

GRACO INC
Form 10-Q
October 24, 2018

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

FORM 10-Q

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

For the quarterly period ended September 28, 2018

Commission File Number: 001-09249

GRACO INC.
(Exact name of registrant as specified in its charter)

Minnesota 41-0285640
(State of incorporation) (I.R.S. Employer Identification Number)

88 - 11th Avenue N.E. 55413
Minneapolis, Minnesota
(Address of principal executive offices) (Zip Code)
(612) 623-6000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes NoX

166,437,000 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of October 18, 2018.

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Earnings</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Consolidated Balance Sheets</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Consolidated Statements of Shareholders' Equity</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>21</u>
Item 4. <u>Controls and Procedures</u>	<u>21</u>
PART II - OTHER INFORMATION	
Item 1A. <u>Risk Factors</u>	<u>22</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>22</u>
Item 6. <u>Exhibits</u>	<u>23</u>

SIGNATURES

EXHIBITS

Table of Contents

PART I Item 1.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited) (In thousands except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Net Sales	\$415,936	\$ 379,812	\$1,246,854	\$ 1,099,885
Cost of products sold	194,477	175,732	573,071	505,450
Gross Profit	221,459	204,080	673,783	594,435
Product development	15,734	14,552	47,135	43,473
Selling, marketing and distribution	57,270	57,381	182,741	167,353
General and administrative	33,676	30,712	104,054	94,329
Operating Earnings	114,779	101,435	339,853	289,280
Interest expense	3,583	3,901	10,707	12,110
Other expense, net	3,139	1,142	8,425	3,599
Earnings Before Income Taxes	108,057	96,392	320,721	273,571
Income taxes	15,376	20,932	53,390	57,551
Net Earnings	\$92,681	\$ 75,460	\$267,331	\$ 216,020
Per Common Share				
Basic net earnings	\$0.55	\$ 0.45	\$1.59	\$ 1.29
Diluted net earnings	\$0.54	\$ 0.43	\$1.54	\$ 1.24

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited) (In thousands)

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Net Earnings	\$92,681	\$ 75,460	\$267,331	\$ 216,020
Components of other comprehensive income (loss)				
Cumulative translation adjustment	4,161	574	(2,205)	17,921
Pension and postretirement medical liability adjustment	1,972	2,250	6,503	6,034
Income taxes - pension and postretirement medical liability adjustment	(448)	(797)	(1,445)	(2,280)
Other comprehensive income	5,685	2,027	2,853	21,675
Comprehensive Income	\$98,366	\$ 77,487	\$270,184	\$ 237,695

See notes to consolidated financial statements.

Table of ContentsGRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited) (In thousands)

	September 28, 2018	December 29, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 137,589	\$ 103,662
Accounts receivable, less allowances of \$5,200 and \$4,300	289,633	266,080
Inventories	277,726	239,349
Other current assets	25,812	34,247
Total current assets	730,760	643,338
Property, Plant and Equipment, net	220,164	204,298
Goodwill	296,299	278,789
Other Intangible Assets, net	172,476	183,056
Deferred Income Taxes	32,958	50,916
Other Assets	32,844	30,220
Total Assets	\$ 1,485,501	\$ 1,390,617
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	\$ 3,960	\$ 6,578
Trade accounts payable	53,102	48,748
Salaries and incentives	54,896	55,884
Dividends payable	22,191	22,260
Other current liabilities	130,085	112,368
Total current liabilities	264,234	245,838
Long-term Debt	266,424	226,035
Retirement Benefits and Deferred Compensation	136,539	172,411
Deferred Income Taxes	17,242	17,253
Other Non-current Liabilities	4,500	6,017
Shareholders' Equity		
Common stock	167,409	169,319
Additional paid-in-capital	513,643	499,934
Retained earnings	255,899	181,599
Accumulated other comprehensive income (loss)	(140,389)	(127,789)
Total shareholders' equity	796,562	723,063
Total Liabilities and Shareholders' Equity	\$ 1,485,501	\$ 1,390,617
See notes to consolidated financial statements.		

Table of Contents

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine Months Ended	
	September 28, 2018	September 29, 2017
Cash Flows From Operating Activities		
Net Earnings	\$267,331	\$ 216,020
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	35,570	33,620
Deferred income taxes	15,407	58
Share-based compensation	22,016	19,154
Change in		
Accounts receivable	(25,576)	(31,614)
Inventories	(23,094)	(16,788)
Trade accounts payable	74	4,319
Salaries and incentives	(4,943)	7,214
Retirement benefits and deferred compensation	(30,202)	(8,595)
Other accrued liabilities	(1,348)	25,402
Other	(974)	(2,642)
Net cash provided by operating activities	254,261	246,148
Cash Flows From Investing Activities		
Property, plant and equipment additions	(39,569)	(28,899)
Acquisition of businesses, net of cash acquired	(10,769)	(12,905)
Other	(1,386)	(124)
Net cash provided by (used in) investing activities	(51,724)	(41,928)
Cash Flows From Financing Activities		
Borrowings (payments) on short-term lines of credit, net	(2,558)	(3,361)
Borrowings on long-term lines of credit	612,979	293,880
Payments on long-term debt and lines of credit	(575,113)	(299,565)
Common stock issued	23,471	53,422
Common stock repurchased	(155,601)	(90,160)
Taxes paid related to net share settlement of equity awards	(16,151)	(10,735)
Cash dividends paid	(66,794)	(60,273)
Net cash provided by (used in) financing activities	(179,767)	(116,792)
Effect of exchange rate changes on cash	1,915	(1,142)
Net increase (decrease) in cash and cash equivalents	24,685	86,286
Cash, Cash Equivalents and Restricted Cash		
Beginning of year	112,904	61,594
End of period	\$137,589	\$ 147,880
Reconciliation to Consolidated Balance Sheets		
Cash and cash equivalents	\$137,589	\$ 140,000
Restricted cash included in other current assets	—	7,880
Cash, cash equivalents and restricted cash	\$137,589	\$ 147,880
See notes to consolidated financial statements.		

Table of Contents

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited) (In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, June 30, 2017	\$55,991	493,329	224,822	\$ (122,580)	\$651,562
Shares issued	155	6,578	—	—	6,733
Shares repurchased	(31)	(255)	288	—	2
Stock compensation cost	—	4,422	—	—	4,422
Restricted stock canceled (issued)	—	(2)	—	—	(2)
Net earnings	—	—	75,460	—	75,460
Dividends declared (\$0.1200 per share)	—	—	(20,215)	—	(20,215)
Other comprehensive income (loss)	—	—	—	2,027	2,027
Balance, September 29, 2017	\$56,115	504,072	280,355	\$ (120,553)	\$719,989
Balance, June 29, 2018	\$167,130	\$505,342	\$185,407	\$(146,074)	\$711,805
Shares issued	279	3,140	—	—	3,419
Shares repurchased	—	—	—	—	—
Stock compensation cost	—	5,161	—	—	5,161
Net earnings	—	—	92,681	—	92,681
Dividends declared (\$0.1325 per share)	—	—	(22,189)	—	(22,189)
Other comprehensive income (loss)	—	—	—	5,685	5,685
Balance, September 28, 2018	\$167,409	513,643	255,899	\$(140,389)	\$796,562
Balance, December 30, 2016	\$55,834	\$453,394	\$206,820	\$(142,228)	\$573,820
Shares issued	1,164	41,809	—	—	42,973
Shares repurchased	(883)	(7,172)	(82,104)	—	(90,159)
Stock compensation cost	—	16,326	—	—	16,326
Restricted stock canceled (issued)	—	(285)	—	—	(285)
Net earnings	—	—	216,020	—	216,020
Dividends declared (\$0.3600 per share)	—	—	(60,381)	—	(60,381)
Other comprehensive income (loss)	—	—	—	21,675	21,675
Balance, September 29, 2017	\$56,115	\$504,072	\$280,355	\$(120,553)	\$719,989
Balance, December 29, 2017	\$169,319	\$499,934	\$181,599	\$(127,789)	\$723,063
Shares issued	1,592	6,500	—	—	8,092
Shares repurchased	(3,502)	(10,340)	(141,759)	—	(155,601)
Stock compensation cost	—	18,321	—	—	18,321
Restricted stock canceled (issued)	—	(772)	—	—	(772)
Net earnings	—	—	267,331	—	267,331
Dividends declared (\$0.3975 per share)	—	—	(66,725)	—	(66,725)
Reclassified to retained earnings from AOCI	—	—	15,453	(15,453)	—
Other comprehensive income (loss)	—	—	—	2,853	2,853
Balance, September 28, 2018	\$167,409	\$513,643	\$255,899	\$(140,389)	\$796,562

See notes to consolidated financial statements.

Table of Contents

GRACO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The consolidated balance sheet of Graco Inc. and Subsidiaries (the “Company”) as of September 28, 2018 and the related statements of earnings and comprehensive income for the three and nine months ended September 28, 2018 and September 29, 2017, and cash flows for the nine months ended September 28, 2018 and September 29, 2017 have been prepared by the Company and have not been audited.

In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of September 28, 2018, and the results of operations and cash flows for all periods presented. Certain prior year disclosures have been revised to conform to current year reporting.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company’s 2017 Annual Report on Form 10-K.

The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

2. Revenue Recognition

Adoption of New Accounting Standard

In May 2014, the Financial Accounting Standards Board (FASB) issued a final standard on revenue from contracts with customers, contained in Accounting Standards Codification Topic 606 (“ASC 606”). The new standard sets forth a single comprehensive model for recognizing and reporting revenue. ASC 606 was effective for the Company as of December 30, 2017, the beginning of our fiscal year 2018. The Company adopted the new accounting standard using the modified retrospective transition approach. Application of the transition requirements had no material impact on operations or beginning retained earnings.

We record revenue under ASC 606 at a single point in time, when control is transferred to the customer, which is consistent with past practice. Under ASC 606, rights of return are recorded as a refund liability and a recovery asset is established for the value of product expected to be returned. We previously classified rights of return, net of amounts expected to be recovered, as an allowance reducing accounts receivable. We reclassified prior period balance sheet amounts to conform to ASC 606 requirements. This resulted in an increase in accounts receivable of \$9.7 million, a recovery asset of \$1.7 million included in other current assets and \$11.4 million of refund liability included in other current liabilities as of December 29, 2017.

Accounting Policy

Revenue is recognized upon the satisfaction of performance obligations, which occurs when control of the good or service transfers to the customer. This is generally on the date of shipment; however certain sales have terms requiring recognition when received by the customer. In cases where there are specific customer acceptance provisions, revenue is recognized at the later of customer acceptance or shipment (subject to shipping terms). Payment terms are established based on the type of product, distributor capabilities and competitive market conditions. We generally

determine standalone selling prices based on the prices charged to customers for all material performance obligations.

Variable consideration is accounted for as a price adjustment (sales adjustment). Following are examples of variable consideration that affect the Company's reported revenue. Early payment discounts are provided to certain customers and within certain regions. Rights of return are typically contractually limited, amounts are estimable, and the Company records provisions for anticipated returns at the time revenue is recognized. This includes promotions when, from time to time, the Company may promote the sale of new products by agreeing to accept returns of superseded products. Trade promotions are offered to distributors and end users through various programs, generally with terms of one year or less. Such promotions include rebates based on annual purchases and sales growth, coupons and reimbursement for competitive products. Payment of incentives may take the form of cash, trade credit, promotional merchandise or

7

Table of Contents

free product. Rebates are accrued based on the program rates and progress toward the probability weighted estimate of annual sales amount and sales growth.

