

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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### FILER

#### LADD FURNITURE INC

CIK: **721669** | IRS No.: **561311320** | State of Incorpor.: **NC** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-11577** | Film No.: **95536220**  
SIC: **2510** Household furniture

Business Address  
*ONE PLAZA CTR  
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HIGH POINT NC 27261-1500  
9198890333*

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the Quarter Ended April 1, 1995

Commission File No. 0-11577

LADD FURNITURE, INC.

(Exact name of registrant as specified in charter)

North Carolina  
(State or other juris-  
diction of incorpora-  
tion or organization)

56-1311320  
(I.R.S. Employer  
Identification No.)

One Plaza Center, Box HP-3, High Point, North Carolina 27261-1500  
(Address of principal executive offices) (Zip Code)

Registrants' telephone number, including area code: (910) 889-0333

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

As of May 10, 1995 there were 23,171,799 shares of Common Stock (\$.10 par value) of the registrant outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LADD FURNITURE, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

For the thirteen weeks ended April 1, 1995 and April 2, 1994

(Amounts in thousands, except share data)

(Unaudited)

	13 Weeks Ended	
	April 1, 1995	April 2, 1994
Net sales	\$ 153,388	139,039
Cost of sales	126,560	113,455
Gross profit	26,828	25,584
Selling, general and administrative expenses	23,816	21,569
Operating income	3,012	4,015
Other deductions (income):		
Interest expense	2,803	1,634
Other, net	174	(48)
	2,977	1,586
Earnings before income taxes	35	2,429
Income tax expense	11	774
Net earnings	\$ 24	1,655
Net earnings per common share	\$ 0.00	0.07
Weighted average number of common shares outstanding	23,111,471	23,066,506

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LADD FURNITURE, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets  
April 1, 1995 and December 31, 1994  
(Amounts in thousands, except share data)

ASSETS

	April 1, 1995 (Unaudited)	December 31, 1994 *
Current assets:		
Cash	\$ 1,787	576
Trade accounts receivable, less allowances for doubtful receivables, discounts, returns and allowances of \$4,174 and \$4,294, respectively	59,767	52,735
Inventories (Note 2)	124,181	122,083
Prepaid expenses and other current assets	10,515	10,053
Total current assets	196,250	185,447
Property, plant and equipment, net	109,014	109,522
Intangible and other assets, net	83,792	83,847
	\$ 389,056	378,816

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:			
Current installments of long-term debt	\$	657	687
Short-term bank borrowings		5,025	5,000
Trade accounts payable		25,041	28,360
Accrued expenses and other current liabilities		32,267	27,715
Total current liabilities		62,990	61,762
Long-term debt, excluding current installments		153,102	143,584
Deferred compensation and other liabilities		6,402	6,316
Deferred income taxes		15,386	15,248
Total liabilities		237,880	226,910
Shareholders' equity:			
Preferred stock of \$100 par value. Authorized 500,000 shares; no shares issued		-	-
Common stock of \$.10 par value. Authorized 50,000,000 shares; issued 23,171,799 and 23,096,557 shares, respectively		2,317	2,310
Additional paid-in capital		49,883	49,516
Currency translation adjustment		(318)	(208)
Retained earnings		100,434	101,105
		152,316	152,723
Less unamortized value of restricted stock		(1,140)	(817)
Total shareholders' equity		151,176	151,906
	\$	389,056	378,816

\* Derived from the Company's 1994 Annual Report.

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LADD FURNITURE, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows

For the thirteen weeks ended April 1, 1995 and April 2, 1994

(Amounts in thousands)

(Unaudited)

	13 Weeks Ended		
	April 1, 1995	April 2, 1994	
Cash flows from operating activities:			
Net earnings	\$	24	1,655
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation of property, plant and equipment		3,659	3,145
Amortization		895	707
Provision for losses on trade accounts receivable		315	797
Gain on sales of assets		(141)	(180)
Provision for deferred income taxes		138	(92)
Increase (decrease) in deferred compensation and other liabilities		227	(683)
Change in assets and liabilities, net of effects from purchase of Pilliod Furniture in 1994			
Increase in trade accounts receivable		(8,677)	(4,440)
Increase in inventories		(2,098)	(3,524)
Increase in prepaid expenses and other current assets		(462)	(3,455)
Decrease in trade accounts payable		(3,319)	(1,518)
Increase in accrued expenses and other current liabilities		4,552	4,589
Total adjustments		(4,911)	(4,654)

Net cash used in operating activities	(4,887)	(2,999)
Cash flows from investing activities:		
Acquisition of Pilliod Furniture, net of cash acquired	-	(23,847)
Additions to property, plant and equipment	(3,158)	(10,096)
Proceeds from sales of property, plant and equipment	7	207
Additions to other assets	(796)	(158)
Net cash used in investing activities	(3,947)	(33,894)
Cash flows from financing activities:		
Proceeds from long-term borrowings	9,731	27,217
Proceeds from short-term bank borrowings	25	17,450
Proceeds from sales of trade accounts receivable	1,330	24,000
Principal payments of long-term debt	(243)	(30,064)
Proceeds from common stock issued	7	22
Dividends paid	(695)	(693)
Net cash provided by financing activities	10,155	37,932
Effect of exchange rate changes on cash	(110)	-
Net increase in cash	1,211	1,039
Cash at beginning of period	576	1,350
Cash at end of period	\$ 1,787	2,389
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 2,512	1,473
Cash paid during the period for income taxes	163	377

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LADD FURNITURE, INC. AND SUBSIDIARIES  
Consolidated Statements of Shareholders' Equity  
(Amounts in thousands, except share data)

	Number of shares issued	Common stock	Additional paid-in capital	Currency trans- lation adjustment	Retained earnings	Unamortized value of restricted stock	Total shareholders equity
<S> BALANCE AT JANUARY 1, 1994	<C> 23,062,262	<C> \$ 2,306	<C> 49,186	<C> (170)	<C> 99,568	<C> (787)	<C> 150,103
Shares issued in connection with incentive stock option plan	2,344	-	19	-	-	-	19
Repurchase of restricted stock	(18,424)	(1)	(170)	-	-	170	(1)
Shares issued in connection with and amortization of employee restricted stock awards	50,375	5	481	-	-	(200)	286
Currency translation adjustment	-	-	-	(38)	-	-	(38)
Net earnings	-	-	-	-	4,308	-	4,308

Dividends paid	-	-	-	-	(2,771)	-	(2,771)
BALANCE AT DECEMBER 31, 1994	23,096,557	2,310	49,516	(208)	101,105	(817)	151,906
Repurchase of restricted stock	(7,355)	(1)	(68)	-	-	68	(1)
Shares issued in connection with and amortization of employee restricted stock awards	82,597	8	435	-	-	(391)	52
Currency translation adjustment	-	-	-	(110)	-	-	(110)
Net earnings	-	-	-	-	24	-	24
Dividends paid	-	-	-	-	(695)	-	(695)
BALANCE AT APRIL 1, 1995 (UNAUDITED)	23,171,799	\$ 2,317	49,883	(318)	100,434	(1,140)	151,176

</TABLE>

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Notes:

(1) Quarterly Financial Data

The quarterly consolidated financial data are unaudited but include, in the opinion of management, all adjustments necessary for a fair statement of the operating results for the interim periods indicated. All such adjustments are of a normal recurring nature.

(2) Inventories

A summary of inventories follows (in thousands):

	April 1, 1995	December 31, 1994
Inventories on the FIFO cost method:		
Finished goods	\$ 66,200	65,046
Work in process	24,102	23,084
Raw materials and supplies	47,923	47,997
Total inventories on the FIFO cost method	138,225	136,127
Less adjustments of certain inventories to the LIFO cost method	(14,044)	(14,044)
	\$ 124,181	122,083

(3) Proposed Reverse Stock Split

On March 2, 1995, the Board of Directors authorized, subject to shareholder approval, a one-for-three reverse split of the Company's common stock. If this proposed split is approved by the shareholders on May 12, 1995 and upon filing of the amendment to the Company's articles of incorporation, the par value of the common stock will increase to \$0.30 per share. Additionally, the number of common shares outstanding will decrease by two-thirds

and per share data for all periods presented will increase accordingly.

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Item 2. Management's Discussion and Analysis of  
Financial Condition and Results of Operations

Results of Operations

The following table sets forth the percentage relationship of net sales to certain items included in the Consolidated Statements of Earnings:

	13 Weeks Ended	
	Apr. 1, 1995	Apr. 2, 1994
Net sales	100.0%	100.0%
Cost of sales	82.5	81.6
Gross profit	17.5	18.4
Selling, general and administrative expenses	15.5	15.5
Operating income	2.0	2.9
Other deductions		
Interest expense	1.9	1.2
Other, net	.1	(0.1)
Earnings before income taxes	2.0	1.1
Income tax expense	-	.6
Net earnings	0.0%	1.2%

Net sales for the first quarter of 1995 increased 10.4% to \$153.4 million from \$139.0 million during the first quarter of 1994, with the increase partially attributable to the acquisition of Pilliod Furniture, Inc. (Pilliod) on January 31, 1994. On a pro forma basis, assuming the Pilliod acquisition had occurred at the beginning of fiscal 1994, 1995 first quarter net sales would have increased from prior year levels by 4.6%. The increase in 1995 net sales over 1994 pro forma amounts was due to higher sales of upholstery, contract and higher-priced metal furniture.

Cost of sales as a percentage of net sales increased to 82.5% in the first quarter of 1995 from 81.6% in the first quarter of 1994, decreasing the quarter's gross profit margin to 17.5% from 18.4% in 1994. The 1995 first quarter gross margin was negatively impacted by increases in raw material costs during the prior 12 months, particularly particleboard, medium-density fiberboard, packaging materials, glass and aluminum. Selective sales price increases, material substitutions and overhead reductions initiated in late 1994 and early 1995 did not produce benefits sufficient enough to offset the raw material cost increases. The Company believes that the higher raw material costs will continue to pressure the gross margins in 1995.

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Selling, general and administrative (SG&A) expenses were 15.5% of net sales for both the first quarter of 1995 and 1994.

Other deductions were 2.0% of net sales for the first quarter of 1995, compared to 1.1% for the same period in 1994. The increase was primarily attributable to an increase in interest expense due to increased average outstanding borrowings, as well as an increase of over 2% in the average quarterly interest rate compared to the year earlier period.

The Company's effective income tax rate of 31.4% in 1995's first quarter was comparable to 31.9% in the first quarter of 1994.

For the first quarter of 1995, the Company's net earnings were \$24,000, compared with \$1.7 million, or \$.07 per share, in the year-earlier period. On a pro forma basis, assuming the acquisition of Pilliod had occurred at the beginning of fiscal 1994, 1994 first quarter net earnings would have been \$.08 per share.

#### Liquidity and Capital Resources

The Company's current ratio at April 1, 1995 was 3.1 to 1 compared to 3.0 to 1 at December 31, 1994. Net working capital totaled \$133.3 million at April 1, 1995, compared to \$123.7 million at December 31, 1994. The increase in working capital and the current ratio were primarily attributable to an increase in trade accounts receivable and inventories.

During the first three months of 1995, the Company generated cash from net earnings plus depreciation and amortization of \$4.6 million, compared to \$5.5 million in the 1994 period. The cash generated in the first quarter of 1995 and 1994 was utilized to partially fund increases in working capital.

During the first three months of 1995, capital spending totaled \$3.2 million, compared to \$10.1 million during the same period in 1994. The Company's 1995 capital expenditures is expected to approximate the current annual depreciation and amortization level of almost \$18.0 million. The majority of the capital spending during the first quarters of both 1994 and 1995 was to complete capital projects initiated in the prior fiscal years.

During the first quarter of 1995, the Company increased its long-term borrowings by \$9.5 million, principally to fund working capital increases and capital expenditures. At April 1, 1995, the Company had outstanding long-term borrowings of \$153.1 million, representing 47.0% of total capitalization, compared to \$143.6 million or 45.3% of total capitalization at December 31, 1994. At April 1, 1995, the Company had \$39.4 million in unused and available long-term revolving bank credit lines to meet future cash requirements.

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## PART II. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

- 10.1 Transfer and Administration Agreement dated as of March 30, 1995, between Enterprise Funding Corporation, LADD Funding Corp., and LADD Furniture, Inc.
- 10.2 Receivables Purchase Agreement dated as of March 30, 1995, between LADD Funding Corp. and LADD

Furniture, Inc.

- 10.3 Receivables Purchase Agreement dated as of March 30, 1995, between LADD Furniture, Inc., Clayton-Marcus Company, Inc., Barclay Furniture Co., and Pilliod Furniture, Inc.
- 10.4 Second Amendment to Amended and Restated Credit Agreement dated as of March 30, 1995, between the Company, Nationsbank, N.A., as agent and each of the banks signatory thereto.

(b) Reports on Form 8-K  
None

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#### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LADD Furniture, Inc.

Date: May 10, 1995

By: s/William S. Creekmuir  
William S. Creekmuir  
Senior Vice President  
and Chief Financial Officer

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TRANSFER AND ADMINISTRATION AGREEMENT

between

ENTERPRISE FUNDING CORPORATION,

as Company

and

LADD FUNDING CORP.

as Transferor

and

LADD FURNITURE, INC.

as Collection Agent

Dated as of March 30, 1995

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EXHIBIT L	Responsible Officer's Certificate
EXHIBIT M	Form of Company Certificate
EXHIBIT N	Transferor's Fiscal Month Ending Dates
EXHIBIT O	Form of Agreed Upon Procedures Report

## TRANSFER AND ADMINISTRATION AGREEMENT

TRANSFER AND ADMINISTRATION AGREEMENT (this "Agreement"), dated as of March 30, 1995, between LADD FUNDING CORP., a Delaware corporation, as transferor (in such capacity, the "Transferor"), LADD FURNITURE, INC., a North Carolina corporation ("LADD"), as collection agent (in such capacity, the "Collection Agent"), and ENTERPRISE FUNDING CORPORATION, a Delaware corporation (the "Company").

WHEREAS, the Transferor may desire to convey, transfer and assign, from time to time, undivided percentage interests in certain accounts receivable, and the Company may desire to accept such conveyance, transfer and assignment of such undivided percentage interests, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, the parties hereby agree as follows:

### ARTICLE I

#### DEFINITIONS

SECTION 1.1. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Administrative Agent" means NationsBank, National Association (Carolinas), as administrative agent.

"Adverse Claim" means a lien, security interest, charge or encumbrance, or other right or claim in, of or on any Person's assets or properties in favor of any Person other than the Company.

"Affiliate" of any Person means any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with such Person. A

Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the

power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of voting stock, by contract or otherwise.

"Affiliated Obligor" means any Obligor which is an Affiliate of another Obligor.

"Aggregate Unpaids" means, at any time, an amount equal to the sum of (i) the aggregate accrued and unpaid Discount with respect to all Tranche Periods at such time, (ii) the Net Investment at such time, and (iii) all amounts owed (whether due or accrued) hereunder by Transferor to the Company at such time.

"Arrangement Fee" means the fee payable by the Transferor to the Administrative Agent pursuant to Section 2.7 hereof, the terms of which are set forth in the Fee Letter.

"Average Collection Period" means at any time a period of days equal to the product of (i) a fraction the numerator of which shall be the amount set forth in the most recent Investor Report as the "Beginning Balance" of the Receivables and the denominator of which shall be the Collections as set forth in the most recent Investor Report and (ii) thirty (30).

"Base Rate" or "BR" means, a rate per annum equal to the greater of (i) the prime rate of interest announced by the Liquidity Provider from time to time, changing when and as said prime rate changes (such rate not necessarily being the lowest or best rate charged by the Liquidity Provider) and (ii) the rate equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day for such transactions received by the Liquidity Provider from three Federal funds brokers of recognized standing selected by it, plus 2%.

"BR Tranche" means a Tranche as to which Dis-

count is calculated at the Base Rate.

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"BR Tranche Period" means, with respect to a BR Tranche, prior to the Termination Date, a period of up to 30 days requested by the Transferor and agreed to by the Company or the Liquidity Provider, as the case may be, commencing on a Business Day requested by the Transferor and agreed to by the Company or the Liquidity Provider, as the case may be, and after the Termination Date, a period of one day. If such BR Tranche Period would end on a day which is not a Business Day, such BR Tranche Period shall end on the next succeeding Business Day.

"Business Day" means any day excluding Saturday, Sunday and any day on which banks in New York, New York or Charlotte, North Carolina are authorized or required by law to close, and, when used with respect to the determination of any Eurodollar Rate or any notice with respect thereto, any such day which is also a day for trading by and between banks in United States dollar deposits in the London interbank market.

"Capitalized Lease" of a Person means any lease of property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with generally accepted accounting principles.

"CD Rate" shall mean, with respect to any CD Tranche Period, a rate which is .75% in excess of a rate per annum equal to the sum (rounded upward to the nearest 1/100 of 1%) of (A) the rate obtained by dividing (x) the Certificate of Deposit Rate for such CD Tranche Period by (y) a percentage equal to 100% minus the stated maximum rate for all reserve requirements as specified in Regulation D (including without limitation any marginal, emergency, supplemental, special or other reserves) that would be applicable during such Tranche Period to a negotiable certificate of deposit in excess of \$100,000, with a maturity approximately equal to such Tranche Period, of any member bank of the Federal Reserve System plus (B) the then daily net annual assessment rate (rounded upward, if necessary, to the nearest 1/100 of 1%) as estimated in good faith using commercially reasonable means by the Liquidity Provider for determining the current annual assessment payable by the Liquidity Provider to the Federal Deposit Insurance Corporation for insuring such certificates of deposit.

"CD Tranche" means a Tranche as to which Discount is calculated at the CD Rate.

"CD Tranche Period" means, with respect to a CD Tranche, prior to the Termination Date, a period of up to 30 days requested by the Transferor and agreed to by the Company or the Liquidity Provider, as the case may be, commencing on a Business Day requested by the Transferor and agreed to by the Company or the Liquidity Provider, as the case may be, and after the Termination Date, a period of one day. If such CD Tranche Period would end on a day which is not a Business Day, such CD Tranche Period shall end on the next succeeding Business Day.

"Certificate of Deposit Rate" means, with respect to any CD Tranche Period, the average of the bid rates determined in good faith using commercially reasonable means by the Liquidity Provider to be bid rates per annum, at approximately 10:00 a.m. (New York City time) on the Business Day before the first day of the CD Tranche Period for which such CD Rate is to be applicable, of two or more New York certificate of deposit dealers of recognized standing selected by the Liquidity Provider for the purchase in New York from the Liquidity Provider at face value of certificates of deposit of the Liquidity Provider in an aggregate amount approximately comparable to the amount of the CD Tranche to which such CD Rate is to be applicable and with a maturity approximately equal to the applicable CD Tranche Period.

"Closing Date" means March 30, 1995.

"Collateral Agent" means NationsBank, National Association (Carolinas), as collateral agent for any Liquidity Provider, any Credit Support Provider, the holders of Commercial Paper and certain other parties.

"Collection Account" means the account, established by the Collateral Agent, for the benefit of the Company, pursuant to Section 2.12.

"Collection Agent" means at any time the Person then authorized pursuant to Section 6.1 to service, administer and collect Receivables.

"Collection Agent Subsidiary" shall mean any

Subsidiaries (or the Collection Agent and one or more of its Subsidiaries) controls, directly or indirectly, by either (i) shares of stock having by the terms thereof ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether or not at the time stock of any other class or classes of such corporation have or might have voting power by reason of the happening of any contingency) or (ii) possessing, directly or indirectly, power to direct or cause the direction of the voting of a majority of securities or partnership or other ownership interests, by contract or otherwise.

"Collections" means, with respect to any Receivable, all cash collections and other cash proceeds of such Receivable, including, without limitation, all Finance Charges, if any, and cash proceeds of Related Security with respect to such Receivable and any Deemed Collections of such Receivable.

"Commercial Paper" means the promissory notes of the Company issued by the Company in the commercial paper market.

"Company Certificate" means the certificate issued to the Company pursuant to Section 2.2 hereof.

"Concentration Factor" means for any Designated Obligor 3% of the Outstanding Balance of all Eligible Receivables; provided, however, that (i) with respect to any Designated Obligor and its affiliates whose long term unsecured debt obligations are rated at least "A1" by Moody's and at least "A+" by Standard & Poor's and with respect to which rating neither Moody's nor Standard & Poor's shall have made a public announcement anticipating a downgrading of such Designated Obligor's long term unsecured debt obligations to a rating less than the aforementioned ratings ("A1/A+ Rated Obligors") and (ii) with respect to the Obligors Montgomery Ward and Company, Inc., J.C. Penney Company, Inc., Sears, Roebuck and Co., and each of their respective Affiliates, the Concentration Factor shall mean 5% of the Outstanding Balance of all Eligible Receivables at such time; and provided, further, that with respect to subclause (ii) hereof, the Company at its sole discretion may, upon written notice delivered to the Transferor and the Collection Agent,

lower the Concentration Factor applicable thereto, but not lower than 3%.

"Contract" means an agreement or invoice in substantially the form of one of the forms set forth in Exhibit A or otherwise approved by the Company, pursuant to or under which an Obligor shall be obligated to pay for merchandise purchased or services rendered.

"CP Rate" means, with respect to any CP Tranche Period, the rate equivalent to the rate (or if more than one rate, the weighted average of the rates) at which Commercial Paper having a term equal to such CP Tranche Period may be sold by any placement agent or commercial paper dealer selected by the Company, provided, however, that if the rate (or rates) as agreed between any such agent or dealer and the Company is a discount rate, then the rate (or if more than one rate, the weighted average of the rates) resulting from the Company's converting such discount rate (or rates) to an interest-bearing equivalent rate per annum.

"CP Tranche" means a Tranche as to which Discount is calculated at a CP Rate.

"CP Tranche Period" means, with respect to a CP Tranche, a period of days not to exceed 180 days commencing on a Business Day requested by the Transferor and agreed to by the Company pursuant to Section 2.3. If such CP Tranche Period would end on a day which is not a Business Day, such CP Tranche Period shall end on the next succeeding Business Day.

"Credit and Collection Policy" shall mean LADD's and the Designated Subsidiaries' credit and collection policy or policies and practices, relating to Contracts and Receivables existing on the date hereof and referred to in Exhibit B attached hereto, as modified, amended or supplemented from time to time in compliance with Section 5.2(c).

"Credit Support Agreement" means the agreement between the Company and the Credit Support Provider evidencing the obligation of the Credit Support Provider to provide credit support to the Company in connection with the issuance by the Company of Commercial Paper.

"Credit Support Provider" means the Person or Persons who will provide credit support to the Company in connection with the issuance by the Company of Commercial Paper.

"Dealer Fee" means the fee payable by the Transferor to the Collateral Agent, pursuant to Section 2.4 hereof, the terms of which are set forth in the Fee Letter.

"Debt Service Coverage Ratio" shall mean, for any period, the ratio of (i) EBIT for such period to (ii) the sum of (A) Interest Expense for such period plus (B) scheduled maturities of long term debt for such period (other than scheduled payments of principal under the Term Loan and payments of principal made with respect to the term loan under the Former Credit Agreement).

"Deemed Collections" means any Collections on any Receivable deemed to have been received pursuant to Section 2.9(a) or (b).

"Defaulted Receivable" means a Receivable: (i) as to which any payment, or part thereof, remains unpaid for 91 days or more from the original due date for such Receivable; (ii) as to which an Event of Bankruptcy has occurred with respect to the Obligor thereof; (iii) if the Transferor or an Affiliate is the Collection Agent, which has been identified by the Collection Agent as uncollectible; or (iv) which, consistent with the Credit and Collection Policy, should be written off as uncollectible.

"Delinquency Ratio" means, the ratio (expressed as a percentage) computed as of the last day of each Fiscal Month by dividing (i) the sum of the aggregate Outstanding Balance of all outstanding Delinquent Receivables plus the aggregate amount of Receivables designated as "disputed" or a "deduction" on the Collection Agent's books and records, by (ii) the aggregate Outstanding Balance of all Receivables as of such date less Defaulted Receivables as of such date.

