
	May 1, 1996	2,817,000	566,000	
	April 27, 1997	3,324,000	2,061,000	

Deductions	Date	Balance at End of Period
\$ (19,000) (a)	December 31, 1994	\$ 239,000
(30,000) (a)	December 31, 1995	211,000
(19,000) (a)	April 30, 1996	202,000
(1,000) (a)	April 26, 1997	471,000
16,000 (a)	April 25, 1998	716,000
	December 31, 1994	2,297,000
(781,000) (c)	December 31, 1995	2,614,000
- (c)	April 30, 1996	2,817,000
(59,000) (c)	April 26, 1997	3,324,000
(24,000) (c)	April 25, 1998	5,361,000

(a) Represents write-offs of uncollectible accounts receivable.

(b) Allowance for doubtful accounts acquired in purchase acquisitions.

(c) Represents (write-offs) / recoveries of fully amortized intangible assets.