Additional promotions include cooperative advertising arrangements. Under cooperative advertising arrangements, the Company reimburses the distributor for a portion of its advertising costs related to the Company's products; estimated costs are accrued at the time of sale and classified as selling, marketing and distribution expense. The estimated costs related to coupon programs are accrued at the time of sale and classified as selling, marketing and distribution expense or cost of products sold, depending on the type of incentive offered. The considerations payable to customers are deemed as broad based and are not recorded against net sales.

Shipping and handling costs incurred for the delivery of goods to customers are included in cost of goods sold. Amounts billed to customers for shipping and handling are included in net sales.

Deferred Revenues

We defer revenue when cash payments are received or due in advance of our performance, including amounts which are refundable. This is also the case for services associated with certain product sales. The balance in the deferred revenue and customer advances was \$45.1 million as of September 28, 2018 and \$22.6 million as of December 29, 2017. The increase from year-end 2017 includes \$21.6 million related to a business acquired in 2018. Net sales for the year to date included \$21.8 million that was in deferred revenue and customer advances as of December 29, 2017.

Our payment terms vary by the type and location of our customer and the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, we require payment before the products or services are delivered to the customer.

Practical Expedients and Exemptions

We have made an accounting policy election to account for shipping and handling activities that occur after control of the related good transfers as fulfillment activities instead of assessing such activities as performance obligations.

We have made an accounting policy election to exclude from the transaction price all sales taxes related to revenue producing transactions collected from the customer for a governmental authority.

We apply the new revenue standard requirements to a portfolio of contracts (or performance obligations) with similar characteristics for transactions where it is expected that the effects on the financial statements of applying the revenue recognition guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within that portfolio.

We have made an accounting policy election to not assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer. If the revenue related to a performance obligation that includes goods or services that are immaterial in the context of the contract is recognized before those immaterial goods or services are transferred to the customer, then the related costs to transfer those goods or services are accrued.

We generally expense incremental costs of obtaining a contract when incurred because the amortization period would be less than one year. These costs primarily relate to sales commissions and are recorded in selling, marketing and distribution expense.

We disclose disaggregated revenues by reporting segment and geography in accordance with the revenue standard. See Note 7 Segment Information.

8

Table of Contents

3.Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Net earnings available to common shareholders	\$92,681	\$ 75,460	\$267,331	\$ 216,020
Weighted average shares outstanding for basic earnings per share	167,247	168,069	167,860	167,592
Dilutive effect of stock options computed using the treasury stock method and the average market price	5,790	6,544	6,124	6,252
Weighted average shares outstanding for diluted earnings per share	173,037	174,613	173,984	173,844
Basic earnings per share	\$0.55	\$ 0.45	\$1.59	\$ 1.29
Diluted earnings per share	\$0.54	\$ 0.43	\$1.54	\$ 1.24

Stock options to purchase 435,000 and 18,000 shares were not included in the September 28, 2018 and September 29, 2017 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.

4.Share-Based Awards

Options on common shares granted and outstanding, as well as the weighted average exercise price, are shown below (in thousands, except exercise prices):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 29, 2017	13,290	\$ 21.99	7,729	\$ 18.33
Granted	1,163	44.05		
Exercised	(2,020)	18.23		
Canceled	(69)	27.43		
Outstanding, September 28, 2018	12,364	\$ 24.64	7,366	\$ 20.13

The Company recognized year-to-date share-based compensation of \$22.0 million in 2018 and \$19.2 million in 2017. As of September 28, 2018, there was \$10.5 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 2.1 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and results:

	Nine Months Ended	
	September 28, 2018	September 29, 2017
Expected life in years	7.5	7.0
Interest rate	2.8 %	2.2 %
Volatility	25.5 %	26.7 %
Dividend yield	1.2 %	1.6 %
Weighted average fair value per share	\$12.84	\$ 8.08

Table of Contents

Under the Company's Employee Stock Purchase Plan, the Company issued 480,000 shares in 2018 and 500,000 shares in 2017. The fair value of the employees' purchase rights under this Plan was estimated on the date of grant. The benefit of the 15 percent discount from the lesser of the fair market value per common share on the first day and the last day of the plan year was added to the fair value of the employees' purchase rights determined using the Black-Scholes option-pricing model with the following assumptions and results:

	Nine Months Ended			
	September 28, 2018	September 29, 2017		
Expected life in years	1.0	1.0		
Interest rate	2.1	% 0.9	%	
Volatility	21.3	% 22.3	%	
Dividend yield	1.2	% 1.5	%	
Weighted average fair value per share	\$10.28	\$ 7.32		

5. Retirement Benefits

The components of net periodic benefit cost for retirement benefit plans were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Pension Benefits				
Service cost	\$2,165	\$ 1,917	\$6,376	\$ 5,732
Interest cost	3,227	3,874	10,072	11,477
Expected return on assets	(4,369)	(4,236)	(13,087)	(12,700)
Amortization and other	2,077	2,408	6,252	6,932
Net periodic benefit cost	\$3,100	\$ 3,963	\$9,613	\$ 11,441
Postretirement Medical				
Service cost	\$127	\$ 150	\$477	\$ 451
Interest cost	284	274	813	820
Amortization	213	(2)	485	(7)
Net periodic benefit cost	\$624	\$ 422	\$1,775	\$ 1,264

In March 2017, the FASB issued a final standard that changes the presentation of net periodic benefit cost related to defined benefit plans. The Company adopted the standard effective for the first quarter of 2018, and the Company has applied the change retrospectively to all periods presented. Under the new standard, net periodic benefit costs are disaggregated between service costs presented as operating expenses and other components of pension costs presented as non-operating expenses. The Company previously charged service costs to segment operations and included other components of pension cost in unallocated corporate operating expenses. Under the new standard, unallocated corporate operating expenses decreased, operating earnings increased and other expense increased by the amount of non-service components of pension cost, including the amount of changes in cash surrender value of insurance contracts used to fund certain non-qualified pension and deferred compensation arrangements. There was no impact on reported net earnings or earnings per share. The retrospective application of the new standard resulted in increases of \$1.8 million and \$5.1 million to previously reported operating earnings and other non-operating expense for the quarter and year to date ended September 29, 2017, respectively.

In the third quarter of 2018, the Company made a \$40 million voluntary contribution to one of its U.S. qualified defined benefit plans.

Table of Contents

6.Shareholders' Equity

Changes in components of accumulated other comprehensive income (loss), net of tax were (in thousands):

	Pension and Postretirement Medical	Cumulative Translation Adjustment	Total
Balance, June 30, 2017	\$ (74,125)	\$ (48,455)	\$ (122,580)
Other comprehensive income (loss) before reclassifications	—	574	574
Reclassified to pension cost and deferred tax	1,453	—	1,453
Balance, September 29, 2017	\$ (72,672)	\$ (47,881)	\$ (120,553)
Balance, June 29, 2018	\$ (90,349)	\$ (55,725)	\$ (146,074)
Other comprehensive income (loss) before reclassifications	—	4,161	4,161
Reclassified to pension cost and deferred tax	1,524	—	1,524
Balance, September 28, 2018	\$ (88,825)	\$ (51,564)	\$ (140,389)

Ba distress termination notice delivered to the PBGC under section 4041 of ERISA in respect of any Plan, and any determination of the PBGC in respect thereof; (B) the placement of any Multiemployer Plan in reorganization status under Title IV of ERISA, any Multiemployer Plan becoming "insolvent" (as such term is defined in section 4245 of ERISA) under Title IV of ERISA, or the whole or partial withdrawal of the Company or any ERISA Affiliate from any Multiemployer Plan and the withdrawal liability incurred in connection therewith; or (C) the occurrence of any event, transaction or condition that could result in the incurrence of any liability of the Company or any ERISA Affiliate or the imposition of a Lien on the Property of the Company or any ERISA Affiliate, in either case pursuant to Title I or Title IV of ERISA or pursuant to the penalty or excise tax or security provisions of the IRC; provided, however, that the Company shall not be required to deliver any such notice at any time when the aggregate amount of the actual or potential liability of the Company and the Subsidiaries in respect of all such events at such time could not reasonably be expected to have a Material Adverse Effect; (f) Auditor's Reports -- each report or management letter submitted to the Company or any Subsidiary by independent accountants in connection with any annual, interim or special audit made of the books of the Company or any Subsidiary; (g) Actions, Proceedings -- promptly after the commencement of any action or proceeding relating to the Company or any Subsidiary in any court or before any governmental authority or arbitration board or tribunal as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, is reasonably likely to have a Material Adverse Effect, a notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto; (h) Other Creditors -- promptly upon the reasonable request of any holder of Restated Notes, copies of any statement, report or certificate furnished to any holder of Indebtedness to the extent that the information contained in such statement, report or certificate has not already been delivered to each holder of Restated Notes; (i) Rule 144A -- promptly upon the reasonable request of any holder of Restated Notes, information required to permit the holder to comply with 17 C.F.R. ss.230.144A, as amended from time to time, in connection with a transfer of any Restated Note; and (j) Requested Information -- with reasonable promptness, such other data and information (including, without limitation, if requested by any holder of Restated Notes, quarterly statements of changes in shareholders' equity and cash flows, and any reports provided to Senior Lender) as from time to time may be reasonably requested by any holder of Restated Notes. (k) Company Projections - as soon as available, but in any event within 30 days prior to the start of each of the Company's fiscal years, copies of the Company's Projections, in form and substance (including as to scope and underlying assumptions) satisfactory to the Noteholders, in their sole discretion, for the forthcoming 3 years, year by year, and for the forthcoming fiscal year, month by month, certified by the chief financial officer of the Company as being such officer's good faith best estimate of the financial performance of the Company during the period covered thereby. 9.2 Officer's Certificates. Each set of financial statements delivered to each holder of Restated Notes pursuant to Section 0 or Section 0 shall be accompanied by a certificate of a Senior Financial Officer, setting forth: (a) Covenant Compliance -- the financial information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 8 (in each case where such Section imposes numerical financial requirements) as of the end of the period covered by the

financial statements then being furnished (including with respect to such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Section, and the calculation of the amount, ratio or percentage then in existence); and (b) Event of Default -- a statement that the signer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision or authority, a review of the transactions and conditions of the Company and the Subsidiaries from the beginning of the accounting period covered by the income statements being delivered therewith to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists, specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

9.3 Accountants' Certificates. Each set of annual financial statements delivered pursuant to Section 5.1(b) shall be accompanied by a certificate of the accountants who were engaged to audit such financial statements, stating that they have reviewed this Agreement and stating further, whether, in making their audit, such accountants have become aware of any condition or event that then constitutes a Default or an Event of Default, and, if such accountants are aware that any such condition or event then exists, specifying the nature and period of existence thereof.

9.4 Inspection. The Company will permit the representatives of each holder of Restated Notes to visit and inspect any of the Properties of the Company or any of the Subsidiaries, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants (and by this provision the Company authorizes said accountants to discuss the finances and affairs of the Company and the Subsidiaries) all at such reasonable times and as often as may be reasonably requested. All reasonable expenses incurred by the holders of the Restated Notes in connection with this Section 6.4 shall be paid in accordance with Section 12.6.

9.5 Confidentiality. Each holder of Restated Notes shall keep confidential, and not disclose, Confidential Information delivered to it in accordance with procedures adopted by such holder generally to protect confidential information of third parties delivered to it. Notwithstanding the foregoing, a holder of Restated Notes may disclose any Confidential Information (in any form, including copies of documents) to: (a) such holder's directors, trustees, officers, employees, partners, agents and professional consultants; (b) any other holder of any Restated Notes or Warrants; (c) any Person to which such holder offers to sell such Restated Note or any part thereof or participation therein, provided that such Person first agrees in writing for the benefit of the Company to be subject to the requirements of this Section 6.5; (d) any federal or state regulatory authority having jurisdiction over such holder, and the National Association of Insurance Commissioners or any similar self-regulatory organization; (e) Standard & Poor's Corporation, Moody's Investor Services, Inc., or other nationally recognized financial rating service, which is reviewing the credit rating of any holder of Restated Notes; and (f) any other Person to which such delivery or disclosure may be necessary or appropriate in compliance with any law, rule, regulation or order applicable to such holder, in response to any subpoena or other legal process, in connection with any litigation to which such holder is a party, or in order to protect such holder's investment in such Restated Note or enforce such holder's rights.