"Delinquent Receivable" means a Receivable: (i) as to which any payment, or part thereof, remains unpaid for more than 30 days from the original due date

for such Receivable and (ii) which is not a Defaulted Receivable.

"Designated Obligor" means, at any time, each Obligor; provided, however, that any Obligor shall cease to be a Designated Obligor upon notice from the Company to the Transferor and the Collection Agent, delivered at any time in good faith and based upon reasonable criteria relating to such Obligor's financial performance or financial condition.

"Designated Subsidiaries Receivables Purchase Agreement" means the Receivables Purchase Agreement, dated as of March 30, 1995, among LADD and the Designated Subsidiaries, as the same may be amended, supplemented or otherwise modified.

"Designated Subsidiary" means each of Clayton-Marcus Company, Inc., a North Carolina corporation, Barclay Furniture Co., a Mississippi corporation, and Pilliod Furniture, Inc., a North Carolina corporation, and such other wholly-owned subsidiaries of LADD as (i) become parties to the Designated Subsidiaries Receivables Purchase Agreement and (ii) are consented to in writing by the Company to be "Designated Subsidiaries" hereunder.

"Dilution Ratio" means, the ratio (expressed as a percentage) computed as of the last day of each Fiscal Month by dividing (i) the aggregate amount of credits, rebates, discounts, disputes, warranty claims, repossessed or returned goods, charge back allowances, other dilution factors, and any other billing or other adjustment by the Transferor or the Collection Agent, provided to Obligors in respect of Receivables during the preceding three Fiscal Months (including such Fiscal Month) by (ii) the aggregate Outstanding Balance of all Receivables which arose during such three Fiscal Months.

"Dilution Reserve" means, at any time, an amount equal to the product of (i) 1.5, (ii) the highest Dilution Ratio as of the last day on any of the preceding twelve (12) months and (iii) the sum of the Net Investment, the Loss Reserve, the Discount Reserve and the Servicing Fee Reserve, all at such time.

"Discount" means, with respect to any Tranche Period:

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$$\frac{(TR \times TNI \times AD)}{360}$$

Where:

TR = the Tranche Rate applicable to such Tranche Period.

TNI = the portion of the Net Investment allocated to such Tranche Period.

AD = the actual number of days during such Tranche Period.

provided, however, that no provision of this Agreement shall require the payment or permit the collection of Discount in excess of the maximum permitted by applicable law; and provided, further, that Discount shall not be considered paid by any distribution if at any time such distribution is rescinded or must be returned for any reason.

"Discount Reserve" means, at any time, an amount equal to:

$$TD + LY$$

Where:

TD = the sum of the unpaid Discount for all Tranche Periods.

LY = the Liquidation Yield

"Early Collection Fee" means, for any Tranche Period (such Tranche Period to be determined without regard to the last sentence in Section 2.3(a)) during which the portion of the Net Investment that was allocated to such Tranche Period is reduced, the excess, if any, of (i) the additional Discount that would have accrued during such Tranche Period if such reductions had not

occurred, minus (ii) the income, if any, received by the Company from investing the proceeds of such reductions.

"EBIT" shall mean, for any period, for the Collection Agent and the Collection Agent Subsidiaries on

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a consolidated basis operating income computed in accordance with GAAP; that is, the difference between (i) net sales minus (ii) the sum of (A) the total costs of sales, (B) selling, general and administrative expenses and (C) all other costs or charges attributable to operating activities of the Collection Agent and the Collection Agent Subsidiaries.

"Effective Date" shall mean the Business Day, which day shall not be earlier than April 10, 1995, on which all the conditions precedent set forth in Section 4.1 hereof shall be satisfied.

"Eligible Investments" shall mean (a) negotiable instruments or securities represented by instruments in bearer, registered or book-entry form which evidence (i) obligations fully guaranteed by the United States of America; (ii) time deposits in, or bankers acceptances issued by, any depository institution or trust company incorporated under the laws of the United States of America or any state thereof and subject to supervision and examination by Federal or state banking or depository institution authorities; provided, however, that at the time of investment or contractual commitment to invest therein, the certificates of deposit or short-term deposits, if any, or long-term unsecured debt obligations (other than such obligation whose rating is based on collateral or on the credit of a Person other than such institution or trust company) of such depository institution or trust company shall have a credit rating from Moody's and S&P of at least "P-1" and "A-1", respectively, in the case of the certificates of deposit or short-term deposits, or a rating not lower than one of the two highest investment categories granted by Moody's and by S&P; (iii) certificates of deposit having, at the time of investment or contractual commitment to invest therein, a rating from Moody's and S&P of at least "P-1" and "A-1", respectively; (iv) investments in money market funds rated in the highest investment category or otherwise approved in writing by the applicable rating agencies, (b) demand deposits in any depository institution or trust company referred to in (a) (ii) above, (c) commer-

cial paper (having original or remaining maturities of no more than 30 days) having, at the time of investment or contractual commitment to invest therein, a credit rating from Moody's and S&P of at least "P-1" and "A-1", respectively, (d) Eurodollar time deposits having a credit

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rating from Moody's and S&P of at least "P-1" and "A-1", respectively, and (e) repurchase agreements involving any of the Eligible Investments described in clauses (a) (i), (a) (iii) and (d) hereof so long as the other party to the repurchase agreement has at the time of investment therein, a rating from Moody's and S&P of at least "P-1" and "A-1", respectively.

"Eligible Receivable" means, at any time, any Receivable:

(i) which either (x) has been originated by a Designated Obligor and sold by such Designated Subsidiary to LADD and sold by LADD to the Transferor or (y) originated by the LADD and sold to the Transferor and, in either case to which the Transferor has good title thereto, free and clear of all Adverse Claims;

(ii) the Obligor of which is a United States resident, is a Designated Obligor at the time of the initial creation of an interest therein hereunder, is not an Affiliate of any of the parties hereto, and is not a government or a governmental subdivision or agency; provided, however, that Receivables with an aggregate Outstanding Balance not greater than 4% of the aggregate Outstanding Balance of all Receivables may be originated by Obligors which are Canadian residents;

(iii) which is not a Defaulted Receivable at the time of the initial creation of an interest of the Company therein;

(iv) which is not a Delinquent Receivable at the time of the initial creation of an interest of the Company therein (other than regarding Receivables transferred on the date of the initial Incremental Transfer here-

under);

(v) which, according to the Contract related thereto, is required to be paid in full within 180 days of the original billing date therefor;

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(vi) which is an "eligible asset" as defined in Rule 3a-7 under the Investment Company Act of 1940, as amended;

(vii) a purchase of which with the proceeds of Commercial Paper would constitute a "current transaction" within the meaning of Section 3(a)(3) of the Securities Act of 1933, as amended;

(viii) which is an "account" within the meaning of Article 9 of the UCC of all applicable jurisdictions;

(ix) which is denominated and payable only in United States dollars in the United States;

(x) which arises under a Contract that, together with the Receivable related thereto, is in full force and effect and constitutes the legal, valid and binding obligation of the related Obligor enforceable against such Obligor in accordance with its terms and is not subject to any offset, counterclaim or other defense at such time;

(xi) which, together with the Contract related thereto, does not contravene in any material respect any laws, rules or regulations applicable thereto (including, without limitation, laws, rules and regulations relating to truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy) and with respect to which no part of the Contract related thereto is in violation of any such law, rule or regulation in any materi-

al respect;

(xii) which (A) satisfies, in all material respects, all applicable requirements of the applicable Credit and Collection Policy, and (B) is assignable without the consent of, or notice to, the Obligor thereunder;

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(xiii) which was generated in the ordinary course of LADD's or a Designated Subsidiary's business; and

(xiv) the Obligor of which has been directed to make all payments to a specified account of the Collection Agent with respect to which there shall be a Lock-Box Agreement in effect.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated thereunder.

"Estimated Maturity Period" means, at any time, the period, rounded to the nearest whole number of days, equal to the weighted average days until due of the Receivables as calculated by the Collection Agent in good faith and set forth in the most recent Investor Report, such calculation to be based on the assumptions that (a) each Receivable within a particular aging category, (as set forth in the Investor Report) will be paid on the last day of such aging category and (b) the last day of the last such aging category coincides with the last date on which any Outstanding Balance of any Receivables would be written off as uncollectible or charged against any applicable reserve or similar account in accordance with the requirements of the Credit and Collection Policy as applied by the Collection Agent and the Transferor's normal accounting practices applied on a basis consistent with those reflected in the Transferor's financial statements, provided, however, that if the Company shall disagree with any such calculation on the basis that an error in the calculation exists, the Company may recalculate the Estimated Maturity Period in accordance with the

foregoing and based on reasonable assumptions based on fact, and such recalculation, in the absence of manifest error, shall be conclusive.

"Eurodollar Rate" means, with respect to any Eurodollar Tranche Period, a rate which is .625% in excess of a rate per annum equal to the sum (rounded upwards, if necessary, to the next higher 1/100 of 1%) of (A) the rate obtained by dividing (i) the applicable LIBOR Rate by (ii) a percentage equal to 100% minus the reserve percentage used for determining the maximum reserve requirement as specified in Regulation D (includ-

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ing, without limitation, any marginal, emergency, supplemental, special or other reserves) that is applicable to the Liquidity Provider during such Eurodollar Tranche Period in respect of eurocurrency or eurodollar funding, lending or liabilities (or, if more than one percentage shall be so applicable, the daily average of such percentage for those days in such Eurodollar Tranche Period during which any such percentage shall be applicable) plus (B) the then daily net annual assessment rate (rounded upwards, if necessary, to the nearest 1/100 of 1%) as estimated by the Liquidity Provider for determining the current annual assessment payable by the Liquidity Provider to the Federal Deposit Insurance Corporation in respect of eurocurrency or eurodollar funding, lending or liabilities.

"Eurodollar Tranche" means a Tranche as to which Discount is calculated at the Eurodollar Rate.

"Eurodollar Tranche Period" means, with respect to a Eurodollar Tranche, prior to the Termination Date, a period of up to 30 days requested by the Transferor and agreed to by the Company or the Liquidity Provider, as the case may be, commencing on a Business Day requested by the Transferor and agreed to by the Company; provided, however, that if such Eurodollar Tranche Period would expire on a day which is not a Business Day, such Eurodollar Tranche Period shall expire on the next succeeding Business Day; provided, further, that if such Eurodollar Tranche Period would expire on (a) a day which is not a Business Day but is a day of the month after which no further Business Day occurs in such month, such Eurodollar Tranche Period shall expire on the next preceding Business Day or (b) a Business Day for which there is no

numerically corresponding day in the applicable subsequent calendar month, such Eurodollar Tranche Period shall expire on the last Business Day of such month.

"Event of Bankruptcy", with respect to any Person, shall mean (i) that such Person shall generally not pay its debts as such debts become due or shall admit in writing its inability to pay its debts generally or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against such Person seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composi-

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tion of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee or other similar official for it or any substantial part of its property, that results in the entry of an order which, in the case of a Person other than the Transferor, remains undismissed, unbonded or unstayed pending appeal and in effect for a period of 60 days from the date of entry thereof or (ii) if such Person is a corporation, such Person or any Subsidiary shall take any corporate action to authorize any of the actions set forth in the preceding clause (i).

"Fee Letter" means the letter agreement dated the date hereof between the Transferor and the Company, as amended, modified or supplemented from time to time.

"Finance Charges" means, with respect to a Contract, any finance, interest, late or similar charges owing by an Obligor pursuant to such Contract.

"Fiscal Month" shall mean each fiscal month of the Transferor as set forth on Exhibit N hereto.

"Former Credit Agreement" shall mean that certain Amended and Restated Credit Agreement dated as of January 15, 1993, among LADD Furniture, Inc., the banks party thereto, the guarantors party thereto and Chase Manhattan Bank, N.A., as agent thereunder, as modified, supplemented and in effect on the date on which all of the conditions precedent set forth in Section 6 of the Amended and Restated Credit Agreement dated as of October 19, 1994, between LADD Furniture, Inc. and NationsBank of North Carolina, N.A., as Agent shall have been met and

the Term Loan shall have been made thereunder.

"GAAP" shall mean generally accepted accounting principles applied on a basis consistent with those which are to be used in making the calculations for purposes of determining compliance with the terms of this Agreement.

"Guaranty" of a Person means any agreement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes liable upon, the obligation of any other Person, or agrees to maintain the net worth

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or working capital or other financial condition of any other Person or otherwise assures any other creditor of such other Person against loss, including, without limitation, any comfort letter, operating agreement or take-or-pay contract and shall include, without limitation, the contingent liability of such Person in connection with any application for a letter of credit.

"Incremental Transfer" means a Transfer which is made pursuant to Section 2.2(a).

"Indebtedness" of a Person means such Person's (i) obligations for borrowed money, (ii) obligations representing the deferred purchase price of property other than accounts payable arising in the ordinary course of such Person's business on terms customary in the trade, (iii) obligations, whether or not assumed, secured by liens or payable out of the proceeds or production from property now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, acceptances, or other instruments, (v) Capitalized Lease obligations and (vi) obligations for which such Person is obligated pursuant to a Guaranty.

"Indemnified Amounts" has the meaning specified in Section 8.1.

"Indemnified Parties" has the meaning specified in Section 8.1.

"Interest Expense" shall mean, for any period, the sum, for the Collection Agent and the Collection Agent Subsidiaries on a consolidated basis in accordance with GAAP, of all interest in respect of Indebtedness.

"Investor Report" means a report, in substantially the form of Exhibit E or in such other form as is mutually agreed to by the Transferor and the Company, furnished by the Collection Agent to the Company and the Administrative Agent pursuant to Section 2.11(b).

"Law" shall mean any law (including common law), constitution, statute, treaty, regulation, rule, ordinance, order, injunction, writ, decree or award of any Official Body.

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"LIBOR Rate" shall mean, with respect to any Eurodollar Tranche Period, the rate at which deposits in dollars are offered to the Liquidity Provider in the London interbank market at approximately 11:00 a.m. (London time) two Business Days before the first day of such Eurodollar Tranche Period in an amount approximately equal to the Eurodollar Tranche to which the Eurodollar Rate is to apply and for a period of time approximately equal to the applicable Eurodollar Tranche Period.

"Liquidation Yield" means, at any time, an amount equal to:

$$(RVF \times LBR \times NI) \times \frac{(EM \times 1.5)}{360}$$

Where:

RVF = the Rate Variance Factor.

LBR = the Base Rate which is applicable to the liquidation period of the Net Investment at such time.

NI = the Net Investment.

EM = the Estimated Maturity Period of the Receivables.

"Liquidity Provider" means the Person or Persons who will provide liquidity support to the Company in connection with the issuance by the Company of Commercial Paper.

"Liquidity Provider Agreement" means the agreement between the Company and the Liquidity Provider

evidencing the obligation of the Liquidity Provider to provide liquidity support to the Company in connection with the issuance by the Company of Commercial Paper.

"Lock-Box Account" means an account maintained by the Collection Agent, LADD or any Designated Subsidiary at a Lock-Box Bank for the purpose of receiving Collections from Receivables.

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"Lock-Box Agreement" means an agreement among the Collateral Agent, the Collection Agent and a Lock-Box Bank in substantially the form of Exhibit D hereto.

"Lock-Box Bank" means each of the banks set forth in Exhibit C hereto and such banks as may be added thereto or deleted therefrom pursuant to Section 2.8.

"Loss Percentage" means on any day the greater of (i) five (5) times the highest Loss-to-Liquidation Ratio as of the last day of the twelve (12) months preceding the then current month, (ii) three (3) times the highest Concentration Factor of all Designated Obligors (exclusive of A1/A+ Rated Obligors) and (iii) ten (10) percent.

"Loss Reserve" means, on any day, an amount equal to:

$$LP \times (NI + DLR + DR + SFR)$$

Where:

LP = the Loss Percentage at the close of business of the Collection Agent on such day.

NI = the Net Investment at the close of business of the Collection Agent on such day.

DLR = the Dilution Reserve at the close of business of the Collection Agent on such day.

DR = the Discount Reserve at the close of business of the Collection Agent on such day.

SFR = the Servicing Fee Reserve at the close of business of the Collection Agent on such day.

Notwithstanding the foregoing, the Loss Reserve shall at all times be at least equal to \$3,000,000.

"Loss-to-Liquidation Ratio" means, for any period of determination, the ratio (expressed as a percentage) computed as of the last day of such period by dividing (i) the aggregate Outstanding Balance of all Receivables which became Defaulted Receivables during such period, by (ii) the aggregate amount of Collections

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received by the Collection Agent during such period less Deemed Collections for the period.

"Material Subsidiary" means, as at any date of determination, any Subsidiary whose net sales for the rolling four quarter period ending on the Quarterly Date falling on or immediately preceding such date of determination exceed \$20,000,000 or whose assets exceed \$15,000,000 as at such date.

"Maximum Net Investment" means \$40,000,000.

"Maximum Percentage Factor" means 95%.

"Moody's" means Moody's Investors Service, Inc.

"Net Investment" means the sum of the Transfer Prices for each Incremental Transfer less the aggregate amount of Collections received and applied by the Company to reduce such Net Investment pursuant to Section 2.6 or Section 2.9; provided that the Net Investment shall be restored in the amount of any Collections so received and applied if at any time the distribution of such Collections is rescinded or must otherwise be returned for any reason.

"Net Receivables Balance" means at any time the Outstanding Balance of the Eligible Receivables at such time reduced by the sum of (without duplication of any particular Eligible Receivable) (i) the aggregate amount by which the Outstanding Balance of all Eligible Receivables of each Designated Obligor exceeds the Concentration Factor for such Designated Obligor, plus (ii) the aggregate Outstanding Balance of all Eligible Receivables which are Defaulted Receivables, plus (iii) the aggregate Outstanding Balance of all Eligible Receivables of each Obligor with respect to which either 10% or more of such

Obligor's Receivables are Defaulted Receivables or 50% or more of such Obligor's Receivables are Delinquent Receivables plus (iv) an amount equal to the excess (if any) of (a) the Outstanding Balance of Eligible Receivables which are required to be paid in full within more than 31 days of the original billing date therefor over (b) 20% of the aggregate Outstanding Balance of the Receivables.

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"Obligor" means a Person obligated to make payments for the provision of goods and services pursuant to a Contract.

"Official Body" shall mean any government or political subdivision or any agency, authority, bureau, central bank, commission, department or instrumentality of either, or any court, tribunal, grand jury or arbitrator, in each case whether foreign or domestic.

"Other Transferor" means any Person other than the Transferor that has entered into a receivables purchase agreement or transfer and administration agreement with the Company.

"Outstanding Balance" of any Receivable at any time means the then outstanding principal amount thereof including any accrued and outstanding Finance Charges related thereto.

"Percentage Factor" means the percentage computed at any time of determination as follows:

$$\frac{NI + LR + DLR + DR + SFR}{NRB}$$

Where:

NI = the Net Investment at the time of such computation.

LR = the Loss Reserve at the time of such computation.

DLR = the Dilution Reserve at the time of such computation.

DR = the Discount Reserve at the time of such computation.

SFR = the Servicing Fee Reserve at the time of such computation.

NRB = the Net Receivables Balance at the time of such computation.

Notwithstanding the foregoing computation, the Percentage Factor shall not exceed one hundred percent

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(100%). The Percentage Factor shall be calculated by the Collection Agent on the day of the initial Incremental Transfer hereunder. Thereafter, until the Termination Date, the Collection Agent shall daily recompute the Percentage Factor and report such recomputations to the Company monthly in the Investor Report or as requested by the Company. The Percentage Factor shall remain constant from the time as of which any such computation or recomputation is made until the time as of which the next such recomputation shall be made, notwithstanding any additional Receivables arising, any Incremental Transfer made pursuant to Section 2.2(a) or any reinvestment Transfer made pursuant to Section 2.2(b) and 2.5 during any period between computations of the Percentage Factor. The Percentage Factor, as calculated at the close of business on the Termination Date, shall remain constant at all times thereafter until such time as the Company shall have received the Aggregate Unpaid, at which time the Percentage Factor shall be recomputed in accordance with Section 2.6.

"Person" means any corporation, natural person, firm, joint venture, partnership, trust, unincorporated organization, enterprise, government or any department or agency of any government.

"Potential Termination Event" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Termination Event.

"Proceeds" means "proceeds" as defined in Section 9-306(1) of the UCC.

"Program Fee" means the fee payable by the Transferor to the Company pursuant to Section 2.7 hereof, the terms of which are set forth in the Fee Letter.

"Purchase Agreement" means the Receivables Purchase Agreement, dated as of March 30, 1995, between

the Transferor and LADD, as the same may be amended, supplemented or otherwise modified.

"Purchased Interest" means the interest in the Receivables acquired by the Liquidity Provider through purchase pursuant to the terms of the Liquidity Provider Agreement.

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"Quarterly Dates" shall mean the Saturday on or nearest to the last calendar day of each of March, June, September and December in each year and the first such Quarterly Date shall be Saturday, April 1, 1995.

"Quarterly Period" shall mean the quarterly fiscal period of the Collection Agent ending on each Quarterly Date.

"Rate Variance Factor" means the number, computed from time to time in good faith by the Company, that reflects the largest potential variance (from minimum to maximum) in selected interest rates over a period of time selected by the Company from time to time, set forth in a written notice by the Company to the Transferor and the Collection Agent.

"Receivable" means the indebtedness originally owed to LADD or a Designated Subsidiary by any Obligor and sold to the Transferor pursuant to the Purchase Agreement (without giving effect to any purchase hereunder by the Company at any time) under a Contract whether constituting an account, chattel paper, instrument or general intangible, arising in connection with the sale of merchandise or services by LADD or a Designated Subsidiary and thereafter sold to the Transferor by LADD, and includes the right to payment of any Finance Charges and other obligations of such Obligor with respect thereto. Notwithstanding the foregoing, once a Receivable has been deemed collected pursuant to Section 2.9 hereof, it shall no longer constitute a Receivable hereunder.

"Records" means all Contracts and other documents, books, records and other information (including, without limitation, computer programs, tapes, discs, punch cards, data processing software and related property and rights) maintained with respect to Receivables and the related Obligors.

"Related Security" means with respect to any Receivable:

(i) all of the Transferor's interest, if any, in the merchandise (including returned merchandise), if any, the sale of which by LADD or a Designated Subsidiary gave rise to such Receivable;

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(ii) all other security interests or liens and property subject thereto from time to time, if any, purporting to secure payment of such Receivable, whether pursuant to the Contract related to such Receivable or otherwise, together with all financing statements signed by an Obligor describing any collateral securing such Receivable;

(iii) all guarantees, insurance or other agreements or arrangements of any kind from time to time supporting or securing payment of such Receivable whether pursuant to the Contract related to such Receivable or otherwise; and

(iv) all Records.

"Section 8.2 Costs" has the meaning specified in Section 8.2(d).

"Servicing Fee" shall mean the fee payable by the Company to the Collection Agent, with respect to a Tranche, in an amount equal to 0.50% per annum on the amount of the Net Investment allocated to such Tranche pursuant to Section 2.3. Such fee shall accrue from the date of the initial purchase of an ownership interest in the Receivables to the later of the Termination Date or the date on which the Net Investment is reduced to zero. On or prior to the Termination Date such fee shall be payable only from Collections pursuant to, and subject to the priority of payments set forth in, Section 2.5. After the Termination Date such fee shall be payable only from Collections pursuant to, and subject to the priority of payments set forth in, Section 2.6.

"Servicing Fee Reserve" means at any time of determination an amount equal to:

$$(OBR \times SFP) \times (30 + (EM \times 1.5))$$

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Where:

OBR = aggregate Outstanding Balance of all Receivables at the time of such computation.

SFP = Servicing Fee percentage.

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EM = Estimated Maturity Period.