10. EVENTS OF DEFAULT

----- 10.1 Events of Default. An "Event of Default" shall exist at any time if any of the following occurs and is continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise): (a) Payments on Restated Notes (i) Principal Payments --- The Company fails to make any payment of principal or Prepayment Compensation Amount on any Restated Note on or before the date such payment is due; provided, however, that an Event of Default arising from a failure to comply with Section 5.2(b) will occur only upon the earlier of: (1) the monthly payment date following three consecutive missed monthly payments (provided that same shall not constitute an Event of Default if all three of such payments have been made prior to such date); or (2) ninety (90) days following the required payment date of a missed monthly principal payment (provided that same shall not constitute an Event of Default if such payment and the next two required monthly payments have been made prior to such date). For purposes of this Section 10.1(a)(i), the Company shall be deemed not to have failed to make a monthly payment required by Section 5.2(b) if, on the date such payment is due, (x) the Company makes a principal payment of at least \$50,000, or (y) the Company shall have satisfied the minimum Target Payment for the then current Target Period. (ii) Interest Payments --- the Company fails to make any payment of interest on any Restated Note on or before the date such payment is due (the "Missed Payment Date"); provided, however, that an Event of Default arising from the failure to comply with Section 5.1 with respect to any Missed Payment Date will not occur unless and until (a) the next Interest Payment Date shall have arrived, and (b) the

Company shall have failed to make the interest payment which was due on the Missed Payment Date or the interest payment due on such next Interest Payment Date.. (b) Other Defaults (i) Financial Covenant Defaults --- the Company or any Subsidiary fails to comply with any provision of Article 8 and such failure is not remedied within two Business Days after the earlier of (A) a Senior Officer's knowledge of such failure and (B) the Company receiving written notice of such failure; or (ii) Other Defaults --- the Company or any Subsidiary fails to comply with any other provision hereof or of any other Transaction Document, and such failure continues for more than thirty (30) days after such failure shall first become known to any Senior Officer; (c) Warranties or Representations -- any warranty, representation or other statement by or on behalf of the Company contained in any Transaction Document, in any written amendment, supplement, modification or waiver with respect to any Transaction Document, or in any instrument furnished in compliance herewith or in reference hereto, shall have been false or misleading in any material respect when made; (d) Default in Respect of Other Indebtedness (i) the Company or any Subsidiary fails to make, when due, at maturity or otherwise, any payment or payments in respect of any Indebtedness (ii) any event shall occur or any condition shall exist in respect of Indebtedness, or under any agreement securing or relating to Indebtedness, of the Company or any Subsidiary: (A) as a result of which the maturity of such Indebtedness, or a portion thereof, is accelerated; or (B) that permits any one or more of the holders thereof or a trustee therefor to require the Company or any Subsidiary to repurchase such Indebtedness from the holders thereof, and any such trustee or holder exercises such option; (e) Insolvency (i) Involuntary Bankruptcy Proceedings (A) a receiver, liquidator, custodian or trustee of the Company or any Subsidiary, or of all or any substantial part of the Property of either, is appointed by court order; or an order for relief is entered with respect to the Company or any Subsidiary, or the Company or any Subsidiary is adjudicated a bankrupt or insolvent; (B) all or any substantial part of the Property of the Company or any Subsidiary is sequestered by court order; or (C) a petition is filed against the Company or any Subsidiary under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and is not dismissed within sixty (60) days after such filing; (ii) Voluntary Petitions -- the Company or any Subsidiary files a petition in voluntary bankruptcy or seeks relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under any such law; or (iii) Assignments for Benefit of Creditors, etc. -- the Company or a Subsidiary makes an assignment for the benefit of its creditors, or admits in writing its inability, or fails, to pay its debts generally as they become due, or consents to the appointment of a receiver, liquidator or trustee of the Company or a Subsidiary or of all or a substantial part of its Property; or (f) Undischarged Final Judgments -- a final, non-appealable judgment or final, non-appealable judgments for the payment of money aggregating in excess of Five Hundred Thousand Dollars (\$500,000) is or are outstanding against the Company or any Subsidiary, and any one of such judgments shall have been outstanding for more than sixty (60) days from the date of its entry and shall not have been discharged in full or stayed. (g) Limitation or Termination of Guaranty -- if the obligation of any Subsidiary Guarantor is limited or terminated by operation of law or by such Subsidiary Guarantor thereunder; or (h) Limitation or Termination of Transaction Document -- if any Transaction Document that purports to create a Lien, shall, for any reason, fail or cease to create a valid and perfected and, except to the extent permitted by the terms hereof or thereof, second priority Lien on or security interest in the Collateral covered hereby or thereby; 10.2 Default Remedies. Acceleration of Maturity of Restated Notes. (i) Acceleration on Event of Default. A. Automatic. If any Event of Default specified in Section 10.1(e) shall exist, all of the Restated Notes at the time outstanding shall automatically become due and payable together with interest accrued thereon and, to the extent permitted by law, the Prepayment Compensation Amount at such time with respect to the principal amount of such Restated Notes, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived. B. By Action of Holders. If any Event of Default other than those specified in Section 10.1(e) shall exist, the holders of a majority in principal amount of the Restated Notes at the time outstanding (exclusive of Restated Notes then owned by any one or more of the Company, any Subsidiary or any Affiliate) may exercise any right, power or remedy permitted to such holder or holders by law, and shall have, in particular, without limiting the generality of the foregoing, the right to declare the entire principal of, and all interest accrued on, all the Restated Notes then outstanding to be, and such Restated Notes shall thereupon become, forthwith due and payable, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, and the Company shall forthwith pay to the holders of the Restated Notes then outstanding the entire principal of and interest accrued on the Restated Notes and, to the extent permitted by law, the

Prepayment Compensation Amount at such time with respect to such principal amount of such Restated Notes. (ii) Acceleration on Payment Default. Subject to Section 10.3, during the existence of an Event of Default described in Section 0, and irrespective of whether the Restated Notes then outstanding shall have become due and payable pursuant to Section 10.2(a)(i)(B), any holder of Restated Notes who or which shall have not consented to waiver with respect to such Event of Default may, at his or its option, by notice in writing to the Company, declare the Restated Notes then held by such holder to be, and such Restated Notes shall thereupon become, forthwith due and payable together with all interest accrued thereon, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, and the Company shall forthwith pay to such holder the entire principal of and interest accrued on such Restated Notes and, to the extent permitted by law, the Prepayment Compensation Amount at such time with respect to such principal amount of such Restated Notes. (b) Valuable Rights. The Company acknowledges, and the parties hereto agree, that the right of each holder to maintain its investment in the Restated Notes free from repayment by the Company (except as herein specifically provided for) is a valuable right and that the provision for payment of a Prepayment Compensation Amount by the Company in the event that the Restated Notes are prepaid or are accelerated as a result of an Event of Default is intended to provide compensation for the deprivation of such right under such circumstances. (c) Other Remedies. During the existence of an Event of Default and irrespective of whether the Restated Notes then outstanding shall become due and payable and irrespective of whether any holder of Restated Notes then outstanding shall otherwise have pursued or be pursuing any other rights or Remedies, any holder of Restated Notes may proceed to protect and enforce its rights hereunder and under such Restated Notes by exercising such Remedies as are available to such holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any agreement contained herein or in aid of the exercise of any power granted herein; provided, however, that the maturity of such holder's Restated Notes may be accelerated only in accordance with Section 10.2(a). (d) Nonwaiver; Remedies Cumulative. No course of dealing on the part of any holder of Restated Notes nor any delay or failure on the part of any holder of Restated Notes to exercise any right shall operate as a waiver of such right or otherwise prejudice such holder's rights, powers and Remedies. All rights and Remedies of each holder of Restated Notes hereunder and under applicable law are cumulative to, and not exclusive of, any other rights or remedies any such holder of Restated Notes would otherwise have. (e) Subordination. The Senior Lender and the holders of the Restated Notes have, solely as between themselves, reached certain agreements regarding the allocation of payments in respect of this Agreement and the Restated Notes, and the exercise of Remedies, all as set forth in the Intercreditor Agreement; provided, however, that Rights as between the holders of the Restated Notes and the Company are set forth and governed by this Agreement.

10.3 Annulment of Acceleration of Restated Notes. If a declaration is made pursuant to Section 10.2(a)(i)(B), then and in every such case, the holders of more than a majority in principal amount of the Restated Notes at the time outstanding (exclusive of Restated Notes then owned by any one or more of the Company, any Subsidiary or any Affiliate) may, by written instrument filed with the Company, rescind and annul such declaration, and the consequences thereof; provided, however, that at the time such declaration is annulled and rescinded: (a) no judgment or decree shall have been entered for the payment of any moneys due on or pursuant hereto or the Restated Notes; (b) all arrears of interest upon all of the Restated Notes and all other sums payable hereunder and under the Restated Notes (except any amount which shall have become due and payable solely by reason of such declaration under Section 10.2(a)(i)(B)) shall have been duly paid; and (c) each and every other Default and Event of Default shall have been waived pursuant to Section 9.5 or otherwise made good or cured; and provided further that no such rescission and annulment shall extend to or affect any subsequent Default or Event of Default or impair any right consequent thereon.

11. INTERPRETATION OF THIS AGREEMENT ----- 11.1 Terms Defined. As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term: 2.5% Warrants -- means those certain warrants, in the form of Exhibit D-1 hereto (the "March 2004 2.5% Warrants") or Exhibit D-2 hereto (the "March 2005 2.5% Warrants"), entitling the Noteholders to purchase Common Stock of the Company upon the terms and conditions therein set forth. 9.5% Warrants -- means those certain warrants in the form of Exhibit C hereto entitling the Noteholders to purchase Common Stock of the Company upon the terms and conditions therein set forth. Affiliate -- means, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially, or as a trustee, guardian or other fiduciary, five percent (5%) or more of the Capital Stock having ordinary voting power in the election of directors of such Person, (b) each Person that controls, is controlled by or is under common control with such Person, (c) each of such Person's officers,

directors, joint venturers and partners or (d) in the case of the Company, the immediate family members, spouses and lineal descendants of individuals who are Affiliates of the Company; provided, however, that none of the Noteholders nor any affiliate of any Noteholder shall be deemed to be an "Affiliate," and no Person holding any one or more of the Restated Notes or Warrants shall be deemed to be an "Affiliate" solely by virtue of the ownership of such securities. For the purposes of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company. Agreement, this -- and references thereto shall mean this Amended and Restated Note and Warrant Purchase Agreement as it may from time to time be amended or supplemented. Applicable Interest Law -- means any present or future law (including, without limitation, the laws of the State of New York and the United States of America) which has application to the interest and other charges pursuant to this Agreement and the Restated Notes. Board of Directors -- means the Board of Directors of the Company. Business Day -- means a day other than a Saturday, a Sunday or a day on which banks in the State of New York or Florida are required or permitted by law (other than a general banking moratorium or holiday for a period exceeding four (4) consecutive days) to be closed. Canadian Pension Plan -- means any plan, program or arrangement that is a pension plan for the purposes of any applicable pension benefits legislation or any tax laws of Canada or a province thereof, whether or not registered under any such laws, which is maintained or contributed to by, or to which there is an obligation to contribute by, the Company or Dixon Ticonderoga Inc. in respect of any Person's employment in Canada with the Company or Dixon Ticonderoga Inc. which, for greater certainty, does not include the Canada Pension Plan or any other plans maintained by the Government of Canada or by a government of any Province of Canada. Canadian Pledge and Security Agreement -- means that certain Pledge and Security Agreement by and between Dixon Ticonderoga Inc. and the Collateral Agent and dated as of the Restatement Date. Canadian Trademark Security Agreement -- means that certain Trademark Security Agreement by and between Dixon Ticonderoga Inc. and the Collateral Agent and dated as of the Restatement Date. Capital Expenditures -- means, with respect to any Person, all expenditures (by the expenditure of cash or the incurrence of Indebtedness) by such Person during any measuring period for any fixed assets or improvements or for replacements, substitutions or additions thereto that have a useful life of more than one year and that are required to be capitalized under GAAP. Capital Lease -- means, with respect to any Person, any lease of any property (whether real, personal or mixed) by such Person as lessee that, in accordance with GAAP, would be required to be classified and accounted for as a capital lease on a balance sheet of such Person. Capital Lease Obligation -- means, with respect to any Capital Lease of any Person, the amount of the obligation of the lessee thereunder that, in accordance with GAAP, would appear on a balance sheet of such lessee in respect of such Capital Lease. Capital Stock -- means any class of preferred, common or other capital stock, share capital or similar equity interest of a Person including, without limitation, any partnership interest in any partnership or limited partnership and any membership interest in any limited liability company. Change of Control -- means (a) any "person" or "group" (within the meaning of Sections 13(d) and 14(d) of the Exchange Act), other than Permitted Holders, becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 10%, or more, of the Stock of the Company having the right to vote for the election of members of the Board of Directors, or (b) a majority of the members of the Board of Directors do not constitute Continuing Directors, or (c) the Company ceases to directly own and control 100% of the outstanding capital Stock of each of its Subsidiaries (except for Dixon Industrial Mexico, S.A. de C.V., in which case it shall be deemed a "Change of Control" if the Company ceases to directly own and control at least 97% of the Capital Stock of such Subsidiary) existing as of the Restatement Date. Charges -- mean all federal, state, county, city, municipal, local, foreign or other governmental taxes (including taxes owed to the PBGC at the time due and payable), levies, assessments, charges, liens, claims or encumbrances upon or relating to (a) the Collateral, (b) the Senior Obligations or the obligations evidenced by the Restated Notes, (c) the employees, payroll, income or gross receipts of any Person, (d) any Person's ownership or use of any properties or other assets, or (e) any other aspect of any Person's business. Chief Restructuring Officer -- has the meaning set forth in Section 8.17. Closing -- has the meaning set forth in Section 1.2. Collateral -- means any and all property, real or personal, tangible or intangible, now existing or hereafter acquired, that may at any time be or become subject to a security interest or Lien in favor of the Collateral Agent, on behalf of the Noteholders, to secure the Restated Notes or a Subsidiary Guarantee. Collateral Agent-- means State Street Bank and Trust, N.A., a Massachusetts Trust Company. Collateral Assignment of Notes -- means that certain Collateral Assignment of Notes by and between the Company and the

Collateral Agent and dated as of the Restatement Date. Collateral Documents -- The Collateral Agency and Intercreditor Agreement, the Security Agreement, the Pledge and Security Agreement, the Trademark Collateral Security Agreement, the Patent Collateral Security Agreement, the Copyright Collateral Security Agreement, the Collateral Assignment of Notes, the Mortgages, Canadian Pledge and Security Agreement, the Canadian Trademark Security Agreement and each Reaffirmation of Guarantee. Common Stock -- means all shares, options, warrants, interests, participations, or other equivalents (regardless of how designated) of or in a Person, whether voting or nonvoting, including common stock, preferred stock, or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act). Company -- has the meaning set forth in the introductory paragraph. Confidential Information -- means, at any time, written information delivered to a holder of Restated Notes by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was adequately marked or labeled or otherwise adequately identified when received by such holder as being confidential information of the Company or such Subsidiary, and that has not become: (i) publicly known other than by an act or omission by such holder or a Person acting on such holder's behalf; or (ii) known to such holder from sources other than the Company or a Subsidiary prior to the time of such disclosure. Consolidated EBITDA -- means, with respect to any fiscal period, consolidated net earnings (or loss) of the Company and its Subsidiaries minus extraordinary gains, plus interest expense, income taxes, and depreciation and amortization plus non-recurring non-cash losses for such period, as determined in accordance with GAAP. Continuing Director -- means (a) any member of the Board of Directors who was a director (or comparable manager) of the Company on the Restatement Date, and (b) any individual who becomes a member of the Board of Directors after the Restatement Date if such individual was appointed or nominated for election to the Board of Directors by a majority of the Continuing Directors, but excluding any such individual originally proposed for election in opposition to the Board of Directors in office at the Restatement Date in an actual or threatened election contest relating to the election of the directors (or comparable managers) of the Company (as such terms are used in Rule 14a-11 under the Exchange Act) and whose initial assumption of office resulted from such contest or the settlement thereof. Copyright Collateral Security Agreement -- means that certain Copyright Collateral Security Agreement by and between the Company and the Collateral Agent and dated as of the Restatement Date. Default -- means any event which, with the giving of notice or the passage of time, or both, would become an Event of Default. Deer Lake Note and Mortgage -- means collectively, (a) the Promissory Note, dated May 15, 2001, in the principal amount of \$1,640,000 made by SMT Holdings, LLC in favor of the Company, (b) the Mortgage, dated May 15, 2001 by and between SMT Holdings, LLC in favor of the Company covering real property located in West Brunswick, Township, Pennsylvania, (c) the Guaranty made by Anex Warehouse and Distribution Company, Inc. of the obligations of SMT Holdings, LLC arising under the Promissory Note referred to in clause (a) hereof, and (d) all documents and instruments and other agreements delivered in connection with the foregoing, as the same may be modified, amended, restated or otherwise supplemented from time to time. DOL -- means the United States Department of Labor and any successor agency. Dollars or \$ -- means lawful currency of the United States of America. Environmental Laws-- means all applicable federal, state, local and foreign laws, statutes, ordinances, codes, rules, standards and regulations, now or hereafter in effect, and any applicable judicial or administrative interpretation thereof, including any applicable judicial or administrative order, consent decree, order or judgment, imposing liability or standards of conduct for or relating to the regulation and protection of human health, safety, the environment and natural resources (including ambient air, surface water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation). Environmental Laws include the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (42 U.S.C.ss.ss.9601 et seq.) ("CERCLA"); the Hazardous Materials Transportation Authorization Act of 1994 (49 U.S.C.ss.ss.5101 et seq.); the Federal Insecticide, Fungicide, and Rodenticide Act (7 U.S.C.ss.ss.136 et seq.); the Solid Waste Disposal Act (42 U.S.C.ss.ss.6901 et seq.); the Toxic Substance Control Act (15 U.S.C.ss.ss.2601 et seq.); the Clean Air Act (42 U.S.C.ss.ss.7401 et seq.); the Federal Water Pollution Control Act (33 U.S.C.ss.ss.1251 et seq.); the Occupational Safety and Health Act (29 U.S.C.ss.ss.651 et seq.); and the Safe Drinking Water Act (42 U.S.C.ss.ss.300(f) et seq.), and any and all regulations promulgated thereunder, and all analogous state, local and foreign counterparts or equivalents and any transfer of ownership notification or approval statutes. Environmental Liabilities -- means, with respect to any Person, all liabilities, obligations, responsibilities, response, remedial and removal costs, investigation and feasibility study costs, capital costs, operation and maintenance costs, losses, damages, punitive damages,

property damages, natural resource damages, consequential damages, treble damages, costs and expenses (including all fees, disbursements and expenses of counsel, experts and consultants), fines, penalties, sanctions and interest incurred as a result of or related to any claim, suit, action, investigation, proceeding or demand by any Person, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law, arising under or related to any Environmental Laws, Environmental Permits, or in connection with any Release or threatened Release or presence of a Hazardous Material whether on, at, in, under, from or about or in the vicinity of any real or personal property. Environmental Permits -- means all permits, licenses, authorizations, certificates, approvals or registrations required by any Governmental Authority under any Environmental Laws. ERISA -- means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any regulations promulgated thereunder. ERISA Affiliate -- means, with respect to the Company and any of its Subsidiaries, any trade or business (whether or not incorporated) that, together with such Company and any of its Subsidiaries, is treated as a single employer under section 414 of the IRC. ERISA Event -- shall mean (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Benefit Plan; (b) the adoption of any amendment to a Benefit Plan that would require the provision of security pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA; (c) the existence with respect to any Benefit Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (d) the filing pursuant to Section 412 of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Benefit Plan; (e) the occurrence of a "prohibited transaction" with respect to which Borrower or any of its Subsidiaries is a "disqualified person" (within the meaning of Section 4975 of the Code) or with respect to which the Company or any of its Subsidiaries could otherwise be liable for amounts in excess of \$500,000; (f) a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan or a cessation of operations which is treated as such a withdrawal or notification that a Multiemployer Plan is in reorganization; (g) the filing of a notice of intent to terminate, the treatment of a Benefit Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the Pension Benefit Guaranty Corporation to terminate a Benefit Plan or Multiemployer Plan; (h) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Benefit Plan or Multiemployer Plan; (i) the imposition of any liability under Title IV of ERISA, other than the Pension Benefit Guaranty Corporation premiums due but not delinquent under Section 4007 of ERISA, upon the Company or any ERISA Affiliate; and (j) any other event or condition with respect to a Benefit Plan or Multiemployer Plan or any Benefit Plan subject to Title IV of ERISA maintained, or contributed to, by any ERISA Affiliate that could reasonably be expected to result in liability of the Company or any of its Subsidiaries for amounts in excess of \$500,000. Event of Default -- has the meaning set forth in Section 10.1. Exchange Act -- means the Securities Exchange Act of 1934, as amended, together with the rules and regulations of the SEC thereunder. Existing Note Agreement -- has the meaning specified in the introductory sentence. Existing Notes -- has the meaning specified in the first recital of this Agreement. Existing Transaction Documents -- means the Existing Note Agreement the Existing Notes, and the Existing Warrants, as such documents are in effect immediately prior to the Restatement Date. Existing Warrants -- those certain warrants, issued pursuant to the Existing Note Agreement, entitling the Noteholders to purchase up to an aggregate of 300,000 shares of Common Stock of the Company. Fair Market Value -- means, with respect to any Property, the sale value of such Property that would be realized in an arm's-length sale at such time between an informed and willing buyer, and an informed and willing seller, under no compulsion to buy or sell, respectively. Financial Covenant -- means any covenant (or substantially equivalent default provision) which requires any one or more of the Company or any of its Subsidiaries to attain or maintain a prescribed level of financial condition or financial achievement, including, without limitation, covenants of the type contained in Section 8 of this Agreement. Financial Statements -- means the consolidated and consolidating income statements, statements of cash flows and balance sheets of the Company delivered in accordance with Section 9. Foreign Pension Plan -- means any plan, fund or other similar program: (a) established or maintained outside of the United States of America by the Company primarily for the benefit of the employees (substantially all of whom are aliens not residing in the United States of America) of the Company, which plan, fund or other similar program provides for retirement income for such employees or results in a deferral of income for such employees in contemplation of retirement; and (b) not otherwise subject to ERISA. Funded Debt -- means, with respect to any Person, without duplication, all Indebtedness of such Person for borrowed money evidenced by notes, bonds, debentures or similar evidences of Indebtedness that

by its terms matures more than one year from, or is directly or indirectly renewable or extendible at such Person's option under a revolving credit or similar agreement obligating the lender or lenders to extend credit over a period of more than one year from the date of creation thereof, and specifically including Capital Lease Obligations, current maturities of long-term debt, revolving credit and short-term debt extendible beyond one year at the option of the debtor, and also including, in the case of the Company, the obligations of the Company evidenced by the Restated Notes and the Senior Credit Documents and guaranties of Funded Debt of other Persons. GAAP -- means generally accepted accounting principles as in effect from time to time in the United States, as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Board which are applicable to the circumstances as of the date of determination consistently applied, except, that, if any change in generally accepted accounting principles after the date hereof affects the calculation of compliance with the financial covenants in Section 8.16 such that such change would cause the Company to be in default of any such financial covenant(s), the Company may by notice to the Noteholders, provide the Noteholders with new financial projections, in form and substance satisfactory to the Noteholders, incorporating such changes, and the Noteholders shall, in their discretion, reset such covenant(s) thereafter in accordance with generally accepted accounting principles as then in effect.