"Standard & Poor's" or "S&P" means Standard & Poor's Ratings Group.

"Subsidiary" of a Person means any corporation more than 50% of the outstanding voting securities of which shall at any time be owned or controlled, directly or indirectly, by such Person or by one or more Subsidiaries of such Person or any similar business organization which is so owned or controlled.

"Term Loan" shall mean the loan provided for by Section 2.02 of the Amended and Restated Credit Agreement dated as of October 19, 1994, between LADD Furniture, Inc. and NationsBank, National Association (Carolina) (formerly known as NationsBank of North Carolina, N.A.), as Agent.

"Termination Date" means the earliest of (i) that Business Day designated by the Transferor to the Company as the Termination Date at any time following 60 days' written notice to the Company, (ii) the date of termination of the commitment of the Liquidity Provider under the Liquidity Provider Agreement, (iii) the date of termination of the commitment of the Credit Support Provider under the Credit Support Agreement, (iv) the day on which the Company delivers a notice of termination pursuant to Section 7.2, or (v) March 29, 1996, unless extended not later than 60 days prior to such date for any additional period by consent of the Company, the Transferor and the Collateral Agent.

"Termination Event" means an event described in Section 7.1.

"Tranche" means a portion of the Aggregate Net Investment allocated to a Tranche Period pursuant to Section 2.3.

"Tranche Period" means a CP Tranche Period, a BR Tranche Period, a CD Tranche Period or a Eurodollar Tranche Period.

"Tranche Rate" means the CP Rate, the Base Rate, the CD Rate or the Eurodollar Rate.

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"Transaction Costs" has the meaning specified in Section 8.3(a).

"Transfer" means a conveyance, transfer and assignment by the Transferor to the Company of an undivided percentage ownership interest in Receivables hereunder.

"Transfer Certificate" has the meaning given to it in Section 2.2(a).

"Transfer Date" means, with respect to each Transfer, the Business Day on which such Transfer is made.

"Transfer Price" means with respect to any Incremental Transfer, the amount paid to the Transferor by the Company as described in the Transfer Certificate.

"Transferred Interest" means, at any time of determination, an undivided percentage ownership interest in (i) each and every then outstanding Receivable, (ii) all Related Security with respect to each such Receivable, (iii) all Collections with respect thereto, and (iv) other Proceeds of the foregoing, equal to the Percentage Factor at such time, and only at such time (without regard to prior calculations). The Transferred Interest in each Receivable, together with Related Security and Collections with respect thereto, shall at all times be equal to the Transferred Interest in each other Receivable, together with Related Security and Collections. To the extent that the Transferred Interest shall decrease as a result of a recalculation of the Percentage Factor, the Company shall be considered to have reconveyed to the Transferor an undivided percentage ownership interest in each Receivable, together with Related Security and Collections, in an amount equal to such decrease such that in each case the Transferred Interest in each Receivable shall be equal to the Transferred Interest in

each other Receivable.

"UCC" means, with respect to any state, the Uniform Commercial Code as from time to time in effect in such state.

"Unused Facility Fee" means the fee payable by the Transferor to the Company pursuant to Section 2.7

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hereof, the terms of which are set forth in the Fee Letter.

"Weekly Report" means a report, in substantially the form of Exhibit G or in such other form as is mutually agreed to by the Transferor and the Company, furnished by the Collection Agent to the Company and the Administrative Agent pursuant to Section 2.11(a).

SECTION 1.2. Other Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles. All terms used in Article 9 of the UCC in the State of North Carolina, and not specifically defined herein, are used herein as defined in such Article 9.

SECTION 1.3. Computation of Time Periods. Unless otherwise stated in this Agreement, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

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## ARTICLE II

### PURCHASES AND SETTLEMENTS

SECTION 2.1. Facility. Upon the terms and subject to the conditions herein set forth the Transferor may, at its option, convey, transfer and assign to the Company, and the Company shall accept such conveyance,

transfer and assignment from the Transferor, without recourse except as provided herein, undivided percentage ownership interests in the Receivables, together with Related Security and Collections with respect thereto, from time to time.

SECTION 2.2. Transfers; Company Certificate; Eligible Receivables. (a) Incremental Transfers. On and after the Effective Date, upon the terms and subject to the conditions herein set forth the Transferor may, at its option, convey, transfer and assign to the Company, and the Company shall accept such conveyance, transfer and assignment from the Transferor, without recourse except as provided herein, undivided percentage ownership interests in the Receivables, together with Related Security and Collections with respect thereto (each, an "Incremental Transfer") from time to time for an aggregate Transfer Price not to exceed the Maximum Net Investment; provided that the Company shall not accept any such transfer if it is unable to obtain funds therefor in the commercial paper market or under the Liquidity Provider Agreement. The Transferor shall by notice given by telefax offer to convey, transfer and assign to the Company undivided percentage ownership interests in the Receivables at least three (3) Business Days prior to the proposed date of transfer. Each such notice shall specify the desired Transfer Price (which shall be at least \$1,000,000 and integral multiples of \$100,000 in excess thereof) and the desired date of such Incremental Transfer, together with the desired Tranche Period (or range) related thereto as required by Section 2.3. The Company shall, by notice given by telephone or telefax, accept such offer to convey, transfer and assign undivided percentage ownership interests. Each notice of proposed Transfer shall be irrevocable and binding on the Transferor and the Transferor shall indemnify the Company against any loss or expense incurred by the Company, either directly or through the Liquidity Provider Agreement as a result of any failure by the Transferor to

complete such Incremental Transfer including, without limitation, any loss (including loss of anticipated profits) or expense incurred by the Company, either directly or pursuant to the Liquidity Provider Agreement, by reason of the liquidation or reemployment of funds acquired by the Company or the Liquidity Provider (including, without limitation, funds obtained by issuing com-

mercial paper or promissory notes or obtaining deposits as loans from third parties) for the Company to fund such Incremental Transfer.

On the date of the initial Incremental Transfer, the Company shall deliver written confirmation to the Transferor of the Transfer Price, the Tranche Period and the Tranche Rate relating to such Transfer and the Transferor shall deliver to the Company the Transfer Certificate in the form of Exhibit F hereto (the "Transfer Certificate"). The Company shall indicate the amount of the initial Incremental Transfer together with the date thereof on the grid attached to the Transfer Certificate. On the date of each subsequent Incremental Transfer, the Company shall send written confirmation to the Transferor of the Transfer Price, the Tranche Period, the Transfer Date and the Tranche Rate applicable to such Incremental Transfer. The Company shall indicate the amount of the Incremental Transfer together with the date thereof as well as any decrease in the Net Investment on the grid attached to the Transfer Certificate. The Transfer Certificate shall evidence the Incremental Transfers. Following each Incremental Transfer, the Company shall deposit to the Transferor's account at the location indicated in Section 9.3 hereof, or as provided by the Transferor from time to time by written notice, in immediately available funds, an amount equal to the Transfer Price for such Incremental Transfer.

(b) Reinvestment Transfers. On each Business Day occurring after the initial Incremental Transfer hereunder and prior to the Termination Date, the Transferor hereby agrees to convey, transfer and assign to the Company, and in consideration of Transferor's agreement to maintain at all times prior to the Termination Date a Net Receivables Balance in an amount at least sufficient to maintain the Percentage Factor at an amount not greater than the Maximum Percentage Factor, the Company hereby agrees to purchase from the Transferor undivided percentage ownership interests in each and

every Receivable, together with Related Security and Collections with respect thereto, to the extent that Collections are available for such Transfer in accordance with Section 2.5, such that after giving effect to such Transfer, (i) the amount of the Company's Net Investment at the close of business on such Business Day shall be

equal to the amount of the Company's Net Investment at the close of business on the Business Day immediately preceding such Business Day plus the Transfer Price of any Incremental Transfer made on such day, if any, and (ii) the Company's Transferred Interest in each Receivable, together with Related Security and Collections with respect thereto, shall be equal to its Transferred Interest in each other Receivable, together with Related Security and Collections with respect thereto.

(c) All Transfers. Each Transfer shall constitute a purchase of undivided percentage ownership interests in each and every Receivable, together with Related Security and Collections with respect thereto, then existing, as well as in each and every Receivable, together with Related Security and Collections with respect thereto, which arises at any time after the date of such Transfer. The Company's aggregate undivided percentage ownership interest in the Receivables, together with Related Security and Collections with respect thereto, shall equal the Percentage Factor in effect from time to time.

(d) Company Certificate. The Transferor shall issue to the Company the Company Certificate, in the form of Exhibit M, on or prior to the date hereof.

(e) Percentage Factor. The Percentage Factor shall be initially computed as of the opening of business of the Collection Agent on the date of the initial Incremental Transfer hereunder. Thereafter until the Termination Date, the Percentage Factor shall be automatically recomputed as of the close of business of the Collection Agent on each day (other than a day after the Termination Date). The Percentage Factor shall remain constant from the time as of which any such computation or recomputation is made until the time as of which the next such recomputation, if any, shall be made. The Percentage Factor, as computed as of the day immediately preceding the Termination Date, shall remain constant at all times on and after such Termination Date

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until the date on which the Net Investment shall become zero and the Aggregate Unpays shall have been paid in full.

(f) Assignment. The Transferor hereby

irrevocably assigns to the Company all of its right, title and interest in, to and under the Purchase Agreement and the Designated Subsidiaries Receivables Purchase Agreement.

SECTION 2.3. Selection of Tranche Periods and Tranche Rates. (a) At all times hereafter, but prior to the occurrence of a Termination Event, the Transferor shall, subject to the limitations described below, request Tranche Periods and allocate a portion of the Net Investment to each selected Tranche Period, so that the aggregate amounts allocated to outstanding Tranche Periods at all times shall equal the Net Investment. The Transferor shall give the Company irrevocable notice by telephone of the new requested Tranche Period and whether the requested Tranche Rate applicable thereto shall be the CP Rate, the BR Rate, the CD Rate or the Eurodollar Rate (a "Tranche Selection Notice") at least (i) three (3) Business Days prior to the expiration of any then existing Tranche Period if the Tranche Rate to be applicable to the new requested Tranche Period shall be the Eurodollar Rate, (ii) two (2) Business Days prior to the expiration of any then existing Tranche Period if the Tranche Rate to be applicable to the new requested Tranche Period shall be the BR Rate or the CD Rate, and (iii) one (1) Business Day prior to the expiration of any then existing Tranche Period if the Tranche Rate to be applicable to the new requested Tranche Period shall be the CP Rate; provided, however, that the Company may select, in its sole discretion, any such new Tranche Period and Tranche Rate if (i) the Transferor fails to provide such notice on a timely basis or (ii) the Company determines, in its sole discretion, that the Tranche Rate requested by the Transferor is unavailable or for any reason commercially undesirable or the Company determines, in its sole discretion, that the Tranche Period requested by the Transferor is not available. If the Company determines that the Tranche Period requested by the Transferor is not available, the Company shall, to the extent practicable, consult with the Transferor as to the desired Tranche Period. If, as a result of a lack of liquidity in respect of the Commercial Paper or other-

wise, the Liquidity Provider acquires a Purchased Interest with respect to the Receivables pursuant to the terms of the Liquidity Provider Agreement, the Liquidity Provider may exercise the right of selection granted to the Company hereby, and the portion of the Net Investment

allocated to each selected Tranche Period shall equal, to the extent practicable, the portion of the Net Investment allocated to the Tranche Period that immediately preceded such new Tranche Period. The Company confirms that it is its intention to allocate all or substantially all of the Net Investment to one or more CP Tranche Periods; provided that the Company may determine from time to time, in its sole discretion, that funding such Net Investment by means of one or more CP Tranche Periods is not commercially desirable. In the case of any Tranche Period outstanding upon the occurrence of a Termination Event, such Tranche Period shall end on the date of such occurrence.

(b) At all times on and after the occurrence of a Termination Event, the Company or the Liquidity Provider, as applicable, shall select all Tranche Periods and Tranche Rates applicable thereto.

SECTION 2.4. Fees and Other Costs and Expenses. Notwithstanding the limitation on recourse under Section 2.1, the Transferor shall pay, as and when due in accordance with this Agreement, all fees hereunder, all amounts payable pursuant to Article VIII hereof, if any, and the Servicing Fee. The Transferor shall pay to the Collateral Agent on each maturity of Commercial Paper an amount equal to the discount accrued on the Company's Commercial Paper notes to the extent such notes were issued in order to fund the Transferred Interest in an amount in excess of the Transfer Price of an Incremental Transfer. The Transferor shall pay to the Collateral Agent, on each day on which Commercial Paper is issued by the Company, the Dealer Fee as set forth in the Fee Letter. Discount shall accrue with respect to each Tranche on each day occurring during the Tranche Period related thereto. Nothing in this Agreement shall limit in any way the obligations of the Transferor to pay the amounts set forth in this Section 2.4.

SECTION 2.5. Non-Liquidation Settlement and Reinvestment Procedures. On each day after the date of any Incremental Transfer but prior to the Termination Date and provided that no Potential Termination Event

shall have occurred and be continuing, the Collection Agent shall out of the Percentage Factor of Collections received on or prior to such day and not previously

applied or accounted for: (i) set aside and hold in trust for the Company (or deposit into the Collection Account if so required pursuant to Section 2.12) an amount equal to all Discount, the Program Fee, the Unused Fee and the Servicing Fee accrued through such day and not so previously set aside or paid and (ii) apply the balance of such Percentage Factor of Collections remaining after application of Collections as provided in clause (i) of this Section 2.5 to the Transferor, for the benefit of the Company for the purchase of additional undivided percentage interests in each Receivable pursuant to Section 2.2(b). On the last day of each Tranche Period, from the amounts set aside as described in clause (i) of the first sentence of this Section 2.5, the Collection Agent shall deposit to the Company's account, an amount equal to the accrued and unpaid Discount for such Tranche Period and shall deposit to its account an amount equal to the accrued and unpaid Servicing Fee for such Tranche Period. As provided in Section 6.2(b), the Collection Agent shall remit to the Transferor, as soon as practicable after receipt, such portion of Collections not allocated to the Company.

SECTION 2.6. Liquidation Settlement Procedures. If on the Termination Date, the Percentage Factor is greater than the Maximum Percentage Factor, then the Transferor shall immediately pay to the Company from previously received Collections, an amount equal to the amount such that, when applied in reduction of the Net Investment, will result in a Percentage Factor less than or equal to the Maximum Percentage Factor. Such amount shall be applied by the Company to the reduction of the Net Investment of Tranche Periods selected by the Company. On the Termination Date and on each day thereafter, and on each day on which a Potential Termination Event has occurred and is continuing, the Collection Agent shall set aside and hold in trust for the Company (or deposit into the Collection Account if so required pursuant to Section 2.12) the Percentage Factor of all Collections received on such day. On the Termination Date or the day on which a Potential Termination Event occurs, the Collection Agent shall deposit to the Company's account any remaining amounts set aside pursuant to Section 2.5(i) above. On the last day of each Tranche

Period to occur on or after the Termination Date or during the continuance of a Potential Termination Event,

the Collection Agent shall deposit to the Company's account, the amounts set aside pursuant to the preceding sentence, together with any remaining amounts set aside pursuant to Section 2.5(i) prior to the Termination Date or the day on which a Potential Termination Event occurs but not to exceed the sum of (i) the accrued Discount for such Tranche Period, (ii) the portion of the Net Investment allocated to such Tranche Period, and (iii) the aggregate of all other amounts then owed (whether due or accrued) hereunder by Transferor to the Company. On such day, the Collection Agent shall deposit to its account, from the amounts set aside pursuant to the preceding sentence which remain after payment in full of the aforementioned amounts, the accrued Servicing Fee for such Tranche Period. If there shall be insufficient funds on deposit for the Collection Agent to distribute funds in payment in full of the aforementioned amounts, the Collection Agent shall distribute funds first, in payment of the accrued Discount, second, in payment of all fees and expenses payable to the Company hereunder, third, if the Transferor or an Affiliate thereof is not the Collection Agent, to the Collection Agent's account, in payment of the Servicing Fee payable to the Collection Agent, fourth, in reduction of the Net Investment allocated to such Tranche Period, fifth, in payment of all other amounts payable to the Company and sixth, if the Transferor or an Affiliate thereof is the Collection Agent, to its account as Collection Agent, in payment of the Servicing Fee payable to the Transferor as Collection Agent. Following the date on which the Net Investment has been reduced to zero, all accrued Discount and Servicing Fees have been paid in full and all other Aggregate Unpays have been paid in full, (i) the Collection Agent shall recompute the Percentage Factor, (ii) the Company shall be considered to have reconveyed to the Transferor any interest in the Receivables (including the Transferred Interest), (iii) the Collection Agent shall pay to Transferor any remaining Collections set aside and held by the Collection Agent pursuant to the second sentence of this Section 2.6 and (iv) the Company shall execute and deliver to the Transferor, at the Transferor's expense, such documents or instruments as are necessary to terminate the Company's interest in the Receivables. Any such documents shall be prepared by or on behalf of the Transferor.

SECTION 2.7. Fees. Notwithstanding any limitation on recourse contained in this Agreement, the Transferor shall pay or cause to be paid the following non-refundable fees:

(a) On the last day of each month (or if such day is not a Business Day, the next succeeding Business Day), to the Company, the Program Fee and the Unused Facility Fee. The Administrative Agent shall provide prior written notice to the Transferor as to the amount of such fees.

(b) On the date of execution hereof, to the Administrative Agent, the Arrangement Fee.

SECTION 2.8. Protection of Ownership Interest of the Company. (a) The Transferor agrees that from time to time, at its expense, it will promptly execute and deliver all instruments and documents and take all actions as may be necessary or as the Company may reasonably request in order to perfect or protect the Transferred Interest or to enable the Company to exercise or enforce any of its rights hereunder. Without limiting the foregoing, the Transferor will, upon the request of the Company, in order to accurately reflect this purchase and sale transaction, execute and file such financing or continuation statements or amendments thereto or assignments thereof (as permitted pursuant to Section 9.6 hereof) as may be requested by the Company and mark its master data processing records and other documents with a legend describing the purchase by the Company of the Transferred Interest and stating "An interest in these accounts receivable has been conveyed to Enterprise Funding Corporation pursuant to a Transfer and Administration Agreement dated March 30, 1995." The Transferor shall, upon request of the Company, obtain such additional search reports as the Company shall request. To the fullest extent permitted by applicable law, the Company shall be permitted to sign and file continuation statements and amendments thereto and assignments thereof without the Transferor's signature. Carbon, photographic or other reproduction of this Agreement or any financing statement shall be sufficient as a financing statement. The Transferor shall neither change its name, identity or corporate structure (within the meaning of Section 9-402(7) of the UCC as in effect in the State of North Carolina) nor relocate its chief executive office or any

office where Records are kept unless it shall have: (i) given the Company at least thirty (30) days prior notice thereof and (ii) prepared at the Transferor's expense and delivered to the Company all financing statements, instruments and other documents necessary to preserve and protect the Transferred Interest or requested by the Company in connection with such change or relocation. Any filings under the UCC or otherwise that are occasioned by such change in name or location shall be made at the expense of the Transferor.

(b) The Collection Agent shall instruct all Obligors to cause all Collections to be deposited directly with a Lock-Box Bank. Any Lock-Box Account maintained by a Lock-Box Bank pursuant to the related Lock-Box Agreement shall be under the ownership and control of the Collateral Agent. The Collateral Agent shall be permitted to give instructions to the Lock-Box Banks in the event that (i) a Collection Agent default or any other Termination Event has occurred hereunder or (ii) the Debt Service Coverage Ratio shall be less than 1.0 to 1.0 for each rolling four Quarterly Period ending on any Quarterly Date and in the case of this clause (ii) five (5) days shall have elapsed after the earlier of the date on which (A) notice of the occurrence of such condition shall have been given to the Collection Agent by the Administrative Agent or (B) the Collection Agent knew or should have known in the exercise of reasonable care of the occurrence of such condition. The Collection Agent shall not add any bank as a Lock-Box Bank to those listed on Exhibit C unless such bank has entered into a Lock-Box Agreement. The Collection Agent shall not terminate any bank as a Lock-Box Bank unless the Administrative Agent shall have received fifteen (15) days' prior notice of such termination. If the Transferor or the Collection Agent receives any Collections or the Transferor is deemed to receive any Collections pursuant to Section 2.9, the Transferor or the Collection Agent, as applicable, shall immediately, but in any event within two Business Days of receipt, remit such Collections to a Lock-Box Account.

SECTION 2.9. Deemed Collections; Application of Payments. (a) If on any day the Outstanding Balance of a Receivable is either (x) reduced as a result of any defective, rejected or returned goods or services, any cash discount, credit, rebate, allowance or other dilu-

tion factor, any billing adjustment or other adjustment, or (y) reduced or canceled as a result of a setoff or offset in respect of any claim by any Person (whether such claim arises out of the same or a related transaction or an unrelated transaction), the Transferor shall be deemed to have received on such day a collection of such Receivable in the amount of such reduction or cancellation and the Transferor shall pay to the Collection Agent an amount equal to such reduction or cancellation which shall be applied by the Collection Agent as a Collection in accordance with Section 2.5 or 2.6, as applicable. The Net Investment shall be reduced by the amount of such payment actually received by the Company.

(b) If on any day any of the representations or warranties in Article III is no longer true with respect to a Receivable, the Transferor shall be deemed to have received on such day a Collection of such Receivable in full and the Transferor shall on such day pay to the Collection Agent an amount equal to the aggregate Percentage Factor of the Outstanding Balance of such Receivable and such amount shall be allocated to the Company by the Collection Agent and applied by the Collection Agent as a Collection allocable to the Transferred Interest in accordance with Section 2.5 or 2.6, as applicable. The Net Investment shall be reduced by the amount of such payment actually received by the Company.

(c) Any payment by an Obligor in respect of any indebtedness owed by it to the Transferor shall, except as otherwise specified by such Obligor or otherwise required by contract or law and unless otherwise instructed by the Company, be applied as a Collection of any Receivable of such Obligor included in the Transferred Interest (starting with the oldest such Receivable) to the extent of any amounts then due and payable thereunder before being applied to any other receivable or other indebtedness of such Obligor.

SECTION 2.10. Payments and Computations, Etc. All amounts to be paid or deposited by the Transferor or the Collection Agent hereunder shall be paid or deposited in accordance with the terms hereof no later than 11:00 a.m. (New York City time) on the day when due in immediately available funds; if such amounts are payable to the Company they shall be paid or deposited in the account

by the Company. The Transferor shall, to the extent permitted by law, pay to the Company upon demand, interest on all amounts not paid or deposited when due to the Company hereunder at a rate equal to 2% per annum plus the Base Rate. All computations of discount, interest and all per annum fees hereunder shall be made on the basis of a year of 360 days for the actual number of days (including the first but excluding the last day) elapsed. Any computations of amounts payable by the Transferor hereunder to the Company, the Liquidity Provider or the Credit Support Provider shall be binding absent manifest error.

SECTION 2.11. Reports. (a) On each Wednesday of each calendar week (or if such day is not a Business Day, the next succeeding Business Day), the Collection Agent shall prepare and forward to the Administrative Agent a Weekly Report certifying as to the calculation of the Net Receivables Balance and the Percentage Factor each as of the close of business on the immediately preceding Business Day. No Weekly Report shall be required to be delivered during any calendar week pursuant to the preceding sentence if (i) a Weekly Report has been previously delivered by the Transferor pursuant to Section 3.2 during such calendar week or (ii) the Transferor has requested a Transfer and pursuant to Section 3.2 hereof in connection with such Transfer a Weekly Report will be required to be delivered by the Transferor during such calendar week.

(b) Prior to the fifteenth (15th) day of each month, the Collection Agent shall prepare and forward to the Company and the Administrative Agent (i) an Investor Report as of the end of the last day of the immediately preceding Fiscal Month, (ii) if requested by the Company or the Administrative Agent, a listing by Obligor of all Receivables together with an aging of such Receivables and (iii) such other information as the Company or the Administrative Agent may reasonably request.