Governmental Authority means (a) the government of (i) the United States of America or any state or other political subdivision thereof, or (ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or that asserts jurisdiction over any properties of the Company or any Subsidiary, or (b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

Grupo-- has the meaning set forth in Section 8.20 Guaranteed Indebtedness -- means, as to any Person, any obligation of such Person guaranteeing any indebtedness, lease, dividend, or other obligation ("primary obligation") of any other Person (the "primary obligor") in any manner, including any obligation or arrangement of such Person to (a) purchase or repurchase any such primary obligation, (b) advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet condition of the primary obligor, (c) purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (d) indemnify the owner of such primary obligation against loss in respect thereof. The amount of any Guaranteed Indebtedness at any time shall be deemed to be an amount equal to the lesser at such time of (x) the stated or determinable amount of the primary obligation in respect of which such Guaranteed Indebtedness is incurred and (y) the maximum amount for which such Person may be liable pursuant to the terms of the instrument embodying such Guaranteed Indebtedness or, if not stated or determinable, the maximum reasonably anticipated liability (assuming full performance) in respect thereof.

Guaranty -- means with respect to any Person (for the purposes of this definition, the "Guarantor") any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any indebtedness, dividend or other obligation of any other Person (the "Primary Obligor") in any manner, whether directly or indirectly, including, without limitation, obligations incurred through an agreement, contingent or otherwise, by the Guarantor: (a) to purchase such indebtedness or obligation or any Property constituting security therefor; (b) to advance or supply funds (i) for the purchase or payment of such indebtedness, dividend or obligation; or (ii) to maintain working capital or other balance sheet condition or any income statement condition of the Primary Obligor or otherwise to advance or make available funds for the purchase or payment of such indebtedness, dividend or obligation; (c) to lease Property or to purchase securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the Primary Obligor to make payment of the indebtedness or obligation; or (d) otherwise to assure the owner of the indebtedness or obligation of the Primary Obligor against loss in respect thereof. For purposes of computing the amount of any Guaranty, in connection with any computation of indebtedness or other liability: (i) in each case where the obligation that is the subject of such Guaranty is in the nature of indebtedness for money borrowed it shall be assumed that the amount of the Guaranty is the amount of the direct obligation then outstanding; and (ii) in each case where the obligation that is the subject of such Guaranty is not in the nature of indebtedness for money borrowed it shall be assumed that the amount of the Guaranty is the amount (if any) of the direct obligation that is then due.

Hazardous Material -- means any substance, material or waste that is regulated by, or forms the basis of liability now or hereafter under, any Environmental Laws, including any material or substance that is (a) defined as a "hazardous waste,"

"hazardous material," "hazardous substance," "extremely hazardous waste," "restricted hazardous waste," "pollutant," "contaminant," "hazardous constituent," "special waste," "toxic substance" or other similar term or phrase under any Environmental Laws, or (b) petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls (PCB's), or any radioactive substance. Heathrow Facility -- means the property located at 195 International Parkway, Heathrow, Florida 32746. Indebtedness -- means, with respect to any Person, without duplication, (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property payment for which is deferred six months or more, but excluding obligations to trade creditors incurred in the ordinary course of business that are unsecured and not overdue by more than six months unless being contested in good faith, (b) all reimbursement and other obligations with respect to letters of credit, bankers' acceptances and surety bonds, whether or not matured, (c) all obligations evidenced by notes, bonds, debentures or similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all Capital Lease Obligations and the present value (discounted at the Index Rate (as defined in the Senior Credit Agreement) as in effect on the Restatement Date) of future rental payments under all synthetic leases, (f) all obligations of such Person under commodity purchase or option agreements or other commodity price hedging arrangements, in each case whether contingent or matured, (g) all obligations of such Person under any foreign exchange contract, currency swap agreement, interest rate swap, cap or collar agreement or other similar agreement or arrangement designed to alter the risks of that Person arising from fluctuations in currency values or interest rates, in each case whether contingent or matured, (h) all Indebtedness referred to above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property or other assets (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, (i) the obligations of the Company under the Senior Credit Documents and (j) the obligations of the Company evidenced by the Restated Notes. Intercreditor Agreement -- means that certain Intercreditor and Subordination Agreement by and among the Company, the Noteholders, the Collateral Agent and the Senior Lender dated as of the Restatement Date. Interest Expense -- means, with respect to any Person for any fiscal period, interest expense (whether cash or non-cash) of such Person determined in accordance with GAAP for the relevant period ended on such date, including interest expense with respect to any Funded Debt of such Person and interest expense for the relevant period that has been capitalized on the balance sheet of such Person. Interest Payment Date -- has the meaning set forth in Section 5.1. Investments -- means all investments, made in cash or by delivery of Property, by the Company and the Subsidiaries: (a) in any Person, whether by acquisition of stock, Indebtedness or other obligation or Security, or by loan, Guaranty, advance or capital contribution, or otherwise; or (b) in any Property; provided, however, that "Investments" shall not include any advances to officers, directors or employees of the Company or any Subsidiary in respect of travel or other similar expenses relating to the business of the Company and the Subsidiaries which such officers, directors or employees expect to incur, which advances are made in the ordinary course of business. IRC -- means the Internal Revenue Code of 1986, together with all rules and regulations promulgated pursuant thereto, as amended from time to time. IRS -- means the United States Internal Revenue Service and any successor agency. Lien -- means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property (for purposes of this definition, the "Owner"), whether such interest is based on the common law, statute or contract, and includes but is not limited to: (a) the security interest lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes, and the filing of any financing statement under the Uniform Commercial Code of any jurisdiction, or an agreement to give any of the foregoing; (b) reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases and other title exceptions and encumbrances affecting real Property; (c) stockholder agreements, voting trust agreements, buy-back agreements and all similar arrangements affecting the Owner's rights in stock owned by the Owner; and (d) any interest in any Property held by the Owner evidenced by a conditional sale agreement, Capital Lease or other arrangement pursuant to which title to such Property has been retained by or vested in some other Person for security purposes. The term "Lien" does not include negative pledge clauses in loan agreements and equal and ratable security clauses in loan agreements. License Agreement -- has the meaning set forth in Section 2.4(c). Liquidity Event -- means the occurrence of any of the following events: (a) the Company's receipt of any income tax refund(s) for federal taxes paid prior to the year 2002, (b) the Company's receipt of any imported pencil duty rebates, (c) the receipt of any

principal payment in respect of the Deer Lake Note and Mortgage, or (d) the consummation of a sale/leaseback or mortgage refinancing with respect to the Heathrow Facility. March 2004 2.5% Warrants -- is defined in the definition of 2.5% Warrants. March 2005 2.5% Warrants -- is defined in the definition of 2.5% Warrants. Material Adverse Effect -- means, with respect to any event or circumstance (either individually or in the aggregate with all other events and circumstances), an effect caused thereby or resulting therefrom that would be materially adverse as to, or in respect of: (a) the business, operations, profits, financial condition, Properties or business prospects of the Company or any Subsidiary; (b) the ability of the Company to perform its obligations under any Transaction Document; or (c) the validity or enforceability of any of the Transaction Documents. Maturity Date -- means October 3, 2005. Maximum Legal Rate of Interest -- means the maximum rate of interest that a holder of Restated Notes may from time to time legally charge the Company by agreement and in regard to which the Company would be prevented successfully from raising the claim or defense of usury under the Applicable Interest Law as now or hereafter construed by courts having appropriate jurisdiction. Mortgages -- has the meaning as set forth in the Security Agreement. Multiemployer Plan -- means any "multiemployer plan" (as defined in section 4001(a)(3) of ERISA), and to which the Company, any of its Subsidiaries or ERISA Affiliate is making, is obligated to make, or has made or been obligated to make, contributions on behalf of participants who are or were employed by any of them. NCR Buyer-- means New Castle Refractories Company, Inc., a Pennsylvania corporation, and its successors and assigns. NCR Division -- means the assets of the Company constituting its New Castle Refractories division located in New Castle, Lawrence County, Pennsylvania, Newell, Hancock County, West Virginia, and Masillon (Townships of Lawrence and Tuscarawas) Stark County, Ohio. Net Borrowing Availability -- has the meaning assigned to such term in the Senior Credit Agreement. Net Worth -- means, with respect to any Person, at any time, the net worth of such Person as would be reflected on a balance sheet of such Person prepared in accordance with GAAP at such time; provided, however, that minority interest, shall not be included in Net Worth of any Person. NCR Properties -- shall mean the Real Property of the Company constituting its New Castle Refractories division located in New Castle, Lawrence County, Pennsylvania, Newell, Hancock County, West Virginia, and Masillon (Townships of Lawrence and Tuscarawas) Stark County, Ohio. North American EBITDA -- means, with respect to any fiscal period, the Company's and its Subsidiaries United States and Canadian operations net earnings (or loss), minus extraordinary gains, plus interest expense, income taxes, and depreciation and amortization plus non-recurring non-cash extraordinary losses, for such period, as determined in accordance with GAAP. Noteholder(s) -- has the meaning set forth in the introductory paragraph. Operating Lease -- means, with respect to any Person, any lease other than a Capital Lease. Patent Collateral Security Agreement -- means that certain Patent Collateral Security Agreement by and between the Company and the Collateral Agent and dated as of the Restatement Date. PBGC -- means the Pension Benefit Guaranty Corporation, or any other Person succeeding to the duties thereof. Pension Plan -- means a Plan described in section 3(2) of ERISA. Permitted Dispositions -- means (a) sales or other dispositions by the Company and its Subsidiaries of Equipment that is substantially worn, damaged, or obsolete, in the ordinary course of business, (b) sales by the Company and its Subsidiaries of Inventory to buyers in the ordinary course of business, (c) the use or transfer of money or Cash Equivalents by the Company or its Subsidiaries in a manner that is not prohibited by the terms of this Agreement or the other Transaction Documents, (d) the licensing by the Company and its Subsidiaries, on a non-exclusive basis, of patents, trademarks, copyrights, and other intellectual property rights in the ordinary course of business; (e) the sale by the Company of Equipment to Grupo provided, that, each of the following conditions has been satisfied in the determination of the Noteholders: (i) the Company shall have sent written notice to the Noteholders of such intended disposition no later than thirty (30) days prior to the date of sale, which notice shall identify each of the items of Equipment to be sold to the appraisal referred to in Section 3.1(w) of the Senior Credit Agreement, (ii) such Equipment shall have a value in the aggregate, not in excess of \$300,000, (iii) such Equipment is currently located at the Company's Sandusky, Ohio, location, (iv) the Company shall only accept cash consideration from Grupo, in an amount not less than \$300,000, which shall be immediately paid or delivered, or caused to be paid or delivered to Senior Lender, (v) the sale shall have been consummated no later than December 31, 2002; and (vi) on the date of such sale and after giving effect thereto, no Event of Default shall exist or have occurred and be continuing, and (f) the sale of all of the Company's right, title and interest in and to the Deer Lake Note and Mortgage, provided, that, each of the following conditions has been satisfied in the determination of the Noteholders: (i) the Company shall have sent written notice to the Noteholders of such intended disposition no later than thirty (30) days prior to the date of sale, which notice shall identify, among other things, the outstanding principal amount of such

Note and the intended purchaser thereof, and (ii) the Company shall only accept cash consideration from such purchaser, in an amount equal to not less than eighty (80%) percent of the then outstanding principal amount of the Note, which consideration shall be immediately paid or delivered, or caused to be paid or delivered to the Noteholders in accordance with the with Section 5.2(c) hereof, provided however that Permitted Dispositions shall not include item (d) of the definition of Liquidity Event Permitted Holder -- means (i) Mr. Gino N. Pala, having an address at c/o Dixon Ticonderoga Company, 195 International Parkway, Heathrow, Florida, 32746, and (ii) Mr. Richard F. Joyce, having an address at c/o Dixon Ticonderoga Company, 195 International Parkway, Heathrow, Florida, 32746, and their respective Family Members, and Family Trusts and (iii) the Noteholders, and any future holder that is an institutional investor that is also a holder of the Restated Notes. Permitted Investments -- means (a) investments by the Company or Dixon Ticonderoga Inc. in Cash Equivalents, (b) investments by the Company in negotiable instruments for collection, (c) advances made by the Company in connection with purchases of goods or services in the ordinary course of business, (d) loans by the Company or Dixon Ticonderoga Inc. after the date hereof, provided, that, as to all of such loans, (i) within thirty (30) days after the end of each fiscal month, the Company shall provide to the Noteholders a report in form and substance satisfactory to the Noteholders of the outstanding amount of such loans as of the last day of the immediately preceding month and indicating any loans made and payments received during the immediately preceding month, (ii) the Indebtedness arising pursuant to any such loan shall not be evidenced by a promissory note or other instrument, unless the single original of such note or other instrument is promptly delivered to Senior Lender to hold as part of the Collateral, with such endorsement and/or assignment by the payee of such note or other instrument as Senior Lender and then Noteholders may require, (iii) as of the date of any such loan and after giving effect thereto, the Company shall be Solvent, and (iv) as of the date of any such loan and after giving effect thereto, no Default or Event of Default shall exist or have occurred and be continuing. Permitted Liens -- means (a) Liens provided for under the Security Agreement (b) Liens held by Senior Lender, (c) Liens for unpaid taxes that either (i) are not yet delinquent, or (ii) do not constitute an Event of Default hereunder and are the subject of Permitted Protests, (d) Liens set forth on Part 2.2(b) of Annex 2 and Part 8.2 of Annex 2, (e) the interests of lessors under operating leases, (f) purchase money Liens or the interests of lessors under Capital Leases to the extent that such Liens or interests secure Permitted Purchase Money Indebtedness and so long as such Lien attaches only to the asset purchased or acquired and the proceeds thereof, (g) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of business and not in connection with the borrowing of money, and which Liens either (1) are for sums not yet delinquent, or (2) are the subject of Permitted Protests, (h) Liens arising from deposits made in connection with obtaining worker's compensation or other unemployment insurance, (i) Liens or deposits to secure performance of bids, tenders, or leases incurred in the ordinary course of business and not in connection with the borrowing of money, (j) Liens granted as security for surety or appeal bonds in connection with obtaining such bonds in the ordinary course of business, (k) Liens resulting from any judgment or award that is not an Event of Default hereunder, (l) Liens with respect to the Real Property Collateral that are exceptions to the commitments for title insurance issued in connection with the Mortgages, as accepted by Lender, (m) liens and security interests of Ohio National Life Insurance Company on the Heathrow Facility to secure Indebtedness to Ohio National Life Insurance Company permitted under Section 7.2 (c) hereof, and (n) with respect to any Real Property that is not part of the Real Property Collateral, easements, rights of way, and zoning restrictions that do not materially interfere with or impair the use or operation thereof. Permitted Purchase Money Indebtedness -- means, as of any date of determination, Purchase Money Indebtedness incurred after the Restatement Date in an aggregate principal amount outstanding at any one time not in excess of \$500,000. Person -- means an individual, partnership, corporation, limited liability company, joint venture, trust, unincorporated organization, or a government or agency or political subdivision thereof. PIK Notes -- means the promissory notes, in the form of Exhibit E hereto, evidencing accrued interest on the Existing Notes for the period July 10, 2000 through and including March 31, 2002, issued to the Noteholders pursuant to Section 4.2. Plan -- means an "employee benefit plan" (as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability. Pledge and Security Agreement -- that certain Pledge and Security Agreement by and between the Company and the Collateral Agent and dated as of the Restatement Date. Prepayment Compensation Amount -- means, with respect to any Prepaid Principal and the date of payment thereof (a "Payment Date"), an amount equal to the excess (if

any) of the Present Value of the Prepaid Cash Flows over the amount of such Prepaid Principal, determined in respect of such Prepaid Principal as of such Payment Date. As used in this definition: Prepaid Principal -- means any principal amount of Restated Notes being paid (or otherwise retired) for any reason (including, without limitation, acceleration, optional payment or mandatory purchase required because of the occurrence of a contingency) prior to its regularly scheduled maturity date; provided, however, that only the aggregate principal amount paid or retired in excess of \$11,000,000 in the aggregate during the period from the Restatement Date through September 26, 2003 shall constitute Prepaid Principal. Present Value of the Prepaid Cash Flows -- means the sum of the present values of the then remaining required payments of principal and interest that would have been payable in respect of such Prepaid Principal but that are no longer payable as a result of the early payment of such Prepaid Principal. In determining such present values: (a) the amount of interest accrued through and including the day immediately preceding such Payment Date on such Prepaid Principal since the scheduled interest payment date immediately preceding such Payment Date shall be deducted from the first of such payments of interest; (b) each required principal payment shall be deemed payable on the last date before which such payment would be overdue; and (c) a discount rate per annum equal to the Make-Whole Discount Rate determined with respect to such Prepaid Principal and such Payment Date divided by four (4), and a discount period of three (3) months of thirty (30) days each, shall be used. Make-Whole Discount Rate -- means the sum of: (a) one half of one percent (0.50%) per annum; and (b) the per annum percentage rate (rounded to the nearest three (3) decimal places) equal to the bond equivalent yield to maturity derived from the Applicable Treasury Rate determined as of the date that is two (2) Business Days prior to such Payment Date. Applicable Treasury Rate -- means, at any time: (a) the Bloomberg Rate; (b) if the Bloomberg Financial Markets System is not then quoting yields on United States government securities, then the Telerate Rate; (c) if neither the Bloomberg Financial Markets System nor Telerate Service is then quoting yields on United States government securities, then the per annum yield reported on such other electronic quotation service selected by the Company and agreed to by the Required Noteholders at 10:00 a.m. (New York time) on the second (2nd) Business Day preceding such Payment Date for United States government securities having a maturity (rounded to the nearest month) corresponding to the Weighted Average Life to Maturity of such Prepaid Principal; and (d) if neither the Bloomberg Financial Markets System nor Telerate Service is then quoting yields on United States government securities and the Company and the Required Noteholders cannot agree on another electronic quotation service, then the Applicable H.15 Rate. In each such case, If no such United States Treasury obligation with a Treasury Constant Maturity corresponding exactly to such Weighted Average Life to Maturity is listed, then the yields for the two (2) then most current hypothetical United States Treasury obligations with Treasury Constant Maturities most closely corresponding to such Weighted Average Life to Maturity (one (1) with a longer maturity and one (1) with a shorter maturity, if available) shall be calculated pursuant to the immediately preceding sentence and the Make-Whole Discount Rate shall be interpolated or extrapolated from such yields on a straight-line basis. Applicable H.15 -- means, at any time, the United States Federal Reserve Statistical Release H.15(519) then most recently published and available to the public, or if such publication is not available, then any other source of current information in respect of interest rates on securities of the United States of America that is generally available and, in the judgment of the Required Noteholders, provides information reasonably comparable to the H.15(519) report. Applicable H.15 Rate -- means, at any time, the then most current annual yield to maturity of the hypothetical United States Treasury obligation listed in the Applicable H.15 with a equal to the Weighted Average Life to Maturity of such Prepaid Principal. Bloomberg Rate -- means the per annum yield reported on the Bloomberg Financial Markets System at 10:00 a.m. (New York time) on the second (2nd) Business Day preceding such Payment Date for United States Treasury obligations having a Treasury Constant Maturity corresponding to the Weighted Average Life to Maturity of such Prepaid Principal. Page USD shall be used as the source of such yields, or if not then available, such other screen available on the Bloomberg Financial Markets System as shall, in the opinion of the Required Noteholders, provide equivalent information. Telerate Rate -- means the per annum yield reported on Bridge Telerate at 10:00 a.m. (New York time) on the second (2nd) Business Day preceding such Payment Date for United States Treasury obligations having a Treasury Constant Maturity (rounded to the nearest month) corresponding to the Weighted Average Life to Maturity of such Prepaid Principal. Page 678 shall be used as the source of such yields, or if not then available, such other screen available on the Telerate Service as shall, in the opinion of the Required Noteholders, provide equivalent information. Treasury Constant Maturity -- has the meaning specified in the Applicable H.15. Weighted Average Life to Maturity -- means the number of years (calculated to the nearest one-twelfth (1/12th)) obtained by dividing the Remaining Dollar-Years of such Prepaid

Principal by such Prepaid Principal, determined as of such Payment Date. Remaining Dollar-Years -- means the result obtained by: (a) multiplying, in the case of each then remaining scheduled payment of principal that would have been payable in respect of Prepaid Principal but is no longer payable as a result of the payment of such Prepaid Principal; (i) an amount equal to such scheduled payment of principal; by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such Payment Date and the date such scheduled principal payment would be due if such Prepaid Principal had not been so prepaid; and (b) calculating the sum of each of the products obtained in the preceding subsection (a). Projections -- means Borrower's and its Subsidiaries, consolidated and consolidating forecasted (a) balance sheets, (b) profit and loss statements, and (c) cash flow statements, all prepared on a basis consistent with Borrower's historical financial statements, together with appropriate supporting details and a statement of underlying assumptions. Property -- means any interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible. Qualified Plan -- means a Pension Plan that is intended to be tax-qualified under Section 401(a) of the IRC. Reaffirmation of Guarantee -- Section 4.8 and Exhibit F-1 and F-2 hereto. Release -- means any release, threatened release, spill, emission, leaking, pumping, pouring, emitting, emptying, escape, injection, deposit, disposal, discharge, dispersal, dumping, leaching or migration of Hazardous Material in the indoor or outdoor environment, including the movement of Hazardous Material through or in the air, soil, surface water, ground water or property. Remedies -- means and includes, with respect to any Indebtedness: (a) the acceleration of the maturity of any of such Indebtedness; (b) the exercise of any put right or other similar right to require the Company or any Subsidiary to repurchase any of such Indebtedness prior to the stated maturity thereof; (c) the collection or commencement of proceedings against the Company, any Subsidiary or any other Person obligated on such Indebtedness or any of their respective Property, to enforce or collect any of such Indebtedness; (d) taking possession of or foreclosing upon (whether by judicial proceedings or otherwise) any Liens or other collateral security for such Indebtedness; or causing a marshalling of any Property of the Company or any Subsidiary; (e) the making of a demand in respect of any Guaranty given by the Company or any Subsidiary of such Indebtedness; (f) exercising any other remedies with respect to such Indebtedness or any claim with respect thereto; or (g) the taking of any action against the Company, any Subsidiary or an other Person obligated on or for such Indebtedness, or any of their respective assets, pursuant to the agreements governing such Indebtedness, in connection with the collection of such Indebtedness or the enforcement of the Liens, if any, securing such Indebtedness. Required Noteholders -- means, at any time, the holders of sixty-six and two-thirds percent (66-2/3%) in principal amount of the Restated Notes at the time outstanding (exclusive of Restated Notes then owned by any one or more of the Company, any Subsidiary or any Affiliate). Restated Documents-- means the Restated Note Agreement and the Restated Notes. Restated Note Agreement -- has the meaning set forth in the introductory paragraph of this Agreement. Restated Notes -- has the meaning set forth in the Recitals of this Agreement. Restatement Date -- means October 3, 2002. Rights -- means, with respect to any Person, any right, warrant, option or other similar right to purchase or receive Capital Stock of such Person. SEC -- means, at any time, the Securities and Exchange Commission or any other federal agency at such time administering the Securities Act. Securities Act -- means the Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder. Security -- means "security" as defined by section 2(1) of the Securities Act. Security Agreement -- means that certain Security Agreement by and between the Company and the Collateral Agent and dated as of the Restatement Date. Seller Note -- has the meaning set forth in Section 8.4. Senior Credit Agreement -- means the Loan and Security Agreement, dated as of October 3, 2002, among the Company and the Senior Lender, as amended from time to time. Senior Credit Documents -- means the Senior Credit Agreement and all other agreements, instruments, documents and certificates executed in connection therewith or executed and delivered to, or in favor of, the Senior Lender and including all other pledges, powers of attorney, consents, assignments, contracts, notices, and all other written matter whether heretofore, now or hereafter executed by or on behalf of the Company or any of its Subsidiaries, or any employee of the Company or any of its Subsidiaries, and delivered to the Senior Lender in connection with the Senior Credit Agreement or the transactions contemplated thereby, and including all appendices, exhibits or schedules thereto, and all amendments, restatements, supplements or other modifications thereto, as the same may be in effect at any and all times. Senior Financial Officer -- means any one of the chief financial officer, the treasurer and the principal accounting officer of the Company. Senior Lender-- means Foothill Capital Corporation. Senior Obligations -- means all loans, advances, debts, liabilities and obligations for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or such amounts are liquidated or determinable) owing by the Company or