SECTION 2.12. Collection Account. There shall be established on the day of the initial Incremental Transfer hereunder and maintained, for the benefit of the

Company, with the Collateral Agent, a segregated account (the "Collection Account"), bearing a designation clearly indicating that the funds deposited therein are held for

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the benefit of the Company. The Collection Agent shall remit daily within two Business Days of receipt to the Collection Account all Collections received with respect to any Receivables which are allocable to the Company pursuant to Section 2.5(i) and Section 2.6; provided, however, the Collection Agent shall be permitted to make payments to the Company on the last day of each Tranche Period instead of depositing funds into the Collection Account on a daily basis for so long as, and only for so long as no Collection Agent default and no other Termination Event has occurred hereunder. Funds on deposit in the Collection Account (other than investment earnings) shall be invested by the Collateral Agent in Eligible Investments that will mature so that such funds will be available prior to the last day of each successive Tranche Period following such investment. On the last day of each calendar month, all interest and earnings (net of losses and investment expenses) on funds on deposit in the Collection Account shall be retained in the Collection Account and be available to make any payments required to be made hereunder (including Discount) to the Company. On the date on which the Net Investment is zero and all amounts payable hereunder have been paid to the Company, any funds remaining on deposit in the Collection Account shall be paid to the Transferor.

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### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

SECTION 3.1. Representations and Warranties of the Transferor. The Transferor represents and warrants to the Company that:

(a) Corporate Existence and Power. The Transferor is a corporation duly organized, validly

existing and in good standing under the laws of its jurisdiction of incorporation and has all corporate power and all material governmental licenses, authorizations, consents and approvals required to carry on its business in each jurisdiction in which its business is now conducted.

(b) Corporate and Governmental Authorization; Contravention. The execution, delivery and performance by the Transferor of this Agreement, the Purchase Agreement, the Fee Letter, the Company Certificate and the Transfer Certificate are within the Transferor's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official (except as contemplated by Section 2.8), and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the Certificate of Incorporation or Bylaws of the Transferor or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Transferor or result in the creation or imposition of any lien on assets of the Transferor or any of its Subsidiaries (except as contemplated by Section 2.8).

(c) Binding Effect. Each of this Agreement, the Purchase Agreement, the Fee Letter and the Company Certificate constitutes and the Transfer Certificate upon payment by the Company of the Transfer Price set forth therein will constitute the legal, valid and binding obligation of the Transferor, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium or other similar laws affecting the rights of creditors.

(d) Perfection. Immediately preceding each Transfer hereunder, the Transferor shall be the

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owner of all of the Receivables, free and clear of all liens, encumbrances, security interests, preferences or other security arrangement of any kind or nature whatsoever. On or prior to each Transfer and each recomputation of the Transferred Interest, all financing statements and other documents required to be recorded or filed in order to perfect and protect the Transferred Interest against all creditors of and purchasers from the Transferor, LADD and any Designated Subsidiary will have been duly filed in each filing office necessary for such

purpose and all filing fees and taxes, if any, payable in connection with such filings shall have been paid in full.

(e) Accuracy of Information. All information heretofore furnished by the Transferor (including without limitation, the Investor Reports, the Weekly Reports and the Transferor's financial statements) to the Company or the Administrative Agent for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished by the Transferor to the Company or the Administrative Agent will be, true and accurate in every material respect, on the date such information is stated or certified.

(f) Taxes. The Transferor and its Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Transferor or any of its Subsidiaries except to the extent that failure to file or pay would not have a material adverse effect on the consolidated financial condition of the Transferor or the Company's interest in the Receivables and except for any tax which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained. The charges, accruals and reserves on the books of the Transferor and its Subsidiaries in respect of taxes and other governmental charges are, in the opinion of the Transferor, adequate.

(g) Action, Suits. Except as set forth in Exhibit H, there are no actions, suits or proceedings pending, or to the knowledge of the Transferor threatened, against or affecting the Transferor or any Affili-

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ate of the Transferor or their respective properties, in or before any court, arbitrator or other body, which may materially adversely affect the financial condition of the Transferor and its Subsidiaries taken as a whole or materially adversely affect the ability of Transferor to perform its obligations under this Agreement.

(h) Use of Proceeds. No proceeds of any Transfer will be used by the Transferor to acquire any

security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934, as amended.

(i) Place of Business. The chief place of business and chief executive office of the Transferor are located at the address of the Transferor indicated in Section 9.3 hereof and the offices where the Transferor keeps all its Records, are located at the address(es) described on Exhibit I or such other locations notified to the Company in accordance with Section 2.8 in jurisdictions where all action required by Section 2.8 has been taken and completed.

(j) Good Title. Upon each Transfer and each recomputation of the Transferred Interest, the Company shall acquire a valid and perfected first priority undivided percentage ownership interest to the extent of the Transferred Interest or a first priority perfected security interest in each Receivable that exists on the date of such Transfer and recomputation and in the Related Security and Collections with respect thereto free and clear of any Adverse Claim.

(k) Tradenames, Etc. As of the date hereof: (i) the Transferor's chief executive office is located at the address for notices set forth in Section 9.3 hereof; (ii) the Transferor has only the subsidiaries and divisions listed on Exhibit J hereto; and (iii) the Transferor has, within the last five (5) years, operated only under the tradenames identified in Exhibit J hereto, and, within the last five (5) years, has not changed its name, merged with or into or consolidated with any other corporation or been the subject of any proceeding under Title 11, United States Code (Bankruptcy), except as disclosed in Exhibit J hereto.

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(l) Nature of Receivables. Each Receivable included in the Net Receivable Balance is an Eligible Receivable and as "eligible asset" as defined in Rule 3a-7 under the Investment Company Act, of 1940, as amended.

(m) Coverage Requirement; Amount of Receivables. The Percentage Factor does not exceed the Maximum Percentage Factor.

(n) Credit and Collection Policy. Since January 13, 1994, there have been no material changes in the Credit and Collection Policy; since such date, no material adverse change has occurred in the overall rate of collection of the Receivables.

(o) Collections and Servicing. Since December 31, 1994, there has been no material adverse change in the ability of the Transferor to service and collect the Receivables.

(p) No Termination Event. No event has occurred and is continuing and no condition exists which constitutes a Termination Event or a Potential Termination Event.

(q) Not an Investment Company. The Transferor is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or is exempt from all provisions of such Act.

(r) ERISA. The Transferor is in compliance in all material respects with ERISA and no ERISA lien on any of the Receivables shall exist.

(s) Lock-Box Accounts. The names and addresses of all the Lock-Box Banks, together with the account numbers of the Lock-Box Accounts at such Lock-Box Banks, are specified in Exhibit C hereto (or at such other Lock-Box Banks and/or with such other Lock-Box Accounts as have been notified to the Collateral Agent and for which Lock-Box Agreements have been executed in accordance with Section 2.8(b) and delivered to the Collection Agent).

Any document, instrument, certificate or notice delivered to the Company hereunder shall be deemed a representation and warranty by the Transferor.

SECTION 3.2. Reaffirmation of Representations and Warranties by the Transferor. On each day that a Transfer is made hereunder, the Transferor, by accepting the proceeds of such Transfer, whether delivered to the

Transferor pursuant to Section 2.2(a) or Section 2.5, shall be deemed to have certified that all representations and warranties described in Section 3.1 are correct on and as of such day as though made on and as of such day. Each Incremental Transfer shall be subject to the further condition precedent that by 4:30 p.m. (New York City time) on the Business Day prior to the date of such Incremental Transfer, the Collection Agent shall have delivered to the Administrative Agent a completed Weekly Report dated as of the second Business Day prior to the date of such Incremental Transfer (which report may be preliminary to the extent that data and or computations set forth therein are dependent upon final determination of applicable Tranche Rates and the Net Investment allocable to Tranches to be associated with such Incremental Transfer, provided, that a final completed Weekly Report is delivered to the Administrative Agent by 4:00 p.m. (New York City time) on the date of such Incremental Transfer), together with a listing of all Receivables by Obligor, if requested, and such additional information as may be reasonably requested by the Administrative Agent; and the Transferor shall be deemed to have represented and warranted that such conditions precedent have been satisfied.

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#### ARTICLE IV

##### CONDITIONS PRECEDENT

SECTION 4.1. Conditions to Effectiveness. The Transferor shall deliver to the Company, prior to this Agreement becoming effective, the following documents, instruments and fees all of which shall be in a form and substance acceptable to the Company:

(a) A copy of the Resolutions of the Board of Directors of the Transferor certified by its Secretary approving the Agreement and the other documents to be delivered by the Transferor hereunder.

(b) A copy of the Resolutions of the Boards of Directors of LADD and each Designated Subsidiary certified by its Secretary approving the Purchase Agreement, the Designated Subsidiaries Receivables Pur-

chase Agreement, and the other documents to be delivered by LADD and such Designated Subsidiary hereunder.

(c) The Articles of Incorporation of the Transferor certified by the Secretary of State or other similar official of the Transferor's jurisdiction of incorporation.

(d) The Articles of Incorporation of LADD and each Designated Subsidiary certified by the Secretary of State or other similar official of each such Designated Subsidiary's jurisdiction of incorporation.

(e) A Good Standing Certificate for the Transferor issued by the Secretary of State or a similar official of the Transferor's jurisdiction of incorporation and certificates of qualification as a foreign corporation issued by the Secretaries of State or other similar officials of each jurisdiction when such qualification is material to the transactions contemplated by this Agreement.

(f) A Good Standing Certificate for LADD and each Designated Subsidiary issued by the Secretary of State or a similar official of each such Designated Subsidiary's jurisdiction of incorporation and certificates of qualification as a foreign corporation issued by the Secretaries of State or other similar officials of

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each jurisdiction when such qualification is material to the transactions contemplated by this Agreement, the Purchase Agreement or the Designated Subsidiaries Receivables Purchase Agreement.

(g) Copies of proper financing statements (Form UCC-1), dated a date reasonably near to the date of the execution of the initial Incremental Transfer naming (i) LADD as the debtor in favor of the Transferor as secured party with the Company as assignee and (ii) each Designated Subsidiary as debtor in favor of LADD as secured party with the Transferor as assignee or other similar instruments as may be necessary or in the opinion of the Company desirable under the UCC of all appropriate jurisdictions or any comparable law to perfect the Transferor's ownership interest in all Receivables.

(h) Copies of proper financing statements (Form UCC-3), if any, necessary to terminate all security

interests and other rights of any person in Receivables previously granted by the Transferor, LADD or any Designated Subsidiary.

(i) Certified copies of request for information or copies (Form UCC-11) (or a similar search report certified by parties acceptable to the Company) dated a date reasonably near the date of the date of the initial Incremental Transfer listing all effective financing statements which name LADD or any Designated Subsidiary (under its present name and any previous name) as debtor and which are filed in jurisdictions in which the filings were made pursuant to item (i) above together with copies of such financing statements (none of which shall cover any Receivables or Contracts).

(j) Copies of proper financing statements (Form UCC-1), dated a date reasonably near to the date of the initial Incremental Transfer naming the Transferor as the debtor in favor of the Company and showing the Collateral Agent as assignee of the secured party or other similar instruments or documents as may be necessary or in the reasonable opinion of the Company desirable under the UCC of all appropriate jurisdictions or any comparable law to perfect the Company's ownership interest in all Receivables.

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(k) Copies of proper financing statements (Form UCC-3), if any, necessary to terminate all security interests and other rights of any person in Receivables previously granted by Transferor, LADD or any Designated Subsidiary.

(l) Certified copies of request for information or copies (Form UCC-11) (or a similar search report certified by parties acceptable to the Company) dated a date reasonably near the date of the initial Incremental Transfer listing all effective financing statements which name the Transferor (under its present name and any previous name) as debtor and which are filed in jurisdictions in which the filings were made pursuant to item (l) above together with copies of such financing statements (none of which shall cover any Receivables or Contracts).

(m) Executed copies of the Lock-Box Agreements.

(n) An opinion of Petree Stockton, L.L.-P., special counsel to the Designated Subsidiaries, covering the matters set forth in Exhibit K-1 hereto.

(o) An opinion of Petree Stockton, L.L.-P., special counsel to LADD and the Transferor, covering the matters set forth in Exhibit K-2 hereto.

(p) An opinion of Petree Stockton, L.L.-P., special counsel to the Transferor, covering certain bankruptcy matters, in form and substance acceptable to the Company and its counsel.

(q) A certificate of the Transferor in substantially the form of Exhibit L hereto executed by the Secretary or Assistant Secretary of the Transferor.

(r) A certificate of LADD and each Designated Subsidiary in substantially the form of Exhibit L hereto executed by the Secretary or Assistant Secretary of each LADD and each such Designated Subsidiary.

(s) A computer tape setting forth all Receivables and the Outstanding Balances as of the close of business on the second Business Day prior to the

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Effective Date and such other information as the Company may reasonably request.

(t) An executed copy of the Fee Letter.

(u) The Transfer Certificate, duly executed by the Transferor.

(v) The Company Certificate, duly executed by the Transferor and appropriately completed.

(w) The Arrangement Fee in accordance with Section 2.7(b).

(x) An Investor Report for the Fiscal Month ended February 25, 1995 and a Weekly Report as at the close of business on the second Business Day prior to

the Effective Date.

(y) A certification by the Transferor, dated the day of the initial Transfer hereunder, wherein the Transferor shall represent and warrant as to the aggregate Outstanding Balance of the Receivables and as to the Net Receivables Balance each as of the close of business on the second Business Day prior to the date of such initial transfer and that the closing documents delivered hereunder prior to such date are still true, correct and complete.

(z) Such other documents as the Company shall reasonably request.

In addition, it shall be a condition precedent to the effectiveness of this Agreement that all outstanding Tranches existing under that certain Transfer and Administration Agreement dated as of January 28, 1994 among LADD, the Company, Clayton-Marcus Company, Inc., Barclay Furniture Co., LADD Transportation, Inc., and Pilliod Furniture, Inc., as amended and modified from time to time, shall have terminated .

In the event that the Effective Date shall not have occurred on or prior to April 17, 1995, the Company shall have the right to request up-to-date documentation in respect of clauses (a), (b), (c), (d), (e), (f), (n), (o), (p), (q), and (r) above.

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SECTION 4.2. Post Closing Condition. Within 15 days of the Closing Date, the Transferor shall deliver to the Administrative Agent a good faith calculation of the costs (including penalties, if applicable) applicable under present Arizona law necessary to be paid by LADD in the event that LADD were to apply, in the future, for qualification as a foreign corporation authorized to conduct business in Arizona, assuming for the purpose of such calculations, that LADD should have been, but was not, so qualified as of the Closing Date. After receipt by the Administrative Agent of such calculation, the Administrative Agent shall have the right, to be exercised in its reasonable discretion, to require that within 30 days of such request, the Transferor deliver to the Administrative Agent either (A) a certificate of

qualification of LADD as a foreign corporation issued by the Secretary of State or other similar official of Arizona or (B) a legal opinion, reasonably acceptable to the Administrative Agent, of counsel admitted to practice in such state substantially to the effect that such qualification is not required.

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## ARTICLE V

### COVENANTS

SECTION 5.1. Affirmative Covenants of Transferor and the Collection Agent. At all times from the date hereof to the later to occur of (i) the Termination Date or (ii) the date on which the Net Investment shall be equal to zero and the Aggregate Unpaid have been paid in full, unless the Company shall otherwise consent in writing:

(a) Financial Reporting. The Transferor will maintain, for itself and each Subsidiary, a system of accounting established and administered in accordance with generally accepted accounting principles, and furnish to the Administrative Agent:

(i) Annual Reporting. Within ninety (90) days after the close of each of LADD's fiscal years, audited financial statements, prepared in accordance with generally accepted accounting principles on a consolidated and consolidating basis (consolidating statements need not be audited by such accountants) for LADD and its Subsidiaries, including balance sheets as of the end of such period, related statements of operations, shareholder's equity and cash flows (consolidating statements of shareholder's equity and cash flows need not be delivered), accompanied by an unqualified audit report signed by independent certified public accountants, acceptable to the Administrative Agent, prepared in accordance with generally accepted auditing standards and any management letter prepared by said accountants and

a letter of said accountants that, in the course of the foregoing, they have obtained no knowledge of any Termination Event or Potential Termination Event, or if, in the opinion of such accountants, any Termination Event or Potential Termination Event shall exist, stating the nature and status thereof.

(ii) Quarterly Reporting. Within forty-five (45) days after the close of the first three quarterly periods of each of LADD's

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fiscal years, for LADD and its Subsidiaries, consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating related statements of operations, shareholder's equity and cash flows for the period from the beginning of such fiscal year to the end of such quarter, all certified by its chief financial officer (consolidating statements of shareholder's equity and cash flows need not be delivered).

(iii) Compliance Certificate. Together with the financial statements required hereunder, a compliance certificate signed by its chief financial officer stating that no Termination Event or Potential Termination Event exists, or if any Termination Event or Potential Termination Event exists, stating the nature and status thereof and showing the computation of the Debt Service Coverage Ratio.

(iv) Shareholders Statements and Reports. Promptly upon the furnishing thereof to the shareholders of LADD, copies of all financial statements, reports and proxy statements so furnished.

(v) S.E.C. Filings. Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which LADD or any subsidiary files with the Securities and Exchange Commission, except that such statements and reports may be delivered without exhibits

until and unless otherwise instructed.

(vi) Notice of Termination Events or Potential Termination Events. As soon as possible and in any event within two (2) days after the occurrence of each Termination Event or each Potential Termination Event, a statement of the chief financial officer or chief accounting officer of the Transferor setting forth details of such Termination Event or Potential Termination Event and the

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action which the Transferor proposes to take with respect thereto.

(vii) Change in Credit and Collection Policy and Debt Ratings. Within ten (10) days after the date any material change in or amendment to the Credit and Collection Policy is made, a copy of the Credit and Collection Policy then in effect indicating such change or amendment.

(viii) Credit and Collection Policy. Upon request of the Administrative Agent, a complete copy of the Credit and Collection Policy then in effect.

(ix) Other Information. Such other information (including non-financial information) as the Administrative Agent may from time to time reasonably request.

(b) Conduct of Business. The Transferor will, and the Collection Agent will cause each of its Subsidiaries to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted and do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

(c) Compliance with Laws. The Transferor

will, and the Collection Agent will cause each of its Subsidiaries to, comply in all material respects with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject.

(d) **Furnishing of Information and Inspection of Records.** The Transferor and the Collection Agent will furnish to the Company from time to time such information with respect to the Receivables as the Company may reasonably request, including, without limitation, listings identifying the Obligor and the Outstanding Balance for each Receivable. The Transferor and the Collection Agent will at any time and from time to time during regu-

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lar business hours permit the Company, or its agents or representatives upon three Business Days notice, (i) to examine and make copies of and abstracts from all Records and (ii) to visit the offices and properties of the Transferor or the Collection Agent's for the purpose of examining such Records, and to discuss matters relating to Receivables or the Transferor's or the Collection Agent's performance hereunder with any of the officers, directors, employees or independent public accountants of the Transferor or the Collection Agent's having knowledge of such matters.

(e) **Keeping of Records and Books of Account.** The Transferor and the Collection Agent will maintain and implement administrative and operating procedures (including, without limitation, an ability to recreate records evidencing Receivables in the event of the destruction of the originals thereof), and keep and maintain, all documents, books, records and other information reasonably necessary or advisable for the collection of all Receivables (including, without limitation, records adequate to permit the daily identification of each new Receivable and all Collections of and adjustments to each existing Receivable). The Transferor and the Collection Agent will give the Company notice of any material change in the administrative and operating procedures referred to in the previous sentence.

(f) **Performance and Compliance with Receivables and Contracts.** The Transferor will at its expense timely and fully perform and comply with all

material provisions, covenants and other promises required to be observed by it under the Contracts related to the Receivables.

(g) Credit and Collection Policies. The Transferor and the Collection Agent will comply in all material respects with the Credit and Collection Policy in regard to each Receivable and the related Contract.

(h) Collections. The Transferor and the Collection Agent shall instruct all Obligors to cause all Collections to be deposited directly to a Lock-Box Account. The Transferor may, however, in connection with Obligors which would otherwise be over their credit limit if goods were shipped prior to payment, direct Obligors to make payments directly to the Collection Agent which

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shall deposit such Collections in a Lock-Box Account pursuant to Section 5.1(i) below.

(i) Collections Received. The Transferor and the Collection Agent shall hold in trust, and deposit, immediately, but in any event not later than two Business Days of its receipt thereof, to a Lock-Box Account all Collections received from time to time by the Transferor or the Collection Agent (including without limitation, in the case of the Transferor, all Collections deemed to have been received by the Transferor under Section 2.9(a)).

(j) Sale Treatment. The Transferor shall report the transactions contemplated by the Agreement on its financial statements as a sale of the Transferred Interest to the Company.

(k) Separate Business. The Transferor shall at all times (a) to the extent the Transferor's office is located in the offices of LADD or any Affiliate of LADD, pay fair market rent for its executive office space located in the offices of LADD or any Affiliate of LADD, (b) maintain the Transferor's books, financial statements, accounting records and other corporate documents and records separate from those of LADD or any other entity, (c) not commingle the Transferor's assets with those of LADD or any other entity, (d) act solely in its corporate name and through its own authorized officers and agents, (e) make investments directly or by

brokers engaged and paid by the Transferor or its agents (provided that if any such agent is an Affiliate of the Transferor it shall be compensated at a fair market rate for its services), (f) separately manage the Transferor's liabilities from those of LADD or any Affiliates of LADD and pay its own liabilities, including all administrative expenses, from its own separate assets, except that LADD may pay the organizational expenses of the Transferor, and (g) pay from the Transferor's assets all obligations and indebtedness of any kind incurred by the Transferor. The Transferor shall abide by all corporate formalities, including the maintenance of current minute books, and the Transferor shall cause its financial statements to be prepared in accordance with generally accepted accounting principles in a manner that indicates the separate existence of the Transferor and its assets and liabilities. The Transferor shall (i) pay all its liabilities, (ii)

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not assume the liabilities of LADD or any Affiliate of LADD and (iii) not guarantee the liabilities of LADD or any Affiliates of LADD. The officers and directors of the Transferor (as appropriate) shall make decisions with respect to the business and daily operations of the Transferor independent of and not dictated by any controlling entity. The Transferor shall not engage in any business not permitted by its Certificate of Incorporation as in effect on the Closing Date.

(1) Corporate Documents. The Transferor shall only amend, alter, change or repeal Articles III, IV, XV or XVI of its Certificate of Incorporation with the prior written consent of the Administrative Agent.

SECTION 5.2. Negative Covenants of Transferor and the Collection Agent. During the term of this Agreement, unless the Company shall otherwise consent in writing:

(a) No Sales, Liens, Etc. Except as otherwise provided herein, neither the Transferor nor the Collection Agent will sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Adverse Claim upon (or the filing of any financing statement) or with respect to, any inventory or goods, the sale of which may give rise to a Receivable or any Receivable or related Contract, or upon or

with respect to any account which concentrates in a Lock-Box Bank to which any Collections of any Receivable are sent, or assign any right to receive income in respect thereof.

(b) No Extension or Amendment of Receivables. Except as otherwise permitted in Section 6.2, neither the Transferor nor the Collection Agent will extend, amend or otherwise modify the terms of any Receivable, or amend, modify or waive any term or condition of any Contract related thereto.

(c) No Change in Business or Credit and Collection Policy. Neither the Transferor, nor the Collection Agent will make any change in the character of its business or in the Credit and Collection Policy, which change would, in either case, impair the collectibility of any Receivable.

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(d) No Mergers, Etc. Neither the Transferor nor the Collection Agent will (i) consolidate or merge with or into any other Person, or (ii) sell, lease or transfer all or substantially all of its assets to any other person; provided, however, that the Collection Agent may consolidate or merge with a Person if the Collection Agent shall be the surviving entity and such merger or consolidation does not cause a Termination Event or Potential Termination Event.