any of its Subsidiaries to the Senior Lender, and all covenants and duties regarding such amounts, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, arising under the Senior Credit Agreement or any of the other Senior Credit Documents. This term includes all principal, interest (including all interest that accrues after the commencement of any case or proceeding by or against the Company or any of its Subsidiaries in bankruptcy, fees, Charges, expenses, attorneys' fees and any other sum chargeable to the Company and any of its Subsidiaries under the Senior Credit Agreement or any of the other Senior Credit Documents. Senior Officer -- means any one of the chairman of the Board of Directors, the chief executive officer, the chief operating officer, the chief financial officer and the president, of the Company, and in addition, with respect to Dixon Ticonderoga Inc., treasurer. Specified Payment Date - has the meaning set forth in Section 5.3(b) Stockholder -- means, with respect to any Person, each holder of Capital Stock of such Person. Subsidiary -- means, at any time, each corporation, association, limited liability company or other business entity which qualifies as a Subsidiary of the Company that is properly included in a consolidated financial statement of the Company and its Subsidiaries in accordance with GAAP at such time. Subsidiary Guaranties-- means the (i) Guarantee dated as of September 26, 1996 and executed by Dixon Ticonderoga, Inc., Dixon Europe, Limited, Dixon Ticonderoga De Mexico, S.A. De C.V., Bryn Mawr Ocean Resorts Inc. and Ticonderoga Graphite Inc., and (ii) Guarantee dated as of August 4, 2000 and executed by Dixon Ticonderoga, Inc., Dixon Europe, Limited, Grupo Dixon, S.A. De C.V. (formerly known as Dixon Ticonderoga Company De Mexico, S.A. De C.V.), Vinci De Mexico, S.A. De C.V., Vinci Manufactura, S.A. De C.V., Comercializadora Dixon, S.A. De C.V. Servidix, S.A. De C.V., Dixon Industrial Mexico, S.A. De C.V., Dixon Ticonderoga De Mexico, S.A. De C.V. and Ticonderoga Graphite Inc., in each case as reaffirmed pursuant hereto. Subsidiary Guarantors -- means, Dixon Ticonderoga Inc., Dixon Europe, Limited, Grupo Dixon, S.A. de C.V., Dixon Comercializadora, S.A. de C.V., Servidix, S.A. de C.V., Dixon Ticonderoga de Mexico, S.A. de C.V., Dixon Industrial Mexico, S.A. de C.V., Beijing Dixon Ticonderoga Stationery Company Limited and Ticonderoga Graphite Inc., each sometimes referred to herein individually as a Subsidiary Guarantor. Tangible Net Worth -- means, as of any date of determination, the result of (a) the Company's (on a consolidated basis with its Subsidiaries) total stockholder's equity, minus (b) the sum of (i) all Intangible Assets of the Company (on a consolidated basis with its Subsidiaries), (ii) all of the Company's prepaid expenses (on a consolidated basis with its Subsidiaries) and (iii) all amounts due to the Company from Affiliates, plus (c) other comprehensive loss items, minus (d) other comprehensive income items. Target Payment -- means, at any time with respect to any period beginning on October 3, 2002 and ending on a date set forth below (each, a "Target Period"), an aggregated principal amount paid in respect of the Restated Notes equal to the US Dollar amount set forth opposite such Target Period:

-----	Target Period Ending Date: Target Payment:
-----	December 31, 2002 \$1,500,000
-----	December 31, 2003 \$3,500,000
-----	December 31, 2004 \$5,500,000
-----	October 3, 2005 \$6,500,000

----- Target Period -- is defined in the definition of "Target Payment" in this Section 11.1. Taxes -- means taxes, levies, imposts, deductions, Charges or withholdings, and all liabilities with respect thereto, excluding taxes imposed on or measured by net income or gross receipts by the jurisdictions under the laws of which the Senior Lenders and the holders of the Restated Notes are organized or in which the Senior Lenders and the holders of the Restated Notes are doing business or by any political subdivision thereof. Title IV Plan -- means a Pension Plan (other than a Multiemployer Plan) that is covered by Title IV of ERISA and that the Company, any of its Subsidiaries or ERISA Affiliate maintains, contributes to or has an obligation to contribute to on behalf of participants who are or were employed by any of them. Trademark Collateral Security Agreement -- means that certain Trademark Collateral Security Agreement by and between the Company and the Collateral Agent and dated as of the Restatement Date. Transaction Documents means and includes this Agreement, the Restated Notes, the 2.5% Warrants, the 9.5% Warrants, each Collateral Document, and all other documents, certificates and instruments to be executed pursuant to the terms of the foregoing, as each may be amended, restated or otherwise modified from time to time. Warrants means the 2.5% Warrants, the 9.5% Warrants, and the Existing Warrants. 11.2 Accounting Principles. (a) Generally. Unless otherwise provided herein, all financial statements delivered in connection herewith will be prepared in accordance with GAAP. Where the character or amount of any asset or liability or item of income or expense, or any consolidation or other accounting computation is required to be

made for any purpose hereunder, it shall be done in accordance with GAAP; provided, however, that if any term defined herein includes or excludes amounts, items or concepts that would not be included in or excluded from such term if such term were defined with reference solely to GAAP, such term will be deemed to include or exclude such amounts, items or concepts as set forth herein. (b) Consolidation. Whenever accounting amounts of a group of Persons are to be determined "on a consolidated basis" it shall mean that, as to balance sheet amounts to be determined as of a specific time, the amount that would appear on a consolidated balance sheet of such Persons prepared as of such time, and as to income statement amounts to be determined for a specific period, the amount that would appear on a consolidated income statement of such Persons prepared in respect of such period, in each case with all transactions among such Persons eliminated, and prepared in accordance with GAAP except as otherwise required hereby. (c) Currency. With respect to any determination, consolidation or accounting computation required hereby, any amounts not denominated in the currency in which this Agreement specifies shall be converted to such currency in accordance with the requirements of GAAP (as such requirements relate to such determination, consolidation or computation) and, if no such requirements shall exist, converted to such currency in accordance with normal banking procedures, at the closing rate as reported in The Wall Street Journal published most recently as of the date of such determination, consolidation or computation or, if no such quotation shall then be available, as quoted on such date by any bank or trust company reasonably acceptable to the Required Noteholders. 11.3 Directly or Indirectly. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person, including actions taken by or on behalf of any partnership in which such Person is a general partner. 11.4 Section Headings and Table of Contents and Construction. (a) Section Headings and Table of Contents, etc. The titles of the Sections of this Agreement and the Table of Contents of this Agreement appear as a matter of convenience only, do not constitute a part hereof and shall not affect the construction hereof. The words "herein," "hereof," "hereunder" and "hereto" refer to this Agreement as a whole and not to any particular Section or other subdivision. References to Sections are, unless otherwise specified, references to Sections of this Agreement. References to Annexes and Exhibits are, unless otherwise specified, references to Annexes and Exhibits attached to this Agreement. (b) Independent Construction. Each covenant contained herein shall be construed (absent an express contrary provision herein) as being independent of each other covenant contained herein, and compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with one or more other covenants. 11.5 Governing Law. **THIS AGREEMENT AND THE RESTATED NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK. IN ADDITION, THE PARTIES HERETO SELECT, TO THE EXTENT THEY MAY LAWFULLY DO SO, THE INTERNAL LAWS OF THE STATE OF NEW YORK AS THE APPLICABLE INTEREST LAW.** 11.6 General Interest Provisions. It is the intention of the Company and the Noteholders to conform strictly to the Applicable Interest Law. Accordingly, it is agreed that, notwithstanding any provisions to the contrary in this Agreement or in the Restated Notes, the aggregate of all interest, and any other charges or consideration constituting interest under the Applicable Interest Law that is taken, reserved, contracted for, charged or received pursuant to this Agreement or the Restated Notes shall under no circumstances exceed the maximum amount of interest allowed by the Applicable Interest Law. If any such excess interest is ever charged, received or collected on account of or relating to this Agreement and the Restated Notes (including any charge or amount which is not denominated as "interest" but is legally deemed to be interest under Applicable Interest Law), then in such event: (a) the provisions of this Section 11.6 shall govern and control; (b) the Company shall not be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest allowed by the Applicable Interest Law; (c) any excess shall be deemed a mistake and cancelled automatically and, if theretofore paid, shall be credited to the principal amount of the Restated Notes by the holders thereof, and if the principal balance of the Restated Notes is paid in full, any remaining excess shall be forthwith paid to the Company; and (d) the effective rate of interest shall be automatically subject to reduction to the Maximum Legal Rate of Interest. If at any time thereafter, the Maximum Legal Rate of Interest is increased, then, to the extent that it shall be permissible under the Applicable Interest Law, the Company shall forthwith pay to the holders of the Restated Notes, on a pro rata basis, all amounts of such excess interest that the holders of the Restated Notes would have been entitled to receive pursuant to the terms of this Agreement and the Restated Notes had such increased Maximum Legal Rate of Interest been in effect at all times when such excess interest accrued. To the extent permitted by the Applicable Interest Law, all sums paid or agreed to be paid to the

holders of the Restated Notes for the use, forbearance or detention of the indebtedness evidenced thereby shall be amortized, prorated, allocated and spread throughout the full term of the Restated Notes.