(e) Change in Payment Instructions to Obligors. Neither the Transferor nor the Collection Agent will add or terminate any bank as a Lock-Box Bank or any account as a Lock-Box Account to or from those listed in Exhibit C hereto or make any change in its instructions to Obligors regarding payments to be made to any Lock-Box Account, unless (i) such instructions are to deposit such payments to another existing Lock-Box Account or (ii) the Administrative Agent shall have received written notice of such addition, termination or change at least 30 days prior thereto and the Administrative Agent shall have received a Lock-Box Agreement executed by each new Lock-Box Bank or an existing Lock-Box Bank with respect to each new Lock-Box Account, as applicable.

(f) Deposits to Lock-Box Accounts.

Neither the Transferor nor the Collection Agent will deposit or otherwise credit, to any Lock-Box Account cash or cash proceeds other than Collections of Receivables.

(g) Change of Name, Etc. Neither the Transferor nor the Collection Agent will change its name, identity or structure or its chief executive office, unless at least 10 days prior to the effective date of any such change the Transferor and/or Collection Agent delivers to the Collateral Agent (i) executed UCC financing statements necessary to reflect such change and to continue the perfection of the Company's ownership interests or security interests in the Receivables and (ii) new or revised Lock-Box Agreements executed by the Lock-Box Banks which reflect such change and which enable the Collateral Agent to exercise its rights contained in Section 2.8.

(h) Amendment to Purchase Agreement. The Transferor will not amend, modify, or supplement the

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Purchase Agreement, except with the prior written consent of the Company; nor shall the Transferor take any other action under the Purchase Agreement that shall have a material adverse affect on the Company.

(i) Other Debt. Except as provided for herein, the Transferor will not create, incur, assume or suffer to exist any indebtedness whether current or funded, or any other liability other than (i) indebtedness of the Transferor representing fees, expenses and indemnities arising hereunder or under the Purchase Agreement or otherwise owing to LADD (or to LFI Capital Management, Inc. as assignee of any note made by the Transferor in favor of LADD in partial payment for the purchase price of the Receivables under the Purchase Agreement and assigned to LFI Capital Management, Inc.), the Company or the Administrative Agent, and (ii) indebtedness for services supplied or furnished to the Transferor (including reasonable accountants' and attorneys' fees); provided, that the aggregate amount of the indebtedness or liabilities described in this subpart (ii) shall not exceed \$4,750 at any one time outstanding.

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## ARTICLE VI

### ADMINISTRATION AND COLLECTIONS

SECTION 6.1. Appointment of Collection Agent. The servicing, administering and collection of the Receivables shall be conducted by such Person (the "Collection Agent") so designated from time to time in accordance with this Section 6.1. Until the Company gives notice to LADD of the designation of a new Collection Agent, LADD is hereby designated as, and hereby agrees to perform the duties and obligations of, the Collection Agent pursuant to the terms hereof. The Company may, upon the occurrence of any Termination Event designate as Collection Agent any Person (including itself) to succeed LADD or any successor Collection Agent, on the condition in each case that any such Person so designated shall agree to perform the duties and obligations of the Collection Agent pursuant to the terms hereof. Upon the occurrence of a Potential Termination Event or a Termination Event, the Company may notify any Obligor of the Transferred Interest.

SECTION 6.2. Duties of Collection Agent. (a) The Collection Agent shall take or cause to be taken all such action as may be necessary or advisable to collect each Receivable from time to time, all in accordance with applicable laws, rules and regulations, and with the care and diligence which the Collection Agent employs in servicing similar receivables for its own account, in accordance with the Credit and Collection Policy. Each of the Transferor and the Company hereby appoints as its agent the Collection Agent, from time to time designated pursuant to Section 6.1, to enforce its respective rights and interests in and under the Receivables, the Related Security and the Contracts. The Collection Agent shall set aside for the account of the Transferor and the Company their respective allocable shares of the Collections of Receivables in accordance with Sections 2.5 and 2.6. The Collection Agent shall segregate and deposit to the Company's account the Company's allocable share of Collections of Receivables when required pursuant to Article II hereof. So long as no Termination Event shall have occurred and be continuing, the Transferor may, in accordance with the Credit and Collection Policy, extend the maturity of Receivables, but not beyond sixty (60) days, and extend the maturity or adjust the Outstanding

Balance as the Transferor may determine to be appropriate to maximize Collections thereof; provided, however, that such extension or adjustment shall not alter the status of such Receivable as a Delinquent Receivable or a Defaulted Receivable. The Transferor shall deliver to the Collection Agent and the Collection Agent shall hold in trust for the Transferor and the Company in accordance with their respective interests, all Records which evidence or relate to Receivables or Related Security. Notwithstanding anything to the contrary contained herein, from and after the occurrence of a Termination Event or a Potential Termination Event the Company shall have the absolute and unlimited right to direct the Collection Agent (whether the Collection Agent is the Transferor or any other Person) to commence or settle any legal action to enforce collection of any Receivable or to foreclose upon or repossess any Related Security.

(b) The Collection Agent shall hold for the benefit of the Transferor Collections received minus the Percentage Factor of such Collections. On the last day of each Tranche Period, the Collection Agent shall deduct from such Collections and pay to the Company in reduction of the Net Investment any amounts due under Section 2.9 hereof and unpaid from the Transferor or any Designated Subsidiary and turn the remainder of such Collections over to the Transferor. In addition, the Collection Agent shall, as soon as practicable following receipt thereof, turn over to the Transferor any collections of any indebtedness of any Obligor which is not a Receivable. If the Transferor or LADD is not the Collection Agent, the Collection Agent, by giving three Business Days' prior written notice to the Company, may revise the percentage used to calculate the Servicing Fee so long as the revised percentage will not result in a Servicing Fee that exceeds 110% of the reasonable and appropriate out-of-pocket costs and expenses of such Collection Agent incurred in connection with the performance of its obligations hereunder as documented to the reasonable satisfaction of the Company. The Collection Agent, if other than the Transferor, shall as soon as practicable upon demand, deliver to the Transferor all Records in its possession which evidence or relate to indebtedness of an Obligor which is not a Receivable.

(c) On or before 90 days after the end of each fiscal year of the Collection Agent, beginning with

the fiscal year ending December 31, 1994, the Collection Agent shall cause a firm of independent public accountants (who may also render other services to the Collection Agent or the Transferor) to furnish a report to the Administrative Agent to the effect that they have compared the information contained in the Investor Reports delivered during such fiscal year with the information contained in the Contracts and the Collection Agent's records and computer systems for such period, and that, on the basis of the agreed upon procedures set forth in Exhibit O and such comparison, such firm will issue an agreed upon procedures report to the Collection Agent stating that such accountants have performed the procedures outlined on Exhibit O hereto and stating the results thereof.

(d) Notwithstanding anything to the contrary contained in this Article VI, the Collection Agent, if not the Transferor or an Affiliate thereof, shall have no obligation to collect, enforce or take any other action described in this Article VI with respect to any Receivable that is not included in the Transferred Interest other than to deliver to the Transferor the Collections and documents with respect to any such Receivable as described in Section 6.2(b).

SECTION 6.3. Rights After Designation of New Collection Agent. At any time following the designation of a Collection Agent (other than the Transferor or LADD) pursuant to Section 6.1:

(i) The Company may direct that payment of all amounts payable under any Receivable be made directly to the Company or its designee.

(ii) The Transferor shall, at the Company's request and at the Transferor's expense, give notice of the Company's ownership of Receivables to each Obligor and direct that payments be made directly to the Company or its designee.

(iii) The Transferor and LADD shall, at the Company's request, (A) assemble all of the Records, and shall make the same available to the Company at a place selected by

the Company or its designee, and (B) segregate all cash, checks and other instruments received by it from time to time constituting Collections of Receivables in a manner acceptable to the Company and shall, promptly upon receipt, remit all such cash, checks and instruments, duly endorsed or with duly executed instruments of transfer, to the Company or its designee.

(iv) The Transferor hereby authorizes the Company to take any and all steps in the Transferor's name and on behalf of the Transferor necessary or desirable, in the determination of the Company, to collect all amounts due under any and all Receivables, including, without limitation, endorsing the Transferor's or any Designated Subsidiary's name on checks and other instruments representing Collections and enforcing such Receivables and the related Contracts.

SECTION 6.4. Responsibilities of the Transferor. Anything herein to the contrary notwithstanding, the Transferor shall (i) exercise its rights under the Purchase Agreement to cause LADD and each Designated Subsidiary to perform all of its obligations under the Contracts related to the Receivables to the same extent as if interests in such Receivables had not been sold hereunder, under the Purchase Agreement or under the Designated Subsidiaries Receivables Purchase Agreement and the exercise by the Company of its rights hereunder shall not relieve the Transferor from such obligations and (ii) pay when due any taxes, including without limitation, any sales taxes payable in connection with the Receivables and their creation and satisfaction. The Company shall not have any obligation or liability with respect to any Receivable or related Contracts, nor shall it be obligated to perform any of the obligations of the Transferor, LADD or any Designated Subsidiary thereunder.

## TERMINATION EVENTS

SECTION 7.1. Termination Events. The occurrence of any one or more of the following events shall constitute a Termination Event:

(a) (i) the Collection Agent shall fail to perform or observe any term, covenant or agreement hereunder (other than as referred to in clause (ii) of this Section 7.1(a)) and such failure shall remain unremedied for ten (10) days, or (ii) either the Collection Agent or the Transferor shall fail to make any payment or deposit to be made by it hereunder when due or the Collection Agent shall fail to observe or perform any term, covenant or agreement on the Collection Agent's part to be performed under Section 2.8(b) hereof; or

(b) any representation, warranty, certification or statement made by the Transferor in this Agreement or in any other document delivered pursuant hereto shall prove to have been incorrect in any material respect when made or deemed made; or

(c) the Transferor shall default in the observance or performance of the terms, covenants, conditions or agreements on the Transferor's part (i) to be performed or observed under Sections 5.1(a)(vi), 5.1(b), 5.1(g), 5.1(h), 5.1(i), 5.1(k), 5.1(l), 5.2(a), 5.2(c), 5.2(d), 5.2(e), 5.2(f), 5.2(g), 5.2(h) or 5.2(i) or (ii) to be performed or observed under Sections 5.1(a)(i), 5.1(a)(ii), 5.1(a)(iii), 5.1(a)(iv), 5.1(a)(v) or 5.1(a)-(ix) and such default in the case of this clause (ii) shall remain unremedied for a period of fifteen (15) days after the earlier of (A) notice thereof shall have been given to the Transferor by the Company or the Administrative Agent and (B) the date on which the Transferor knew or should have known in the exercise of reasonable care of the default, or (iii) to be performed or observed under any other provision hereof and such default in the case of this clause (iii) shall remain unremedied for a period of ten (10) days after the earlier of (A) notice thereof shall have been given to the Transferor by the Company or the Administrative Agent and (B) the date on which the Transferor knew or should have known in the exercise of reasonable care of the default; or

(d) any Indebtedness of the Transferor, LADD or any of its Subsidiaries greater than \$1,000,000 shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the date of maturity thereof; or

(e) any Event of Bankruptcy shall occur with respect to the Transferor, LADD, the Collection Agent or any Designated Subsidiary or any Material Subsidiary of either the Transferor or the LADD; or

(f) the Company shall, for any reason, fail to have a valid and perfected first priority security interest in the Receivables; or

(g) the Transferor shall enter into any transaction or merger whereby it is not the surviving entity; or

(h) there shall have occurred any event which materially affects the Transferor's ability to either collect the Receivables or to perform under this Agreement or under the Purchase Agreement; or

(i) the Liquidity Provider or the Credit Support Provider shall have given notice that an event of default has occurred and is continuing under its agreements with the Company; or

(j) the Commercial Paper issued by the Company shall not be rated at least "A-2" by Standard & Poor's and at least "P-2" by Moody's, unless such downgrading is the result of the Credit Support Provider being downgraded; or

(k) the Percentage Factor exceeds the Maximum Percentage Factor unless the Transferor reduces the Net Investment on the next day, bringing the Percentage Factor to less than or equal to 95% or the Percentage Factor equals or exceeds 100% at any time; or

(l) the Dilution Ratio for any Fiscal Month exceeds 10.0%; or

(m) the Loss to Liquidation Ratio averaged for any three (3) consecutive Fiscal Months exceeds 1.5%;

(n) the Delinquency Ratio averaged for any two (2) consecutive Fiscal Months exceeds 11.0%; or

(o) the Purchase Agreement shall be terminated or the Transferor or LADD shall default in any material respect in the performance of its obligations thereunder; or

(p) the Designated Subsidiaries Receivables Purchase Agreement shall be terminated or LADD or any Designated Subsidiary shall default in any material respect in the performance of its obligations thereunder.

SECTION 7.2. Termination. (a) If a Termination Event occurs, the Company may, by notice to the Transferor, declare all outstanding Tranche Periods to be ended and designate the Base Rate plus 2% to be applicable to the Net Investment.

(b) In addition, if any Termination Event occurs the Company and the Collateral Agent shall have all of the rights and remedies provided to a secured creditor or a purchaser of accounts under the UCC by applicable law in respect thereto.

## ARTICLE VIII

### INDEMNIFICATION; EXPENSES; RELATED MATTERS

SECTION 8.1. Indemnities by the Transferor. Without limiting any other rights which the Company may have hereunder or under applicable law, the Transferor hereby agrees to indemnify the Company, the Liquidity Provider and the Credit Support Provider and any permitted assigns and their respective officers, directors and employees (collectively, "Indemnified Parties") from and against any and all damages, losses, claims, liabilities, costs and expenses, including reasonable attorneys' fees (which such attorneys may be employees of the Liquidity Provider, the Credit Support Provider or the Company) and disbursements (all of the foregoing being collectively referred to as "Indemnified Amounts") awarded against or incurred by any of them arising out of or as a result of a breach of any representation or warranty

or covenant made by Transferor of this Agreement or the ownership, either directly or indirectly, by the Company of the Transferred Interest excluding, however, (i) Indemnified Amounts to the extent resulting from gross negligence or willful misconduct on the part of an Indemnified Party or (ii) recourse (except as otherwise specifically provided in this Agreement) for uncollectible Receivables. Without limiting the generality of the foregoing, the Transferor shall indemnify each Indemnified Party for Indemnified Amounts relating to or resulting from:

(i) reliance on any representation or warranty made by the Transferor, LADD, or any Designated Subsidiary (or any officers of any of them) under or in connection with this Agreement, the Purchase Agreement, the Designated Subsidiaries Receivables Purchase Agreement, any Investor Report or any other information or report delivered by the Transferor, LADD, or a Designated Subsidiary pursuant hereto or pursuant to the Purchase Agreement or the Designated Subsidiaries Receivables Purchase Agreement, which shall have been false or incorrect in any material respect when made or deemed made;

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(ii) the failure by the Transferor, LADD, or any Designated Subsidiary to comply with any applicable law, rule or regulation with respect to any Receivable or the related Contract, or the nonconformity of any Receivable or the related Contract with any such applicable law, rule or regulation;

(iii) the failure to vest and maintain vested in the Company an undivided percentage ownership interest, to the extent of the Transferred Interest, in the Receivables free and clear of any Adverse Claim;

(iv) the failure to file, or any delay in filing, financing statements, continuation statements, or other similar instruments

or documents under the UCC of any applicable jurisdiction or other applicable laws with respect to any Receivable;

(v) any dispute, claim, offset or defense (other than discharge in bankruptcy) of the Obligor to the payment of any Receivable (including, without limitation, a defense based on such Receivable or the related Contract not being legal, valid and binding obligation of such Obligor enforceable against it in accordance with its terms), or any other claim resulting from the sale of merchandise or services related to such Receivable or the furnishing or failure to furnish such merchandise or services;

(vi) any failure of the Transferor or LADD, as Collection Agent or otherwise, to perform its duties or obligations in accordance with the provisions of Article VI; or

(vii) any products liability claim or personal injury or property damage suit or other similar or related claim or action of whatever sort arising out of or in connection with merchandise or services which are the subject of any Receivable;

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provided, however, that if the Company enters into agreements for the purchase of interests in receivables from one or more Other Transferors, the Company shall allocate such Indemnified Amounts which are in connection with the Liquidity Provider Agreement, the Credit Support Agreement or the credit support furnished by the Credit Support Provider ratably to the Transferor and each Other Transferor; and provided, further, that if such Indemnified Amounts are attributable to the Transferor and not attributable to any Other Transferor, the Transferor shall be solely liable for such Indemnified Amounts or if such Indemnified Amounts are attributable to Other Transferors and not attributable to the Transferor such Other Transferors shall be solely liable for such Indemnified Amounts.

SECTION 8.2. Indemnity for Taxes, Reserves and

Expenses. (a) If after the date hereof, the adoption of any Law or bank regulatory guideline or any amendment or change in the interpretation of any existing or future Law or bank regulatory guideline by any Official Body charged with the administration, interpretation or application thereof, or the compliance with any directive of any Official Body (in the case of any bank regulatory guideline, whether or not having the force of Law):

(i) shall subject any Indemnified Party to any tax, duty or other charge with respect to this Agreement, the Transferred Interest, the Receivables or payments of amounts due hereunder, or shall change the basis of taxation of payments to any Indemnified Party of amounts payable in respect of this Agreement, the Transferred Interest, the Receivables or payments of amounts due hereunder or its obligation to advance funds under the Liquidity Provider Agreement or the credit support furnished by the Credit Support Provider or otherwise in respect of this Agreement, the Transferred Interest or the Receivables (except for changes in the rate of general corporate, franchise, net income or other income tax imposed on such Indemnified Party by the jurisdiction in which such Indemnified Party's principal executive office is located);

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(ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System) against assets of, deposits with or for the account of, or credit extended by, any Indemnified Party or shall impose on any Indemnified Party or on the United States market for certificates of deposit or the London interbank market any other condition affecting this Agreement, the Transferred Interest, the Receivables or payments of amounts due hereunder or its obligation to advance funds under the Liquidity Provider Agreement or the credit support provided by the Credit Support Provider or

otherwise in respect of this Agreement, the Transferred Interest or the Receivables; or

(iii) imposes upon any Indemnified Party any other expense (including, without limitation, reasonable attorneys' fees and expenses, and expenses of litigation or preparation therefor in contesting any of the foregoing) with respect to this Agreement, the Transferred Interest, the Receivables or payments of amounts due hereunder or its obligation to advance funds under the Liquidity Provider Agreement or the credit support furnished by the Credit Support Provider or otherwise in respect of this Agreement, the Transferred Interests or the Receivables,

and the result of any of the foregoing is to increase the cost to such Indemnified Party with respect to this Agreement, the Transferred Interest, the Receivables, the obligations hereunder, the funding of any purchases hereunder, the Liquidity Provider Agreement or the Credit Support Agreement, by an amount deemed by such Indemnified Party to be material, then, within ten (10) days after demand by the Company, the Transferor shall be obligated to pay to the Company such additional amount or amounts as will compensate such Indemnified Party for such increased cost or reduction.

(b) If any Indemnified Party shall have determined that after the date hereof, the adoption of

any applicable Law or bank regulatory guideline regarding capital adequacy, or any change therein, or any change in the interpretation thereof by any Official Body, or any directive regarding capital adequacy (in the case of any bank regulatory guideline, whether or not having the force of law) of any such Official Body, has or would have the effect of reducing the rate of return on capital of such Indemnified Party (or its parent) as a consequence of such Indemnified Party's obligations hereunder or with respect hereto to a level below that which such Indemnified Party (or its parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Indemnified Party to be material, then from time to time, within ten (10)

days after demand by the Company, the Transferor shall be obligated to pay to the Company such additional amount or amounts as will compensate such Indemnified Party (or its parent) for such reduction.

(c) The Company will promptly notify the Transferor of any event of which it has knowledge, occurring after the date hereof, which will entitle an Indemnified Party to compensation pursuant to this Section. A notice by the Company claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, the Company may use any reasonable averaging and attributing methods.

(d) Anything in this Section 8.2 to the contrary notwithstanding, if the Company enters into agreements for the acquisition of interests in receivables from one or more Other Transferors, the Company shall allocate the liability for any amounts under this Section 8.2 ("Section 8.2 Costs") to the Transferor and each Other Transferor; and provided, further, that if such Section 8.2 Costs are attributable to the Transferor and not attributable to any Other Transferor, the Transferor shall be solely liable for such Section 8.2 Costs or if such Section 8.2 Costs are attributable to Other Transferors and not attributable to the Transferor, such Other Transferors shall be solely liable for such Section 8.2 Costs.

SECTION 8.3. Other Costs, Expenses and Related Matters. (a) The Transferor shall be obligated to pay, upon receipt of a written invoice, and to save the Company and the Administrative Agent harmless against liability for the payment of, all reasonable out-of-pocket expenses (including, without limitation, attorneys', accountant's and other third parties' fees and expenses, any filing fees and expenses incurred by officers or employees of the Company) incurred by or on behalf of the Company and the Administrative Agent (i) in connection with the negotiation, execution, delivery and preparation of this Agreement and any documents or instruments delivered pursuant hereto and the transactions contemplated

hereby (including, without limitation, the perfection or protection of the Transferred Interest) and (ii) from time to time (a) relating to any amendments, waivers or consents under this Agreement, the Purchase Agreement or the Designated Subsidiaries Receivables Purchase Agreement, (b) arising in connection with the Company's or its agent's enforcement or preservation of rights (including, without limitation, the perfection and protection of the Transferred Interest under this Agreement), or (c) arising in connection with any audit, dispute, disagreement, litigation or preparation for litigation involving this Agreement the Purchase Agreement or the Designated Subsidiaries Receivables Purchase Agreement (all of such amounts, collectively, "Transaction Costs").

(b) The Transferor and the Designated Subsidiaries, jointly and severally, shall be obligated to pay to the Company on demand any Early Collection Fee due on account of the reduction of a Tranche on a day prior to the last day of its Tranche Period.

SECTION 8.4. Reconveyance Under Certain Circumstances. (a) Transferor agrees to accept the reconveyance from the Company of the Transferred Interest if the Company notifies Transferor of a material breach of any representation or warranty made or deemed made pursuant to Sections 3.1(a), 3.1(b), 3.1(c), 3.1(f), 3.1(i), 3.1(k) or 3.1(q) of this Agreement and Transferor shall fail to cure such breach within 30 days of such notice. The reconveyance price shall be paid by the Transferor to the Company in immediately available funds on such 30th day in an amount equal to the Aggregate Unpaid.

(b) In the event of a material breach of any representation or warranty made or deemed made pursuant to Sections 3.1(d), 3.1(e), 3.1(g), 3.1(h), 3.1(j),

3.1(l), 3.1(m), 3.1(p) or 3.1(r), the Transferor agrees to accept the reconveyance from the Company of the Transferred Interest in any Receivable created on and after the date of such breach if the Company notifies Transferor of such breach and the Transferor shall fail to cure such breach within 30 days (or, in the case of the representations and warranties in Sections 3.1(d) and 3.1(j), 3 days) of such notice. The reconveyance price shall be paid by the Transferor to the Company in immediately available funds on such 30th day (or 3rd day, if applicable) in an amount equal to the Outstanding Balance of

ARTICLE IX

MISCELLANEOUS

SECTION 9.1. Term of Agreement. This Agreement shall terminate following the Termination Date when the Net Investment has been reduced to zero, all accrued Discount has been paid in full and all other Aggregate Unpays have been paid in full; provided, however, that (i) the rights and remedies of the Company with respect to any representation and warranty made or deemed to be made by Transferor pursuant to this Agreement, (ii) the indemnification and payment provisions of Article VIII, and (iii) the agreement set forth in Section 9.9, shall be continuing and shall survive any termination of this Agreement.

SECTION 9.2. Waivers; Amendments. No failure or delay on the part of any party to this Agreement in exercising any power, right or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or remedy preclude any other further exercise thereof or the exercise of any other power, right or remedy. The rights and remedies herein provided shall be cumulative and nonexclusive of any rights or remedies provided by law. Any provision of this Agreement may be amended if, but only if, such amendment is in writing and is signed by the Transferor, the Company and the Designated Subsidiaries.

SECTION 9.3. Notices. Except as provided below, all communications and notices provided for hereunder shall be in writing (including bank wire, telex, telecopy or electronic facsimile transmission or similar writing) and shall be given to the other party at its address or telecopy number set forth below or at such other address or telecopy number as such party may hereafter specify for the purposes of notice to such party. Each such notice or other communication shall be effective (i) if given by telecopy, when such telecopy is transmitted to the telecopy number specified in this Section and confirmation is received, (ii) if given by mail 3 Business Days following such posting, or (iii) if

given by any other means, when received at the address specified in this Section. However, anything in this Section to the contrary notwithstanding, the Transferor hereby authorizes the Company to effect Transfers, Tranche Period and Tranche Rate selections based on

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telephonic notices made by any Person which the Company in good faith believes to be acting on behalf of the Transferor. The Transferor agrees to deliver promptly to the Company a written confirmation of each telephonic notice signed by an authorized officer of Transferor. However, the absence of such confirmation shall not affect the validity of such notice. If the written confirmation differs in any material respect from the action taken by the Company, the records of the Company shall govern absent manifest error.

If to the Company:

Enterprise Funding Corporation  
c/o Merrill Lynch Money Markets Inc.  
World Financial Center--South Tower  
225 Liberty Street  
New York, New York 10218  
Telephone: (212) 236-7200  
Telecopy: (212) 236-7584  
Account Information:  
Bankers Trust Company  
ABA No.:021001033  
Account No.:01419647  
Reference:Enterprise Funding Attn. JR  
Angelo, FFC EFC-LADD Funding Corp.

(with a copy to the Administrative Agent)

If to the Transferor:

LADD Funding Corp.  
William S. Creekmuir  
Vice President, Treasurer and Secretary  
One Plaza Center  
Box HP3  
High Point, NC 27261-1500  
Telephone: (910) 410-6601  
Telecopy: (910) 888-6344  
Account Information:  
NationsBank, N.A. (Carolinas)

ABA No.:053000196  
Account No.:000286799  
Reference:LADD Funding Corp.

(with a copy to LADD)

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If to LADD or the Designated Subsidiaries:

LADD Furniture, Inc.  
William S. Creekmuir  
Senior V.P. and CFO  
One Plaza Center  
Box HP3  
High Point, NC 27261-1500  
Telephone: (910) 889-0333  
Telecopy: (910) 888-6344

with copy to:

Petree Stockton, L.L.P.  
3500 One First Union Center  
Charlotte, NC 28202-6001  
Attention: Eileen M. Taylor  
Telephone: (704) 338-5000  
Telecopy: (704) 338-5125

If to the Collateral Agent:

NationsBank, National Association  
(Carolinas)  
NationsBank Corporate Center--7th Floor  
Charlotte, NC 28255  
Attention: Michelle M. Heath--  
Investment Banking  
Telephone: (704) 386-7922  
Telecopy: (704) 388-9169

If to the Administrative Agent:

NationsBank, National Association  
(Carolinas)  
NationsBank Corporate Center--7th Floor  
Charlotte, NC 28255  
Attention: Michelle M. Heath--  
Investment Banking  
Telephone: (704) 386-7922

SECTION 9.4. Governing Law; Submission to Jurisdiction; Integration. (a) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA. THE PARTIES HERETO HEREBY SUBMIT TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW

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YORK AND OF ANY NEW YORK STATE COURT SITTING IN THE CITY OF NEW YORK AND OF ANY FEDERAL OR STATE COURT SITTING IN CHARLOTTE, NORTH CAROLINA FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. The parties hereto hereby irrevocably waive, to the fullest extent it may effectively do so, any objection which they may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. Nothing in this Section 9.4 shall affect the right of the Company to bring any action or proceeding against the Transferor, any Designated Subsidiary or its property in the courts of other jurisdictions.

(b) This Agreement contains the final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof and shall constitute the entire Agreement among the parties hereto with respect to the subject matter hereof superseding all prior oral or written understandings.

SECTION 9.5. Severability; Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same Agreement. Any provisions of this Agreement which are prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 9.6. Successors and Assigns. (a) This Agreement shall be binding on the parties hereto and their respective successors and assigns; provided, however, that the Transferor may not assign any of its rights or delegate any of its duties hereunder without the prior written consent of the Company. No provision of this Agreement shall in any manner restrict the ability of the Company to assign, participate, grant security interests in, or otherwise transfer any portion of the Transferred Interest.

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(b) The Transferor hereby agrees and consents to the complete assignment by the Company of all of its rights under, interest in, title to and obligations under this Agreement to the Collateral Agent.

SECTION 9.7. Waiver of Confidentiality. The Transferor hereby consents to the disclosure of any non-public information with respect to it received by the Company or the Administrative Agent to any of the Company, any nationally recognized rating agency rating the Company's commercial paper, the Administrative Agent, the Collateral Agent, the Liquidity Provider or the Credit Support Provider in relation to this Agreement.

SECTION 9.8. Confidentiality Agreement. The Transferor, LADD and each Designated Subsidiary hereby agrees that it will not disclose the contents of this Agreement or any other proprietary or confidential information of the Company, the Collateral Agent, the Administrative Agent, the Liquidity Provider or the Credit Support Provider to any other Person except (i) its auditors and attorneys, directors, employees, financial advisors (other than any commercial bank, except as provided below) and any nationally recognized rating agency, provided such auditors, attorneys, employees, financial advisors or rating agencies are informed of the highly confidential nature of such information or (ii) as otherwise required by applicable law or order of a court of competent jurisdiction or generally acceptable accounting principles. If this Agreement shall be otherwise publicly available, the Transferor may provide a copy thereof to any person upon such person's reasonable request. Notwithstanding the foregoing, if this Agreement is not otherwise publicly available, with respect to

lenders to LADD, LADD may provide a copy of this Agreement to such lenders only if required to do so pursuant to the terms at any agreement between LADD and such lenders existing on the date hereof. If not so required to do so pursuant to the terms of such an agreement with lenders and if this Agreement is not otherwise publicly available, LADD shall be permitted to disclose the terms of this Agreement, to the extent such terms relate to the amount of the Net Investment and the Facility Limit and the tenor hereof; provided, however, that LADD shall not disclose the fees set forth in the Fee Letter or the calculation of the Percentage Interest.

SECTION 9.9. Confidentiality Agreement of the Company. Subject to Section 9.7, the Company hereby

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agrees, and covenants to use its best efforts to cause the Administrative Agent to agree, that it will not disclose the contents of this Agreement or any other proprietary or confidential information of the Transferor, LADD, and the Designated Subsidiaries to any other Person except (i) the Company's auditors and attorneys, employees, and financial advisors provided, such auditors, attorneys, employees, or financial advisors are informed of the highly confidential nature of such information or (ii) as otherwise required by applicable law or order of a court of competent jurisdiction or generally accepted accounting principles.

SECTION 9.10. No Bankruptcy Petition Against the Company. The Transferor, LADD and each Designated Subsidiary hereby covenants and agrees that, prior to the date which is one year and one day after the payment in full of all outstanding Commercial Paper or other indebtedness of the Company, it will not institute against, or join any other Person in instituting against, the Company any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or other similar proceeding under the laws of the United States or any state of the United States.

SECTION 9.11. No Recourse Against Stockholders, Officers or Directors. No recourse under any obligation, covenant or agreement of the Company contained in this Agreement shall be had against Merrill Lynch Money Markets Inc. (or any affiliate thereof), or any stockholder, officer or director of the Company, as such, by the enforcement of any assessment or by any legal or

equitable proceeding, by virtue of any statute or otherwise; it being expressly agreed and understood that this Agreement is solely a corporate obligation of the Company, and that no personal liability whatever shall attach to or be incurred by Merrill Lynch Money Markets Inc. (or any affiliate thereof), or the stockholders, officers or directors of the buyer, as such, or any of them, under or by reason of any of the obligations, covenants or agreements of the Company contained in this Agreement, or implied therefrom, and that any and all personal liability for breaches by the Company of any of such obligations, covenants or agreements, either at common law or at equity, or by statute or constitution, of Merrill Lynch Money Markets Inc. (or any affiliate thereof) and every such stockholder, officer or director is hereby expressly waived as a condition of and consideration for the execution of this Agreement.

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SECTION 9.12. Characterization of the Transactions Contemplated by the Agreement. It is the intention of the parties that the transactions contemplated hereby constitute the sale of the Transferred Interest, conveying good title thereto free and clear of any Adverse Claims to the Company and that the Transferred Interest not be part of the Transferor's estate in the event of an insolvency. If, notwithstanding the foregoing, the transactions contemplated hereby should be deemed a financing, the parties intend that the Transferor shall be deemed to have granted to the Company, and the Transferor hereby grants to the Company, a first priority perfected security interest in all of the Transferor's right, title and interest in, to and under the Receivables, together with Related Security and Collections with respect thereto and together with all of the Transferor's rights under the Purchase Agreement with respect to the Receivables and LADD's obligations thereunder as seller of the Receivables (including all of the Transferor's rights under the Designated Subsidiaries Receivables Purchase Agreement with respect to the Receivables and any Designated Subsidiary's obligations thereunder as seller of the Receivables), and that this Agreement shall constitute a security agreement under applicable law. The Transferor hereby assigns to the Company all of its rights under the Purchase Agreement with respect to the Receivables and with respect to any obligations thereunder of LADD as seller of the Receivables (including all of the Transferor's rights under the Designated Subsid-

iaries Receivables Purchase Agreement with respect to the Receivables and with respect to obligations thereunder of any Designated Subsidiary as a seller of Receivables).

SECTION 9.13. Company Certificate. The Transferor shall maintain a register in which it shall record the name and address of each holder of the Company Certificate. The initial holder thereof shall be the Company. Each holder of the Company Certificate agrees to give the Transferor prompt notice of any transfer of the Company Certificate as well as the name and address of any subsequent holder thereof. Prior to the presentation of the Company Certificate for registration of transfer, the Company may treat the Person in whose name the Company Certificate is registered as owner hereunder for all purposes whatsoever.

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Transfer and Administration Agreement as of the date first written above.

ENTERPRISE FUNDING CORPORATION,  
as Company

By:

Name:

Title:

LADD FUNDING CORP.,  
as Transferor

By: (Signature of William S. Creekmuir)

Name: William S. Creekmuir

Title: V.P., Secr. & Treas.

LADD FURNITURE, INC.,  
as Collection Agent

By: (Signature of William S. Creekmuir)

Name: William S. Creekmuir



LADD FUNDING CORP.  
Buyer

and

LADD FURNITURE, INC.  
Seller

RECEIVABLES PURCHASE AGREEMENT

Dated as of March 30, 1995

RECEIVABLES PURCHASE AGREEMENT

RECEIVABLES PURCHASE AGREEMENT, dated as of March 30, 1995, between LADD FURNITURE, INC., a North Carolina corporation ("Seller") and LADD FUNDING CORP., a Delaware corporation("the "Buyer").

W I T N E S S E T H :

WHEREAS, the Buyer desires to purchase from time to time certain trade accounts receivable of certain Obligors existing on the Effective Date (as hereinafter defined) and acquired or generated thereafter in the normal course of the Seller's business pursuant to written agreements or with invoices on open accounts;

WHEREAS, the Seller desires to sell and assign from time to time certain trade accounts receivable to the Buyer upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, it is hereby agreed by and between the Buyer and the Seller as follows:

## ARTICLE I

### DEFINITIONS

Section 1.1 Definitions. All capitalized terms used herein shall have the meanings specified herein or, if not so specified, the meaning specified in the Transfer Agreement, and shall include in the singular number the plural and in the plural number the singular:

"Buyer" shall mean LADD Funding Corp. and its successors and assigns.

"Charge-Off Ratio" means, for any period of determination, the ratio (expressed as a percentage) computed as of the last day of such period by dividing (i) the aggregate Outstanding Balance of all Receivables which became Defaulted Receivables during such period, by (ii) the aggregate amount of Collections during such period less Deemed Collections for the period.

"Collections" means, with respect to any Receivable, all cash collections and other cash proceeds of such Receivable, including, without limitation, all Finance Charges, if any, and cash proceeds of Related Security with respect to such Receivable.

"Contract" means an agreement or invoice in substantially the form of one of the forms set forth in Exhibit A to the Transfer Agreement or otherwise approved by the Buyer, pursuant to or under which an Obligor shall be obligated to pay for merchandise purchased or services rendered.

"Conveyance Papers" shall have the meaning set forth in Section 4.1(b) hereof.

"Credit and Collection Policy" shall mean each of the Seller's and the Designated Subsidiaries' credit and collection policy or policies and practices, relating to Contracts and Receivables as in effect on the Closing Date and referred to in Exhibit B to the Transfer Agreement, as modified by the Seller from time to time in accordance with Section 5.1(1).

"Designated Subsidiary" means each of Clayton-Marcus Company Inc., Barclay Furniture Co. and Pilliod Furniture Inc., and such other wholly-owned subsidiaries of the Buyer as (i) become parties to this Agreement and (ii) are consented to in writing by the Buyer and Enterprise to be "Designated Subsidiaries" hereunder.

"Designated Subsidiaries Receivables Purchase Agreement" means the Receivables Purchase Agreement, dated as of March 30, 1995, among LADD Furniture, Inc., as buyer, and the Designated Subsidiaries, as sellers, as the same may be amended, supplemented or modified from time to time.

"Effective Date" shall have the meaning set forth in the Transfer Agreement.

"Eligible Receivable" means, at any time, any Receivable:

(i) which has been originated either by (i) the Seller, or (ii) a Designated Subsidiary and sold by such Designated Subsidiary

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to the Seller pursuant to the Designated Subsidiaries Receivables Purchase Agreement and to which such Designated Subsidiary originally had good title thereto and, in each case, to which the Seller has good title to, in each case free and clear of all Adverse Claims;

(ii) the Obligor of which is a United States resident, is a Designated Obligor at the time of the initial creation of an interest therein hereunder, is not an Affiliate of any of the parties hereto, and is not a government or a governmental subdivision or agency; provided, however, that Receivables with an aggregate Outstanding Balance not greater than 4% of the aggregate Outstanding Balance of all Receivables may be originated by Obligors which are Canadian residents;

(iii) which is not a Defaulted Receivable at the time of the initial creation of an interest of the Buyer therein;

(iv) which is not a Delinquent Receivable at the time of the initial creation of an interest of the Buyer therein;

(v) which, according to the Contract related thereto, is required to be paid in full within 180 days of the original billing date therefor;

(vi) which is an "eligible asset" as defined in Rule 3a-7 under the Investment Company Act of 1940, as amended;

(vii) a purchase of which with the proceeds of Commercial Paper would constitute a "current transaction" within the meaning of Section 3(a)(3) of the Securities Act of 1933, as amended;

(viii) which is an "account" within the meaning of Article 9 of the UCC of all applicable jurisdictions;

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(ix) which is denominated and payable only in United States dollars in the United States;

(x) which arises under a Contract that, together with the Receivable related thereto, is in full force and effect and constitutes the legal, valid and binding obligation of the related Obligor enforceable against such Obligor in accordance with its terms and is not subject to any offset, counterclaim or other defense at such time;

(xi) which, together with the Contract related thereto, does not contravene in any material respect any laws, rules or regulations applicable thereto (including, without limitation, laws, rules and regulations relating to truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy) and with respect to which no part of

the Contract related thereto is in violation of any such law, rule or regulation in any material respect;

(xii) which (A) satisfies, in all material respects, all applicable requirements of the applicable Credit and Collection Policy, and (B) is assignable without the consent of, or notice to, the Obligor thereunder;

(xiii) which was generated in the ordinary course of the Seller's or a Designated Subsidiary's business; and

(xiv) the Obligor of which has been directed to make all payments to a specified account of the Collection Agent with respect to which there shall be a Lock-Box Agreement in effect.

"Enterprise" shall mean Enterprise Funding Corporation, a Delaware corporation, and its successors and assigns.

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"Permitted Assignee" shall have the meaning set forth in Section 9.5 hereof.

"Purchase Discount" shall mean for any day, an amount, calculated in good faith by the Buyer, equal to the decimal equivalent of the sum of (i) the product of (A) the sum of (x) the "AA" rated commercial paper index rate for a maturity most closely corresponding to the Estimated Maturity Period and (y) 0.50% (servicing fee) and (z) 1.40% and (B) a fraction the numerator of which is the Estimated Maturity Period of the Receivables and the denominator of which is 360, plus (ii) the decimal equivalent of the average Charge-Off Ratio with respect to the prior three Fiscal Months.

"Purchase Price" shall have the meaning set forth in Section 3.1 hereof.

"Receivable" means the indebtedness originally owed to the Seller or to a Designated Subsidiary by any Obligor (without giving effect to any purchase hereunder

by the Buyer at any time) under a Contract whether constituting an account, chattel paper, instrument or general intangible, arising in connection with the sale of merchandise or services by the Seller or such Designated Subsidiary, and, in the case of indebtedness owed to a Designated Subsidiary, sold to the Seller in accordance with the Designated Subsidiaries Receivables Purchase Agreement, and which, in all cases shall include the right to payment of any Finance Charges and other obligations of such Obligor with respect thereto.

"Related Security" means with respect to any Receivable:

(i) all of the Seller's interest, if any, in the merchandise (including returned merchandise), if any, the sale of which by the Seller or Designated Subsidiary gave rise to such Receivable;

(ii) all other security interests or liens and property subject thereto from time to time, if any, purporting to secure payment of such Receivable, whether pursuant to the Contract related to such Receivable or otherwise, together with all financing state-

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ments signed by an Obligor describing any collateral securing such Receivable;

(iii) all guarantees, insurance or other agreements or arrangements of any kind from time to time supporting or securing payment of such Receivable whether pursuant to the Contract related to such Receivable or otherwise; and

(iv) all Records.

"Revolving Subordinated Note" shall mean the note executed by the Buyer in favor of the Seller substantially in the form of Exhibit A attached hereto.

"Seller" shall mean LADD Furniture, Inc. and its respective successors and assigns.

"Secured Obligations" shall have the meaning set forth in Section 2.1(d) hereof.

"Transfer Agreement" shall mean the Transfer and Administration Agreement dated as of March 30, 1995 among the Buyer, as transferor, LADD Furniture, Inc., as collection agent and Enterprise, as such agreement may be amended, modified or supplemented from time to time.

Section 1.2 Other Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles. All terms used in Article 9 of the UCC in the State of North Carolina, and not specifically defined herein, are used herein as defined in such Article 9.

Section 1.3 Computation of Time Periods. Unless otherwise stated in this Agreement, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

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## ARTICLE II

### PURCHASE, CONVEYANCE AND SERVICING OF RECEIVABLES

Section 2.1 Sale. (a) Upon the terms and subject to the conditions set forth herein, the Seller hereby sells, assigns, transfers and conveys to the Buyer, and the Buyer hereby purchases from the Seller, on the terms and subject to the conditions specifically set forth herein, all of the Seller's right, title and interest, whether now owned or hereafter acquired, in, to and under all Receivables outstanding on the Effective Date and thereafter owned by the Seller, whether created by Seller or by a Designated Subsidiary, in each case, together with all Related Security and Collections with respect thereto and all proceeds of the foregoing. The foregoing sale, assignment, transfer and conveyance does not constitute an assumption by the Buyer of any obligations of the Seller, any Designated Subsidiary or any other Person to Obligors or to any other Person in con-

nection with the Receivables or under any Related Security or other agreement and instrument relating to the Receivables.

(b) In connection with the foregoing sale, the Seller agrees to record and file on or prior to the Closing Date, at its own expense, a financing statement or statements with respect to the Receivables (including Receivables originated by any Designated Subsidiary) and the other property described in Section 2.1(a) sold by the Seller hereunder meeting the requirements of applicable state law in such manner and in such jurisdictions as are necessary to perfect and protect the interests of the Buyer created hereby under the applicable UCC against all creditors of and purchasers from the Seller and each Designated Subsidiary, and to deliver either the originals of such financing statements or a file-stamped copy of such financing statements or other evidence of such filings to the Buyer on the Closing Date.

(c) The Seller agrees that from time to time, at its expense, it will promptly execute and deliver all instruments and documents and take all actions as may be necessary or as the Buyer may reasonably request in order to perfect or protect the interest of the Buyer in the Receivables purchased hereunder or to enable the Buyer to exercise or enforce any of its rights hereunder. Without

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limiting the foregoing, the Seller will, upon the request of the Buyer, in order to accurately reflect this purchase and sale transaction, execute and file such financing or continuation statements or amendments thereto or assignments thereof (as permitted pursuant hereto) as may be requested by the Buyer and mark its master data processing records and other documents with a legend describing the purchase by the Buyer of the Receivables and the subsequent transfer thereof to Enterprise pursuant to the Transfer Agreement and stating "An interest in these accounts receivable has been conveyed to Enterprise Funding Corporation pursuant to a Transfer and Administration Agreement dated March 30, 1995." The Seller shall, upon request of the Buyer, obtain such additional search reports as the Buyer shall request. To the fullest extent permitted by applicable law, the Buyer shall be permitted to sign and file continuation statements and amendments thereto and assignments thereof without the Seller's signature. Carbon, photographic or other repro-

duction of this Agreement or any financing statement shall be sufficient as a financing statement.

(d) It is the express intent of the Seller and the Buyer that the conveyance of the Receivables by the Seller to the Buyer pursuant to this Agreement be construed as a sale of such Receivables by the Seller to the Buyer. It is, further, not the intention of the Seller and the Buyer that such conveyance be deemed a grant of a security interest in the Receivables by the Seller to the Buyer to secure a debt or other obligation of the Seller. However, in the event that, notwithstanding the intent of the parties, the Receivables are held to continue to be property of the Seller, then (i) this Agreement also shall be deemed to be and hereby is a security agreement within the meaning of the UCC; and (ii) the conveyance by the Seller provided for in this Agreement shall be deemed to be, and the Seller hereby grants to the Buyer, a security interest in and to all of the Seller's right, title and interest in all Receivables outstanding on the Effective Date and thereafter owned by the Seller, whether created by the Seller or by a Designated Subsidiary, in each case, together with all Related Security and Collections with respect thereto and all proceeds of the foregoing to secure (1) the rights of the Buyer and (2) a loan to the Seller in the amount of the Purchase Price as set forth in this Agreement (the "Secured Obligations"). The Seller and the Buyer shall, to the extent consistent

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with this Agreement, take such actions as may be necessary to ensure that, if this Agreement were deemed to create a security interest in the Receivables, such security interest would be deemed to be a perfected security interest of first priority in favor of the Buyer under applicable law and will be maintained as such throughout the term of this Agreement.

Section 2.2 Servicing of Receivables. The servicing, administering and collection of the Receivables shall be conducted by the Seller, who hereby agrees to perform, take or cause to be taken all such action as may be necessary or advisable to collect each Receivable from time to time, all in accordance with applicable laws, rules and regulations, and with the care and diligence which the Seller employs in servicing similar receivables for its own account, in accordance with the Credit and Collection Policy. The Buyer hereby appoints

the Seller as its agent to enforce the Buyer's rights and interests in and under the Receivables, the Related Security and the Contracts. The Seller shall hold in trust for the Buyer, in accordance with its interests, all Records which evidence or relate to Receivables or Related Security. Notwithstanding anything to the contrary contained herein, from and after the occurrence of a Termination Event or a Potential Termination Event (each as defined in the Transfer Agreement) the Buyer or Enterprise shall have the absolute and unlimited right to terminate the Seller's servicing activities described in this Section 2.2. In consideration of the foregoing, the Buyer agrees to pay the Seller a servicing fee of one-half of one percent per annum on the Outstanding Balance of the Receivables, payable monthly, for its performance of the duties and obligations described in this Section 2.2.