12. Miscellaneous

12.1 Communications. (a) Method; Address. All communications hereunder or under the Restated Notes shall be in writing and shall be delivered either by nationwide overnight courier or by facsimile transmission (confirmed by delivery by nationwide overnight courier sent on the day of the sending of such facsimile transmission). Communications to the Company shall be addressed as set forth on Annex 2, or at such other address of which the Company shall have notified each holder of Restated Notes. Communications to the holders of the Restated Notes shall be addressed as set forth on Annex 1 by such holder, or at such other address of which such holder shall have notified the Company (and the Company shall record such address in the register for the registration and transfer of Restated Notes maintained pursuant to Section 6.1). (b) When Given. Any communication addressed and delivered as herein provided shall be deemed to be received when actually delivered to the address of the addressee (whether or not delivery is accepted) or received by the telecopy machine of the recipient. Any communication not so addressed and delivered shall be ineffective. (c) Service of Process. Notwithstanding the foregoing provisions of this Section 12, service of process in any suit, action or proceeding arising out of or relating to this agreement or any document, agreement or transaction contemplated hereby, or any action or proceeding to execute or otherwise enforce any judgment in respect of any breach hereunder or under any document or agreement contemplated hereby, shall be delivered in the manner provided in Section 12.7(c).

12.2 Reproduction of Documents. This Agreement and all documents relating hereto, including, without limitation, consents, waivers and modifications that may hereafter be executed, documents received by you at the closing of your purchase of the Restated Notes (except the Restated Notes themselves and the Warrants), and financial statements, certificates and other information previously or hereafter furnished to any holder of Restated Notes, may be reproduced by the Company or any holder of Restated Notes by any photographic, photostatic, microfilm, micro-card, miniature photographic, digital or other similar process and each holder of Restated Notes may destroy any original document so reproduced. Any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Company or such holder of Restated Notes in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. Nothing in this Section 12.2 shall prohibit the Company or any holder of Restated Notes from contesting the accuracy or validity of any such reproduction.

12.3 Survival; Entire Agreement. All warranties, representations, certifications and covenants contained herein or in any certificate or other instrument delivered hereunder shall be considered to have been relied upon by the other parties hereto and shall survive the delivery to you of the Restated Notes regardless of any investigation made by or on behalf of any party hereto. All statements in any certificate or other instrument delivered pursuant to the terms hereof shall constitute warranties and representations hereunder. All obligations hereunder (other than payment of the Restated Notes, but including, without limitation, reimbursement obligations in respect of costs, expenses and fees) shall survive the payment of the Restated Notes and the termination hereof. Subject to the preceding sentence, this Agreement, the Restated Notes and the other Transaction Documents embody the entire agreement and understanding among the Company and the Noteholders, and supersede all prior agreements and understandings, relating to the subject matter hereof.

12.4 Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto. The provisions hereof are intended to be for the benefit of all holders, from time to time, of Restated Notes, and shall be enforceable by any such holder whether or not an express assignment to such holder of rights hereunder shall have been made by you or your successor or assign. Anything contained in this Section 12.4 notwithstanding, the Company may not assign any of its respective rights, duties or obligations hereunder or under any of the other Transaction Documents without the prior written consent of all holders of Restated Notes.

12.5 Amendment and Waiver. (a) Requirements. This Agreement may be amended, and the observance of any term hereof may be waived, with (and only with) the written consent of the Company and the Required Noteholders; provided, however, that no such amendment or waiver shall, without the written consent of the holders of all Restated Notes (exclusive of Restated Notes held by the Company, any Subsidiary or any Affiliate) at the time outstanding; (i) change the amount or time of any prepayment or payment of principal or Prepayment Compensation Amount or reduce the rate of interest or decrease the frequency of interest payments; (ii) amend or waive the provisions of Section 10.1, Section 6.2, Section 10.3 or amend or waive any defined term to the extent used therein; (iii) amend or waive the definition of "Required Noteholders;" or (iv) amend or waive this Section 9.5 or amend or waive any defined term to the extent used herein. The holder of any Restated Note may specify that

any such written consent executed by it shall be effective only with respect to a portion of the Restated Notes held by it (in which case it shall specify, by dollar amount, the aggregate principal amount of Restated Notes with respect to which such consent shall be effective) and in the event of any such specification such holder shall be deemed to have executed such written consent only with respect to the portion of the Restated Notes so specified. (b) Solicitation of Noteholders. (i) Solicitation. Each holder of the Restated Notes (irrespective of the amount of Restated Notes then owned by it) shall be provided by the Company with all material information provided by the Company to any other holder of Restated Notes with respect to any proposed waiver or amendment of any of the provisions hereof or the Restated Notes. Executed or true and correct copies of any amendment or waiver effected pursuant to the provisions of this Section 12.5 shall be delivered by the Company to each holder of outstanding Restated Notes forthwith following the date on which such amendment or waiver becomes effective. (ii) Payment. The Company shall not, nor shall any Subsidiary or Affiliate, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Restated Notes as consideration for or as an inducement to the entering into by any holder of Restated Notes of any waiver or amendment of any of the provisions hereof or of the Restated Notes unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to the holders of all Restated Notes then outstanding. (iii) Scope of Consent. Any amendment or waiver made pursuant to this Section 9.5 by a holder of Restated Notes that has transferred or has agreed to transfer its Restated Notes to the Company or any Subsidiary or Affiliate of the Company and has provided or has agreed to provide such amendment or waiver as a condition to such transfer shall be void and of no force and effect except solely as to such holder, and any amendments effected or waivers granted that would not have been or would not be so effected or granted but for such amendment or waiver (and the amendments or waivers of all other holders of Restated Notes that were acquired under the same or similar conditions) shall be void and of no force and effect, retroactive to the date such amendment or waiver initially took or takes effect, except solely as to such holder. (iv) Binding Effect. Except as provided in Section 9.5(b)(iii), any amendment or waiver consented to as provided in this Section 9.5 shall apply equally to all holders of Restated Notes and shall be binding upon them and upon each future holder of any Restated Note and upon the Company whether or not such Restated Note shall have been marked to indicate such -amendment or waiver. No such amendment or waiver shall extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. 12.6 Expenses. (a) Transaction Expenses. The Company shall pay, at the closing of the transactions contemplated by this Agreement, all reasonable fees, expenses and costs incurred by the Noteholders relating hereto, including, without limitation, the initial setup fee and first year fee of the Collateral Agent and fees and disbursements of the Noteholders' special counsel. The Company shall also pay each additional statement for reasonable fees and expenses (promptly upon receipt thereof) of their special counsel rendered after such closing in connection with the Transaction Documents and the transactions contemplated thereby. (b) Amendments and Waivers. The Company shall pay when billed the reasonable costs and expenses (including reasonable attorneys' fees) incurred by the holders of the Restated Notes in connection with the consideration, negotiation, preparation or execution of any amendments, waivers, consents, standstill agreements and other similar agreements with respect to this Agreement or any other Transaction Document (whether or not any such amendments, waivers, consents, standstill agreements or other similar agreements are executed). (c) Restructuring and Workout, Inspections. At any time when the Company and the holders of Restated Notes are conducting restructuring or workout negotiations in respect hereof, or a Default or Event of Default exists, the Company shall pay when billed the reasonable costs and expenses (including reasonable attorneys' fees and the fees of professional advisors) incurred by the holders of the Restated Notes in connection with the assessment, analysis or enforcement of any rights or remedies that are or may be available to the holders of Restated Notes, including, without limitation, in connection with inspections made pursuant to Section 6.4; provided, however, that at all other times inspections will be at the expense of the inspecting holder of Restated Notes. (d) Collection. If the Company shall fail to pay when due any principal of, or Prepayment Compensation Amount or interest on, any Restated Note, the Company shall pay to each holder of Restated Notes, to the extent permitted by law, such amounts as shall be sufficient to cover the costs and expenses, including but not limited to reasonable attorneys' fees, incurred by such holder in collecting any sums due on such Restated Note. 12.7 Waiver of Jury Trial; Consent to Jurisdiction; Etc. (a) Waiver of Jury Trial. THE PARTIES HERETO VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF

THE DOCUMENTS, AGREEMENTS OR TRANSACTIONS CONTEMPLATED HEREBY. (b) Consent to Jurisdiction. ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR ANY OF THE DOCUMENTS, AGREEMENTS OR TRANSACTIONS CONTEMPLATED HEREBY OR ANY ACTION OR PROCEEDING TO EXECUTE OR OTHERWISE ENFORCE ANY JUDGMENT IN RESPECT OF ANY BREACH UNDER THIS AGREEMENT OR ANY DOCUMENT OR AGREEMENT CONTEMPLATED HEREBY MAY BE BROUGHT BY SUCH PARTY IN ANY FEDERAL DISTRICT COURT LOCATED IN NEW YORK CITY, NEW YORK, OR ANY NEW YORK STATE COURT LOCATED IN NEW YORK CITY, NEW YORK AS SUCH PARTY MAY IN ITS SOLE DISCRETION ELECT, AND BY THE EXECUTION AND DELIVERY OF THIS AGREEMENT, THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMIT TO THE NON-EXCLUSIVE IN PERSONAM JURISDICTION OF EACH SUCH COURT, AND EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES AND AGREES NOT TO ASSERT IN ANY PROCEEDING BEFORE ANY TRIBUNAL, BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE, ANY CLAIM THAT IT IS NOT SUBJECT TO THE IN PERSONAM JURISDICTION OF ANY SUCH COURT. IN ADDITION, EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE IN ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY DOCUMENT, AGREEMENT OR TRANSACTION CONTEMPLATED HEREBY BROUGHT IN ANY SUCH COURT, AND HEREBY IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. (c) Service of Process. EACH PARTY HERETO IRREVOCABLY AGREES THAT PROCESS PERSONALLY SERVED OR SERVED BY U.S. REGISTERED MAIL AT THE ADDRESSES PROVIDED HEREIN FOR NOTICES SHALL CONSTITUTE, TO THE EXTENT PERMITTED BY LAW, ADEQUATE SERVICE OF PROCESS IN ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY DOCUMENT, AGREEMENT OR TRANSACTION CONTEMPLATED HEREBY, OR ANY ACTION OR PROCEEDING TO EXECUTE OR OTHERWISE ENFORCE ANY JUDGMENT IN RESPECT OF ANY BREACH HEREUNDER OR UNDER ANY DOCUMENT OR AGREEMENT CONTEMPLATED HEREBY. RECEIPT OF PROCESS SO SERVED SHALL BE CONCLUSIVELY PRESUMED AS EVIDENCED BY A DELIVERY RECEIPT FURNISHED BY THE UNITED STATES POSTAL SERVICE OR ANY COMMERCIAL DELIVERY SERVICE. (d) Other Forums. NOTHING HEREIN SHALL IN ANY WAY BE DEEMED TO LIMIT THE ABILITY OF ANY HOLDER OF RESTATED NOTES TO SERVE ANY WRITS, PROCESS OR SUMMONSES IN ANY MANNER PERMITTED BY APPLICABLE LAW OR TO OBTAIN JURISDICTION OVER THE COMPANY IN SUCH OTHER JURISDICTION, AND IN SUCH OTHER MANNER, AS MAY BE PERMITTED BY APPLICABLE LAW. 12.8 Execution in Counterpart. This Agreement may be executed in one or more counterparts and shall be effective when at least one counterpart shall have been executed by each party hereto, and each set of counterparts that, collectively, show execution by each party hereto shall constitute one duplicate original. [Remainder of page intentionally blank. Next page is signature page] IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed and delivered by one of its duly authorized officers or representatives. DIXON TICONDEROGA COMPANY By: /s/ Richard A. Asta ----- Name: Richard A. Asta Title: Treasurer THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES By: /s/ James Pendergast ----- Name: James Pendergast JOHN HANCOCK LIFE INSURANCE COMPANY By: /s/ Gary Pelletier ----- Name: Gary Pelletier SIGNATURE 1A (CAYMAN), LTD. By: John Hancock Life Insurance Company, as Portfolio Advisor By: /s/ Gary Pelletier ----- Name: Gary Pelletier