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### ARTICLE III

#### CONSIDERATION AND PAYMENT

Section 3.1 Purchase Price. The Purchase Price for the Receivables and related property conveyed to the Buyer by the Seller under this Agreement shall be a dollar amount equal to (a) for Receivables transferred by Seller on the date of the initial Incremental Transfer under the Transfer Agreement, the product of (i) the aggregate Outstanding Balance of all Receivables as of the Effective Date and (ii) one minus the then applicable Purchase Discount, and (b) for Receivables transferred by the Seller on any date thereafter, the product of (i) the aggregate Outstanding Balance of the Receivables transferred on such date and (ii) one minus the Purchase Discount applicable on such date.

Section 3.2 Payment of Purchase Price. The Purchase Price for Receivables shall be paid or provided for on the Effective Date with respect to the Receivables existing on the Effective Date and on the last Business Day of each Fiscal Month thereafter during which Receivables are sold hereunder, as the case may be, (i) by payment in immediately available funds to the extent such

funds are available in excess of necessary working capital and (ii) to the extent such funds are not available, by increasing the amount due the Seller under the Revolving Subordinated Note by notation thereon; provided, however, that the amount of the Revolving Subordinated Note on any Business Day shall not exceed 80% of (x) the aggregate Purchase Price of the Receivables purchased hereunder existing on such Business Day minus (y) an amount equal to the Net Investment (as defined in the Transfer Agreement). To the extent that the total Purchase Price for Receivables is not paid in full by the Buyer on the Effective Date or on each Business Day on which Receivables are purchased hereunder either in cash or by an increase in the principal amount of the Revolving Subordinated Note, as the case may be, the Seller shall be deemed to have contributed to the Buyer Receivables in an aggregate principal amount equal to such shortfall.

Section 3.3 Monthly Report. At the end of each Fiscal Month, the Seller shall deliver to the Buyer a monthly report showing (i) the aggregate Purchase Price

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of Receivables acquired or generated by the Seller in the preceding month and (ii) the aggregate Outstanding Balance of such Receivables that are Eligible Receivables.

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## ARTICLE IV

### REPRESENTATIONS AND WARRANTIES

Section 4.1 Seller's Representations and Warranties. The Seller represents and warrants to the Buyer as of the Closing Date and on the Effective Date, and shall be deemed to represent and warrant as of the date of the creation of any Receivable sold to the Buyer pursuant to this Agreement that:

(a) Corporate Existence and Power. The Seller is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all corporate power and all material governmental licenses, authorizations, consents and approvals required to carry on its business in each jurisdiction in which its business is now conducted.

(b) Corporate and Governmental Authorization; Contravention. The execution, delivery and performance by the Seller of this Agreement, and each other document or instrument to be delivered by the Seller hereunder (collectively, "Conveyance Papers") and the Designated Subsidiaries Receivables Purchase Agreement is within the Seller's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official (except as contemplated by Section 2.1(c)), and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the Certificate of Incorporation or Bylaws of the Seller or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Seller or result in the creation or imposition of any lien on assets of the Seller or any of its Subsidiaries (except as contemplated by Section 2.1(c)).

(c) Binding Effect. Each of the Conveyance Papers and the Designated Subsidiaries Receivables Purchase Agreement constitutes the legal, valid and binding obligation of the Seller, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium or other similar laws affecting the rights of creditors.

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(d) Perfection. Immediately preceding each sale hereunder, the Seller shall be the owner of all of the Receivables sold by it hereunder, free and clear of all Adverse Claims. On or prior to the Closing Date, all financing statements and other documents required to be recorded or filed in order to perfect and protect the Buyer's interest in the Receivables against all creditors of and purchasers from the Seller or any Designated Subsidiary will have been either delivered to the Buyer

or duly filed in each filing office necessary for such purpose and all filing fees and taxes, if any, payable in connection with such filings shall have been either delivered to the Buyer or paid in full, as applicable.

(e) Accuracy of Information. All information heretofore furnished by the Seller to the Buyer for purposes of or in connection with this Agreement, the Conveyance Papers, the Designated Subsidiaries Receivables Purchase Agreement or any transaction contemplated in connection therewith is, and all such information hereafter furnished by the Seller to the Buyer will be, true and accurate in every material respect, on the date such information is stated or certified.

(f) Tax Status. The Seller and its Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Seller or any of its Subsidiaries except to the extent that failure to file or pay would not have a material adverse effect on the consolidated financial condition of the Seller or the Buyer's interest in the Receivables and except for any tax which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained. The charges, accruals and reserves on the books of the Seller and its Subsidiaries in respect of taxes and other governmental charges are, in the opinion of the Seller, adequate.

(g) Action, Suits. Except as set forth in Exhibit H to the Transfer Agreement, there are no actions, suits or proceedings pending, or to the knowledge of the Seller threatened, against or affecting the Seller or any Affiliate of the Seller or their respective properties, in or before any court, arbitrator or other body,

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which may materially adversely affect the financial condition of the Seller and its subsidiaries taken as a whole or materially adversely affect the ability of Seller to perform its obligations under this Agreement.

(h) Use of Proceeds. No proceeds of any sale hereunder will be used by the Seller to acquire any security in any transaction which is subject to Section

13 or 14 of the Securities Exchange Act of 1934, as amended.

(i) Place of Business. The chief place of business and chief executive office of the Seller is in High Point, North Carolina and the offices where the Seller keeps all its Records, are located at the address(es) described on Exhibit I to the Transfer Agreement or such other locations notified to the Buyer in accordance with Sections 2.1(b) in jurisdictions where all action required by Section 2.1(b) has been taken and completed.

(j) Good Title. Upon each sale hereunder, the Buyer shall acquire all right, title and interest of the Seller in each Receivable that exists on the date of such sale and in the Related Security and Collections with respect thereto free and clear of any Adverse Claim.

(k) Tradenames, Etc. As of the date hereof: (i) the Seller's chief executive office is located at the address for notices set forth in this Section 4.1; (ii) the Seller has, within the last five (5) years, operated only under the tradenames identified in Exhibit J to the Transfer Agreement, and, within the last five (5) years, has not changed its name, merged with or into or consolidated with any other corporation or been the subject of any proceeding under Title 11, United States Code (Bankruptcy), except as disclosed in Exhibit J attached to the Transfer Agreement.

(l) Nature of Receivables. Each Receivable sold hereunder to the Buyer shall be an Eligible Receivable.

(m) Amount of Receivables. As of the close of business on the second Business Day prior to the Effective Date, the aggregate Outstanding Balance of the

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Receivables in existence shall be as set forth in the certification of the Seller required to be delivered pursuant to Section 7.1(f).

(n) Credit and Collection Policy. Since January 13, 1994, there have been no material changes in the Credit and Collection Policy; since such date, no material adverse change has occurred in the overall rate

of collection of the Receivables.

(o) Not an Investment Company. Each of the Seller and any Designated Subsidiary is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or is exempt from all provisions of such Act.

(p) ERISA. The Seller is in compliance in all material respects with ERISA and no ERISA lien on any of the Receivables shall exist.

(q) Lock-Box Accounts. The names and addresses of all the Lock-Box Banks, together with the account numbers of the Lock-Box Accounts at such Lock-Box Banks, are specified in Exhibit C to the Transfer Agreement (or at such other Lock-Box Banks and/or with such other Lock-Box Accounts as have been notified to the Buyer and for which Lock-Box Agreements have been executed in accordance with Section 2.8(b) of the Transfer Agreement and delivered to the Collection Agent).

Any document, instrument, certificate or notice delivered to the Buyer hereunder shall be deemed a representation and warranty by the Seller delivering such document.

Section 4.2 Reaffirmation of Representations and Warranties by the Seller. On each day that a sale of a Receivable is made hereunder, the Seller, by accepting the proceeds of such sale, shall be deemed to have certified that all representations and warranties described in Section 4.1 are correct with respect to the Seller on and as of such day as though made on and as of such day.

Section 4.3 Representations and Warranties of the Buyer. The Buyer hereby represents and warrants to, and agrees with the Seller, as of the Closing Date and the Effective Date, and shall be deemed to represent and

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warrant as of the date of the creation of any Receivable sold to the Buyer hereunder that:

(a) Organization and Good Standing. The Buyer is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware and

has full power, authority, and legal right to execute, deliver, and perform its obligations under the Conveyance Papers, to conduct its business as such business is presently conducted, and in all material respects, to own its property and conduct its other businesses as such properties are presently owned and such businesses are presently conducted.

(b) Due Qualification. The Buyer is duly qualified to do business and is in good standing as a foreign corporation (or is exempt from such requirements) and has obtained all necessary licenses and approvals with respect to the Buyer in each jurisdiction in which failure to so qualify or to obtain such licenses and approvals would render any Contract or any Receivable unenforceable by the Buyer.

(c) Corporate and Governmental Authorization; Contravention. The execution, delivery and performance by the Buyer of this Agreement is within the Buyer's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official, and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the Certificate of Incorporation or Bylaws of the Buyer or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Buyer or result in the creation or imposition of any lien on assets of the Buyer.

(d) All Consents Required. All approvals, authorizations, licenses, consents, orders, or other actions of any Person or of any governmental body required in connection with the execution and delivery by the Buyer of the Conveyance Papers, the performance by the Buyer of the transactions contemplated by the Conveyance Papers, and the fulfillment of the terms of the Conveyance Papers have been obtained and are in full force and effect.

Section 4.3 Notice of Breach. The representations and warranties set forth in Section 4.1 shall survive the conveyance of the Receivables to the Buyer, and termination of the rights and obligations of the

Buyer and the Seller under this Agreement. Upon discovery by the Buyer or the Seller of a breach of any of the foregoing representations and warranties, the party discovering such breach shall give prompt written notice to the other within three Business Days of such discovery.

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## ARTICLE V

### COVENANTS OF THE SELLER

Section 5.1 Seller's Covenants. The Seller hereby covenants and agrees with the Buyer as follows:

During the term of this Agreement, and until all Receivables sold to the Buyer shall have been paid in full or written-off as uncollectible, and all amounts owed by the Seller pursuant to this Agreement have been paid, unless the Buyer otherwise consents in writing, the Seller covenants and agrees as follows:

(a) Conduct of Business. The Seller will, and will cause each of its Subsidiaries to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted and do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

(b) Compliance with Laws. The Seller will, and will cause each of its Subsidiaries to, comply in all material respects with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject.

(c) Furnishing of Information and Inspection of Records. The Seller will, and will cause each of the Designated Subsidiaries to, furnish to the Buyer from

time to time such information with respect to the Receivables as the Buyer may reasonably request, including, without limitation, listings identifying the Obligor and the Outstanding Balance for each Receivable. The Seller will, and will cause each of the Designated Subsidiaries to, at any time and from time to time during regular business hours permit the Buyer, or its agents or representatives upon three Business Days notice, (i) to examine and make copies of and abstracts from all Records and (ii) to visit the offices and properties of the Seller or the Designated Subsidiary for the purpose of examining such Records, and to discuss matters relating to Receivables or the Seller's or the Designated Subsidiary's

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performance hereunder with any of the officers, directors, employees or independent public accountants of the Seller having knowledge of such matters.

(d) Keeping of Records and Books of Account. The Seller will maintain a system of accounting established and administered in accordance with generally accepted accounting principles, consistently applied, and will maintain for each of its Subsidiaries, a system of accounting established and administered in accordance with accounting practices currently used by LADD Subsidiaries, consistently applied, and will maintain and implement administrative and operating procedures (including, without limitation, an ability to recreate - records evidencing Receivables in the event of the destruction of the originals thereof), and keep and maintain, all documents, books, records and other information reasonably necessary or advisable for the collection of all Receivables (including, without limitation, records adequate to permit the daily identification of each new Receivable and all Collections of and adjustments to each existing Receivable). The Seller will give the Buyer notice of any material change in the administrative and operating procedures referred to in the previous sentence.

(e) Performance and Compliance with Receivables and Contracts. The Seller at its expense will, and will cause each of its Subsidiaries to, timely and fully perform and comply with all material provisions, covenants and other promises required to be observed by it under the Contracts related to the Receivables.

(f) Credit and Collection Policies. The Seller will, and will cause each of the Designated Subsidiaries to, comply in all material respects with the Credit and Collection Policy in regard to each Receivable and the related Contract.

(g) Collections. The Seller shall, and shall cause each of the Designated Subsidiaries to, instruct all Obligors to cause all Collections to be deposited directly to a Lock-Box Account. The Seller may, however, in connection with Obligors which would otherwise be over their credit limit if goods were shipped prior to payment, direct Obligors to make payments directly to the

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Seller which shall deposit such Collections in a Lock-Box Account pursuant to Section 5.1(h) below.

(h) Collections Received. The Seller shall, and shall cause each of the Designated Subsidiaries to hold in trust, and deposit, immediately, but in any event not later than two Business Days of its receipt thereof, to a Lock-Box Account all Collections received from time to time by the Seller or by a Designated Subsidiary.

(i) Sale Treatment. The Seller agrees to treat this conveyance for all purposes (including, without limitation, tax and financial accounting purposes) as a sale and, to the extent any such reporting is required, shall report the transactions contemplated by this Agreement on all relevant books, records, tax returns, financial statements and other applicable documents as a sale of the Receivables to the Buyer.

(j) No Sales, Liens, Etc. Except as otherwise provided herein, the Seller will not, and will not permit any of its Subsidiaries to sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Adverse Claim upon (or the filing of any financing statement) or with respect to, any inventory or goods, the sale of which may give rise to a Receivable or any Receivable or related Contract, or upon or with respect to any account which concentrates in a Lock-Box Bank to which any Collections of any Receivable are sent, or assign any right to receive income in respect thereof.

(k) No Extension or Amendment of Receivables. The Seller will not and will not permit any of the Designated Subsidiaries to extend, amend or otherwise modify the terms of any Receivable, or amend, modify or waive any term or condition of any Contract related thereto.

(l) No Change in Business or Credit and Collection Policy. The Seller will not and will not permit any of the Designated Subsidiaries to make any change in the character of its business or in the Credit and Collection Policy, which change would, in either case, impair the collectibility of any Receivable.

(m) No Mergers, Etc. The Seller will not (i) consolidate or merge with or into any other Person, or

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(ii) sell, lease or transfer all or substantially all of its assets to any other person; provided, however, that the Seller may consolidate or merge with a Person if the Seller shall be the surviving entity and such merger or consolidation does not cause a Termination Event or Potential Termination Event under the Transfer Agreement.

(n) Change in Payment Instructions to Obligors. The Seller will not, and will not permit any of the Designated Subsidiaries to add or terminate any bank as a Lock-Box Bank or any account as a Lock-Box Account to or from those listed in Exhibit C to the Transfer Agreement or make any change in its instructions to Obligors regarding payments to be made to any Lock-Box Account, unless (i) such instructions are to deposit such payments to another existing Lock-Box Account or (ii) the Buyer and the Administrative Agent shall have received written notice of such addition, termination or change at least 30 days prior thereto and the Buyer shall have received a Lock-Box Agreement executed by each new Lock-Box Bank or an existing Lock-Box Bank with respect to each new Lock-Box Account, as applicable.

(o) Deposits to Lock-Box Accounts. The Seller will not, and will not permit any of the Designated Subsidiaries to deposit or otherwise credit, or cause or permit to be so deposited or credited, to any Lock-Box Account cash or cash proceeds other than Collections of Receivables.

(p) Change of Name, Etc. The Seller shall not, and will not permit any of the Designated Subsidiar-

ies to change its name, identity or structure or its chief executive office, unless at least 10 days prior to the effective date of any such change the Seller or the Designated Subsidiary delivers to the Buyer and the Collateral Agent (i) UCC financing statements, executed by the Seller or the Designated Subsidiary, necessary to reflect such change and to continue the perfection of the Buyer's interest in the Receivables and (ii) new or revised Lock-Box Agreements executed by the Lock-Box Banks which reflect such change and enable the Collateral Agent to exercise its rights contained in Section 2.8 of the Transfer Agreement.

(q) Indemnification. The Seller agrees indemnify, defend and hold the Buyer and any Permitted Assign-

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ee harmless from and against any and all loss, liability, damage, judgment, claim, deficiency, or expense (including interest, penalties, reasonable attorneys' fees and amounts paid in settlement) to which the Buyer or such Permitted Assignee may become subject insofar as such loss, liability, damage, judgment, claim, deficiency, or expense arises out of or is based upon a breach by the Seller of its representations, warranties and covenants contained herein, or any information certified in any Schedule delivered by the Seller hereunder or in connection with the Conveyance Papers, being untrue in any respect at any time. The obligations of the Seller under this Section 5.1(q) shall be considered to have been relied upon by the Buyer and Enterprise and shall survive the execution, delivery, performance and termination of this Agreement regardless of any investigation made by the Buyer, any Permitted Assignee or on the behalf of any of them.

(r) ERISA. The Seller shall, and shall cause each of the Designated Subsidiaries to promptly give the Buyer written notice upon becoming aware that the Seller or such Designated Subsidiary is not in compliance in all material respects with ERISA or that any ERISA lien on any of the Receivables exists.

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## ARTICLE VI

## REPURCHASE OBLIGATION

## Section 6.1 Mandatory Repurchase.

(a) Breach of Warranty. If on any day any Receivable sold by the Seller hereunder shall fail to meet the conditions set forth in the definition of Eligible Receivable or any representation or warranty made herein in respect of a Receivable shall no longer be true, the Seller shall be deemed to have received on such day a Collection of such Receivable in full and shall on such day pay to the Buyer an amount equal to the aggregate Outstanding Balance of such Receivable.

(b) Reconveyance Under Certain Circumstances. The Seller agrees that, with respect to any Receivable sold hereunder, in the event of a breach of any of the representations and warranties set forth in Sections 4.1(d), 4.1(e), 4.1(g), 4.1(h), 4.1(j), 4.1(l), 4.1(m) and 4.1(p), the Seller agrees to accept the reconveyance of any Receivable created on and after the date of such breach upon receipt by the Seller of notice given in writing by the Buyer and the Seller's failure to cure such breach within 30 days (or, in the case of representations and warranties found in Sections 4.1(d) and 4.1(j), within 3 days) of such notice. In the event of a reconveyance under this Section 6.1(b), the Seller shall pay to the Buyer in immediately available funds on such 30th day (or third day, if applicable) an amount equal to the Outstanding Balance of any such Receivable.

Section 6.2 Dilutions. The Seller agrees that if on any day the Outstanding Balance of a Receivable sold by the Seller hereunder is either (x) reduced as a result of defective, rejected or returned goods or other dilution factor, any billing adjustment or other adjustment, or (y) reduced or canceled as a result of a setoff or offset in respect of any claim by any Person (whether such claim arises out of the same or a related transaction or an unrelated transaction) then the Seller shall be deemed to have received on such day a collection of such Receivable in the amount of such reduction or cancellation and shall pay to the Buyer an amount equal to such reduction or cancellation.

## ARTICLE VII

## CONDITIONS PRECEDENT

Section 7.1 Conditions to the Buyer's Obligations Regarding Receivables. The obligations of the Buyer to purchase the Receivables on any Business Day shall be subject to the satisfaction of the following conditions:

(a) All representations and warranties of the Seller contained in this Agreement shall be true and correct on the Effective Date and on the day of creation of any Receivable thereafter with the same effect as though such representations and warranties had been made on such date;

(b) All information concerning the Receivables provided to the Buyer shall be true and correct in all material respects as of the Effective Date, in the case of Receivables sold to the Buyer on the Effective Date, or the date such Receivables are created, in the case of Receivables created after the Effective Date;

(c) At the Effective Date, the Seller shall have substantially performed all other obligations required to be performed by the provisions of this Agreement;

(d) With respect to Receivables sold to the Buyer by the Effective Date, the Seller shall have either delivered or caused to be delivered to the Buyer or filed or caused to be filed the financing statement(s) required to be filed pursuant to Section 2.1(b);

(e) All corporate and legal proceedings and all instruments in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to the Buyer, and the Buyer shall have received from the Seller copies of all documents (including, without limitation, records of corporate proceedings) relevant to the transactions herein contemplated as the Buyer may reasonably have requested; and

(f) On the Effective Date, the Seller shall

deliver to the Buyer and Enterprise a certification of the aggregate Outstanding Balance of the Receivables in

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existence as of the close of business on the second Business Day prior to the Effective Date.

Section 7.2 Conditions Precedent to Seller's Obligations. The obligations of the Seller to sell Receivables on any Business Day shall be subject to the satisfaction of the following conditions:

(a) All representations and warranties of the Buyer contained in this Agreement shall be true and correct with the same effect as though such representations and warranties had been made on such date;

(b) Payment or provision for payment of the Purchase Price in accordance with the provisions of Section 3.3 hereof shall have been made; and

(c) All corporate and legal proceedings and all instruments in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to the Seller, and the Seller shall have received from the Buyer copies of all documents (including, without limitation, records of corporate proceedings) relevant to the transactions herein contemplated as the Seller may reasonably have requested.

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## ARTICLE VIII

### TERM AND TERMINATION

Section 8.1 Term. This Agreement shall commence as of the date of execution and delivery hereof and shall continue in full force and effect until the earlier of: (a) the date on which the Net Investment shall have been reduced to zero and all other Aggregate Unpays shall have been paid to Enterprise pursuant to the Trans-

fer Agreement; or (b) upon the occurrence of an Event of Bankruptcy with respect to either the Buyer or any Seller, or (c) either the Buyer or the Seller becomes unable for any reason to purchase or re-purchase Receivables in accordance with the provisions of this Agreement or default in its obligations hereunder, which default continues unremedied for more than 30 days after written notice (any such date being a "Termination Date"); provided, however, that the termination of this Agreement pursuant to this Section 8.1 hereof shall not discharge any Person from any obligations incurred prior to such termination, including, without limitation, any obligations to make any payments with respect to Receivables sold prior to such termination; provided, further, that the events of termination referred to in clause (b) or (c) above shall only terminate the Agreement with respect to the Seller when affected thereby.

Section 8.2 Effect of Termination. No termination or rejection or failure to assume the executory obligations of this Agreement in the bankruptcy of the Seller or the Buyer shall be deemed to impair or affect the obligations pertaining to any executed sale or executed obligations, including, without limitation, pre-termination breaches of representations and warranties by the Seller or the Buyer. Without limiting the foregoing, prior to termination, the failure of the Seller to deliver computer records of Receivables or any reports regarding the Receivables shall not render such transfer or obligation executory, nor shall the continued duties of the parties pursuant to Article 5 or Section 9.1 of this Agreement render an executed sale executory.

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## ARTICLE IX

### MISCELLANEOUS PROVISIONS

Section 9.1 Amendment. This Agreement and any other Conveyance Papers and the rights and obligations of the parties hereunder may not be changed orally, but only by an instrument in writing signed by the Buyer and the Seller and consented to in writing by Enterprise. Any

reconveyance executed in accordance with the provisions hereof shall not be considered amendments to this Agreement.

Section 9.2 Governing Law. Governing Law; Submission to Jurisdiction; Integration.

(a) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA. THE PARTIES HERETO HEREBY SUBMIT TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN THE CITY OF NEW YORK AND OF ANY FEDERAL OR STATE COURT SITTING IN CHARLOTTE, NORTH CAROLINA FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. Each party hereto hereby irrevocably waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. Nothing in this Section 9.2 shall affect the right of the Buyer to bring any action or proceeding against the Seller or its property in the courts of other jurisdictions.

Section 9.3 Notices. All demands, notices and communications hereunder shall be in writing and shall be deemed to have been duly given if personally delivered at or mailed by registered mail, return receipt requested, to

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(a) in the case of the Buyer:

LADD Funding Corp.  
William S. Creekmuir  
Vice President, Secretary and Treasurer  
One Plaza Center  
Box HP3  
High Point, N.C. 27261-1500  
Telephone: (910) 410-6601  
Telecopy: (910) 888-6344

with a copy to the Administrative Agent:

NationsBank, National Association (Carolinas)  
NationsBank Corporate Center - - 7th Floor  
Charlotte, NC 28255  
Attention: Michelle M. Heath  
Investment Banking  
Telephone: (704) 386-7922  
Telecopy: (704) 388-9169

(b) in the case of the Seller:

LADD Furniture, Inc.  
William S. Creekmuir  
Senior V.P. and CFO  
One Plaza Center  
Box HP3  
High Point, N.C. 27261-1500  
Telephone: (910) 889-0333  
Telecopy: (910) 888-6344

or, as to each party, at such other address as shall be designated by such party in a written notice to each other party.

Section 9.4 Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Agreement or any other Conveyance Paper shall for any reason whatsoever be held invalid, then such covenants, agreements, provisions, or terms shall be deemed severable from the remaining covenants, agreements, provisions, or terms of this Agreement or any other Conveyance Paper and shall in no way affect the validity or enforceability of the other provisions of this Agreement or of any other Conveyance Paper.

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Section 9.5 Assignment. This Agreement and all other Conveyance Papers may not be assigned by the parties hereto except that the Buyer may assign its rights hereunder pursuant to the Transfer Agreement to Enterprise and its successors and assigns thereunder, or to another person approved in writing by the Seller (each, a "Permitted Assignee"). The Buyer hereby notifies (and the Seller hereby acknowledges that) the Buyer,

pursuant to the Transfer Agreement, has assigned its rights hereunder to Enterprise, and that Enterprise has collaterally assigned its rights under the Transfer Agreement to the Collateral Agent and may, from time to time, assign interests in its rights under the Transfer Agreement to one or more Liquidity Providers. All rights of the Buyer hereunder may be exercised by Enterprise or its assignee.

Section 9.6 Further Assurances. The Buyer and the Seller agree to do and perform, from time to time, any and all acts and to execute any and all further instruments required or reasonably requested by the other party more fully to effect the purposes of this Agreement and the other Conveyance Papers, including, without limitation, the execution of any financing statements or continuation statements or equivalent documents relating to the Receivables for filing under the provisions of the UCC or other laws of any applicable jurisdiction.

Section 9.7 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Buyer, the Seller, Enterprise or any Permitted Assignee, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exhaustive of any rights, remedies, powers and privilege provided by law.

Section 9.8 Counterparts. This Agreement and all other Conveyance Papers may be executed in two or more counterparts including telefax transmission thereof (and by different parties on separate counterparts), each of which shall be an original, but all of which together shall constitute one and the same instrument.

Section 9.9 Binding Effect; Third-Party Beneficiaries. This Agreement and the other Conveyance Papers will inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. Any Permitted Assignee, including Enterprise, shall be considered a third-party beneficiary of this Agreement.

Section 9.10 Merger and Integration. Except as specifically stated otherwise herein, this Agreement and the other Conveyance Papers set forth the entire understanding of the parties relating to the subject matter hereof, and all prior understandings, written or oral, are superseded by this Agreement and the other Conveyance Papers. This Agreement and the other Conveyance Papers may not be modified, amended, waived or supplemented except as provided herein.

Section 9.11 Headings. The headings herein are for purposes of reference only and shall not otherwise affect the meaning or interpretation of any provision hereof.

Section 9.12 Exhibits. The schedules and exhibits referred to herein shall constitute a part of this Agreement and are incorporated into this Agreement for all purposes.

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IN WITNESS WHEREOF, the Buyer and the Seller each have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

LADD FURNITURE, INC.  
as Seller

By: (Signature of William S. Creekmuir  
Name: William S. Creekmuir  
Title: Sr. V.P., Sec., Treas. & CFO

LADD FUNDING CORP.  
as Buyer

By: (Signature of William S. Creekmuir  
Name: William S. Creekmuir  
Title: V.P., Secr. & Treas.

LADD FURNITURE, INC.

Buyer

and

CLAYTON-MARCUS COMPANY, INC.,  
BARCLAY FURNITURE CO., and  
PILLIOD FURNITURE, INC.

Sellers

RECEIVABLES PURCHASE AGREEMENT

Dated as of March 30, 1995

RECEIVABLES PURCHASE AGREEMENT

RECEIVABLES PURCHASE AGREEMENT, dated as of March 30, 1995, by and among CLAYTON-MARCUS COMPANY, INC., a North Carolina corporation, BARCLAY FURNITURE CO., a Mississippi corporation, and PILLIOD FURNITURE, INC., a North Carolina Corporation (each a "Designated Subsidiary" or "Seller") and LADD FURNITURE, INC., a North Carolina corporation ("the "Buyer").

W I T N E S S E T H :

WHEREAS, the Buyer desires to purchase from time to time certain trade accounts receivable of certain Obligors existing on the Effective Date (as hereinafter defined) and generated thereafter in the normal course of their respective businesses pursuant to written agreements or with invoices on open accounts;

WHEREAS, each Seller desires to sell and assign from time to time certain trade accounts receivable to the Buyer upon the terms and conditions hereinafter set forth;

NOW, THEREFORE, it is hereby agreed by and between the Buyer and each Seller as follows:

## ARTICLE I

### DEFINITIONS

Section 1.1 Definitions. All capitalized terms used herein shall have the meanings specified herein or, if not so specified, the meaning specified in the Transfer Agreement, and shall include in the singular number the plural and in the plural number the singular:

"Buyer" shall mean LADD Furniture, Inc., and its successors and assigns.

"Charge-Off Ratio" means, for any period of determination and with respect to Receivables originated by a Designated Subsidiary, the ratio (expressed as a percentage) computed as of the last day of such period by dividing (i) the aggregate Outstanding Balance of all

Receivables originated by such Designated Subsidiary which became Defaulted Receivables during such period, by (ii) the aggregate amount of Collections related to such Receivables during such period less Deemed Collections related thereto for such period.

"Collections" means, with respect to any Receivable, all cash collections and other cash proceeds of such Receivable, including, without limitation, all Finance Charges, if any, and cash proceeds of Related Security with respect to such Receivable.

"Contract" means an agreement or invoice in substantially the form of one of the forms set forth in Exhibit A to the Transfer Agreement or otherwise approved by the Buyer, pursuant to or under which an Obligor shall be obligated to pay for merchandise purchased or services rendered.

"Conveyance Papers" shall have the meaning set forth in Section 4.1(b) hereof.

"Credit and Collection Policy" shall mean each Seller's credit and collection policy or policies and practices, relating to Contracts and Receivables as in effect on the Closing Date and referred to in Exhibit B to the Transfer Agreement, as modified by such Seller from time to time in accordance with Section 5.1(1).

"Designated Subsidiary" means each of Clayton-Marcus Company Inc., Barclay Furniture Co. and Pilliod Furniture, Inc., and such other wholly-owned subsidiaries of the Buyer as (i) become parties to this Agreement and (ii) are consented to in writing by the Buyer to be "Designated Subsidiaries" hereunder.

"Designated Subsidiary's Discount" shall mean for any day for a Designated Subsidiary, an amount, calculated in good faith by the Buyer, equal to the decimal equivalent of the sum of (i) the product of (A) the sum of (x) the "AA" rated commercial paper index rate for a maturity most closely corresponding to the Estimated Maturity Period and (y) 0.50% (servicing fee) and (z) 1.40% and (B) a fraction the numerator of which is the Estimated Maturity Period for such Receivables and the denominator at which is 360 and (ii) the decimal equiva-

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lent of the applicable average Charge-Off Ratio with respect to the prior three Fiscal Months.

"Effective Date" shall have the meaning set forth in the Transfer Agreement.

"Eligible Receivable" means, at any time, any Receivable:

(i) which has been originated by a Designated Subsidiary and to which such Designated Subsidiary has good title thereto, free and clear of all Adverse Claims;

(ii) the Obligor of which is a United States resident, is a Designated Obligor at the time of the initial creation of an interest therein hereunder, is not an Affiliate of any of the parties hereto, and is not a government or a governmental subdivision or agen-

cy; provided, however, that Receivables with an aggregate Outstanding Balance not greater than 4% of the aggregate Outstanding Balance of all Receivables may be originated by Obligor which are Canadian residents;

(iii) which is not a Defaulted Receivable at the time of the initial creation of an interest of the Buyer therein;

(iv) which is not a Delinquent Receivable at the time of the initial creation of an interest of the Buyer therein;

(v) which, according to the Contract related thereto, is required to be paid in full within 180 days of the original billing date therefor;

(vi) which is an "eligible asset" as defined in Rule 3a-7 under the Investment Company Act of 1940, as amended;

(vii) a purchase of which with the proceeds of Commercial Paper would constitute a "current transaction" within the meaning

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of Section 3(a)(3) of the Securities Act of 1933, as amended;

(viii) which is an "account" within the meaning of Article 9 of the UCC of all applicable jurisdictions;

(ix) which is denominated and payable only in United States dollars in the United States;

(x) which arises under a Contract that, together with the Receivable related thereto, is in full force and effect and constitutes the legal, valid and binding obligation of the related Obligor enforceable against such Obligor in accordance with its

terms and is not subject to any offset, counterclaim or other defense at such time;

(xi) which, together with the Contract related thereto, does not contravene in any material respect any laws, rules or regulations applicable thereto (including, without limitation, laws, rules and regulations relating to truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy) and with respect to which no part of the Contract related thereto is in violation of any such law, rule or regulation in any material respect;

(xii) which (A) satisfies, in all material respects, all applicable requirements of the applicable Credit and Collection Policy, and (B) is assignable without the consent of, or notice to, the Obligor thereunder;

(xiii) which was generated in the ordinary course of the Seller's business; and

(xiv) the Obligor of which has been directed to make all payments to a specified account of the Collection Agent with respect to which there shall be a Lock-Box Agreement in effect.

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"Enterprise" shall mean Enterprise Funding Corporation, a Delaware corporation, and its successors and assigns.

"Permitted Assignee" shall have the meaning set forth in Section 9.5 hereof.

"Purchase Price" shall have the meaning set forth in Section 3.1 hereof.

"Receivable" means the indebtedness owed to any Seller by any Obligor (without giving effect to any purchase hereunder by the Buyer at any time) under a Contract whether constituting an account, chattel paper, instrument or general intangible, arising in connection with the sale of merchandise or services by such Seller,

and includes the right to payment of any Finance Charges and other obligations of such Obligor with respect thereto.

"Related Security" means with respect to any Receivable:

(i) all of the Seller's interest, if any, in the merchandise (including returned merchandise), if any, the sale of which by the Seller gave rise to such Receivable;

(ii) all other security interests or liens and property subject thereto from time to time, if any, purporting to secure payment of such Receivable, whether pursuant to the Contract related to such Receivable or otherwise, together with all financing statements signed by an Obligor describing any collateral securing such Receivable;

(iii) all guarantees, insurance or other agreements or arrangements of any kind from time to time supporting or securing payment of such Receivable whether pursuant to the Contract related to such Receivable or otherwise; and

(iv) all Records.

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"Seller" shall mean each of the Designated Subsidiaries and their respective successors and assigns.

"Secured Obligations" shall have the meaning set forth in Section 2.1(e) hereof.

"Transfer Agreement" shall mean the Transfer and Administration Agreement dated as of March 30, 1995 among the LADD Funding Corp. as transferor, LADD Furniture, Inc., as Collection Agent and Enterprise, as such agreement may be amended, modified or supplemented from time to time.

Section 1.2 Other Terms. All accounting terms

not specifically defined herein shall be construed in accordance with generally accepted accounting principles. All terms used in Article 9 of the UCC in the State of North Carolina, and not specifically defined herein, are used herein as defined in such Article 9.

Section 1.3 Computation of Time Periods. Unless otherwise stated in this Agreement, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

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## ARTICLE II

### PURCHASE, CONVEYANCE AND SERVICING OF RECEIVABLES

Section 2.1 Sale. (a) Upon the terms and subject to the conditions set forth herein, each Seller hereby sells, assigns, transfers and conveys to the Buyer, and the Buyer hereby purchases from each Seller, on the terms and subject to the conditions specifically set forth herein, all of such Seller's right, title and interest, whether now owned or hereafter acquired, in, to and under all Receivables outstanding on the Effective Date and thereafter created by such Seller, in each case, together with all Related Security and Collections with respect thereto and all proceeds of the foregoing. The foregoing sale, assignment, transfer and conveyance does not constitute an assumption by the Buyer of any obligations of any of the Sellers, or any other Person to Obligors or to any other Person in connection with the Receivables or under any Related Security or other agreement and instrument relating to the Receivables.

(b) In connection with the foregoing sale, each Seller agrees to record and file on or prior to the Closing Date, at its own expense, a financing statement or statements with respect to the Receivables and the other property described in Section 2.1(a) sold by such

Seller hereunder meeting the requirements of applicable state law in such manner and in such jurisdictions as are necessary to perfect and protect the interests of the Buyer created hereby under the applicable UCC against all creditors of and purchasers from such Seller, and to deliver either the originals of such financing statements or a file-stamped copy of such financing statements or other evidence of such filings to the Buyer on the Closing Date.

(c) Each Seller agrees that from time to time, at its expense, it will promptly execute and deliver all instruments and documents and take all actions as may be necessary or as the Buyer may reasonably request in order to perfect or protect the interest of the Buyer in the Receivables purchased hereunder or to enable the Buyer to exercise or enforce any of its rights hereunder. Without limiting the foregoing, the each Seller will, upon the request of the Buyer, in order to accurately reflect this purchase and sale transaction, execute and file such

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financing or continuation statements or amendments thereto or assignments thereof (as permitted pursuant hereto) as may be requested by the Buyer and mark its master data processing records and other documents with a legend describing the purchase by the Buyer of the Receivables and the subsequent transfer thereof to Enterprise pursuant to the Transfer Agreement and stating "An interest in these accounts receivable has been conveyed to Enterprise Funding Corporation pursuant to a Transfer and Administration Agreement dated March 30, 1995." Each Seller shall, upon request of the Buyer, obtain such additional search reports as the Buyer shall request. To the fullest extent permitted by applicable law, the Buyer shall be permitted to sign and file continuation statements and amendments thereto and assignments thereof without the Seller's signature. Carbon, photographic or other reproduction of this Agreement or any financing statement shall be sufficient as a financing statement.

(d) It is the express intent of each of the Sellers and the Buyer that the conveyance of the Receivables by each such Seller to the Buyer pursuant to this Agreement be construed as a sale of such Receivables by each such Seller to the Buyer. It is, further, not the intention of any of the Sellers and the Buyer that such

conveyance be deemed a grant of a security interest in the Receivables by any of the Sellers to the Buyer to secure a debt or other obligation of such Seller. However, in the event that, notwithstanding the intent of the parties, the Receivables are held to continue to be property of any Seller, then (i) this Agreement also shall be deemed to be and hereby is a security agreement within the meaning of the UCC; and (ii) the conveyance by such Seller provided for in this Agreement shall be deemed to be and such Seller hereby grants to the Buyer a security interest in and to all of such Seller's right, title and interest in all Receivables outstanding on the Effective Date and thereafter created by such Seller, in each case, together with all Related Security and Collections with respect thereto and all proceeds of the foregoing to secure (1) the rights of the Buyer and (2) a loan to such Seller in the amount of the Purchase Price as set forth in this Agreement (the "Secured Obligations"). Each Seller and the Buyer shall, to the extent consistent with this Agreement, take such actions as may be necessary to ensure that, if this Agreement were deemed to create a security interest in the Receivables,

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such security interest would be deemed to be a perfected security interest of first priority in favor of the Buyer under applicable law and will be maintained as such throughout the term of this Agreement.

Section 2.2 Servicing of Receivables. The servicing, administering and collection of the Receivables shall be conducted by the Buyer, who hereby agrees to perform, take or cause to be taken all such action as may be necessary or advisable to collect each Receivable from time to time, all in accordance with applicable laws, rules and regulations, and with the care and diligence which the Seller employs in servicing similar receivables for its own account, in accordance with the Credit and Collection Policy.

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## ARTICLE III

### CONSIDERATION AND PAYMENT

Section 3.1 Purchase Price. The Purchase Price for the Receivables and related property conveyed to the Buyer by each Seller under this Agreement shall be a dollar amount equal to (a) for Receivables transferred by such Seller on the date of the initial Incremental Transfer under the Transfer Agreement, the product of (i) the aggregate Outstanding Balance of all Receivables as of the Effective Date and (ii) one minus the Designated Subsidiary's Discount, and (b) for Receivables transferred by such Seller on any date thereafter, the product of (i) the aggregate Outstanding Balance of the Receivables transferred on such date and (ii) one minus the Designated Subsidiary's Discount on such date.

Section 3.2 Payment of Purchase Price. The Purchase Price for Receivables shall be paid or provided for on the Effective Date and on the last Business Day of each Fiscal Month thereafter during which Receivables are sold hereunder.

Section 3.3 Monthly Report. At the end of each Fiscal Month, each Seller shall deliver to the Buyer a monthly report showing (i) the aggregate Purchase Price of Receivables generated by such Seller in the preceding month and (ii) the aggregate Outstanding Balance of such Receivables that are Eligible Receivables.

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## ARTICLE IV

### REPRESENTATIONS AND WARRANTIES

Section 4.1 Sellers' Representations and Warranties. Each Seller (as to itself) represents and warrants to the Buyer as of the Closing Date and the Effective Date, and shall be deemed to represent and warrant as of the date of the creation of any Receivable

sold to the Buyer pursuant to this Agreement that:

(a) Corporate Existence and Power. The Seller is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all corporate power and all material governmental licenses, authorizations, consents and approvals required to carry on its business in each jurisdiction in which its business is now conducted.

(b) Corporate and Governmental Authorization; Contravention. The execution, delivery and performance by the Seller of this Agreement and each other document or instrument to be delivered by such Seller hereunder (collectively, "Conveyance Papers") is within the Seller's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official (except as contemplated by Section 2.1(d)), and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the Certificate of Incorporation or Bylaws of the Seller or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Seller or result in the creation or imposition of any lien on assets of the Seller or any of its Subsidiaries (except as contemplated by Section 2.1(d)).

(c) Binding Effect. This Agreement constitutes the legal, valid and binding obligation of the Seller, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium or other similar laws affecting the rights of creditors.

(d) Perfection. Immediately preceding each sale hereunder, the Seller shall be the owner of all of the Receivables sold by it hereunder, free and clear of all Adverse Claims. On or prior to the Closing Date,

all financing statements and other documents required to be recorded or filed in order to perfect and protect the Buyer's interest in the Receivables against all creditors of and purchasers from the Seller will have been either delivered to the Buyer or duly filed in each filing office necessary for such purpose and all filing fees and

taxes, if any, payable in connection with such filings shall have been either delivered to the Buyer or paid in full, as applicable.

(e) Accuracy of Information. All information heretofore furnished by the Seller to the Buyer for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished by the Seller to the Buyer will be, true and accurate in every material respect, on the date such information is stated or certified.

(f) Tax Status. The Seller and its Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Seller or any of its Subsidiaries except to the extent that failure to file or pay would not have a material adverse effect on the consolidated financial condition of the Seller or the Buyer's interest in the Receivables and except for any tax which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained. The charges, accruals and reserves on the books of the Seller and its Subsidiaries in respect of taxes and other governmental charges are, in the opinion of the Seller, adequate.

(g) Action, Suits. Except as set forth in Exhibit H to the Transfer Agreement, there are no actions, suits or proceedings pending, or to the knowledge of the Seller threatened, against or affecting the Seller or any Affiliate of the Seller or their respective properties, in or before any court, arbitrator or other body, which may materially adversely affect the financial condition of the Seller and its subsidiaries taken as a whole or materially adversely affect the ability of Seller to perform its obligations under this Agreement.

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(h) Use of Proceeds. No proceeds of any sale hereunder will be used by the Seller to acquire any security in any transaction which is subject to Section 13 or 14 of the Securities Exchange Act of 1934, as amended.

(i) Place of Business. The chief place of business and chief executive office of each Seller is as follows: Clayton-Marcus Company, Inc., Hickory, North Carolina; for Barclay Furniture Co., Sherman, Mississippi; for Pilliod Furniture, Inc., High Point, North Carolina and the offices where each respective Seller keeps all its Records, are located at the address(es) described on Exhibit I to the Transfer Agreement or such other locations notified to the Buyer in accordance with Section 2.1(d) in jurisdictions where all action required by Section 2.1(d) has been taken and completed.

(j) Good Title. Upon each sale hereunder, the Buyer shall acquire all right, title and interest of the Seller in each Receivable originated by it that exists on the date of such sale and in the Related Security and Collections with respect thereto free and clear of any Adverse Claim.

(k) Tradenames, Etc. As of the date hereof: (i) each Seller's chief executive office is located at the address for notices set forth in this Section 4.1; (ii) each Seller has, within the last five (5) years, operated only under the tradenames identified in Exhibit J to the Transfer Agreement, and, within the last five (5) years, has not changed its name, merged with or into or consolidated with any other corporation or been the subject of any proceeding under Title 11, United States Code (Bankruptcy), except as disclosed in Exhibit J to the Transfer Agreement hereto.

(l) Nature of Receivables. Each Receivable sold hereunder to the Buyer shall be an Eligible Receivable.

(m) [Reserved]

(n) Credit and Collection Policy. Since January 13, 1994, there have been no material changes in the Credit and Collection Policy; since such date, no

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material adverse change has occurred in the overall rate of collection of the Receivables.

(o) Not an Investment Company. The Seller is not an "investment company" within the meaning

of the Investment Company Act of 1940, as amended, or is exempt from all provisions of such Act.

(p) ERISA. The Seller is in compliance in all material respects with ERISA and no ERISA lien on any of the Receivables shall exist.

(q) Lock-Box Accounts. The names and addresses of all the Lock-Box Banks, together with the account numbers of the Lock-Box Accounts at such Lock-Box Banks, are specified in Exhibit C to the Transfer Agreement (or at such other Lock-Box Banks and/or with such other Lock-Box Accounts as have been notified to the Buyer and for which Lock-Box Agreements have been executed in accordance with Section 2.8(b) of the Transfer Agreement and delivered to the Collection Agent).

Any document, instrument, certificate or notice delivered to the Buyer hereunder shall be deemed a representation and warranty by the Seller delivering such document.

Section 4.2 Reaffirmation of Representations and Warranties by the Sellers. On each day that a sale of a Receivable is made hereunder, the applicable Seller, by accepting the proceeds of such sale, shall be deemed to have certified that all representations and warranties described in Section 4.1 are correct with respect to such Seller on and as of such day as though made on and as of such day.

Section 4.3 Representations and Warranties of the Buyer. The Buyer hereby represents and warrants to, and agrees with each Seller, as of the Closing Date and the Effective Date, and shall be deemed to represent and warrant as of the date of the creation of any Receivable sold to the Buyer hereunder that:

(a) Organization and Good Standing. The Buyer is a corporation duly organized and validly existing in good standing under the laws of the State of North Carolina and has full power, authority, and legal right to

execute, deliver, and perform its obligations under the Conveyance Papers, to conduct its business as such business is presently conducted, and in all material respects, to own its property and conduct its other busi-

nesses as such properties are presently owned and such businesses are presently conducted.

(b) Due Qualification. The Buyer is duly qualified to do business and is in good standing as a foreign corporation (or is exempt from such requirements) and has obtained all necessary licenses and approvals with respect to the Buyer in each jurisdiction in which failure to so qualify or to obtain such licenses and approvals would render any Contract or any Receivable unenforceable by the Buyer.

(c) Corporate and Governmental Authorization; Contravention. The execution, delivery and performance by the Buyer of this Agreement is within the Buyer's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official, and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the Certificate of Incorporation or Bylaws of the Buyer or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Buyer or result in the creation or imposition of any lien on assets of the Buyer.

(d) All Consents Required. All approvals, authorizations, licenses, consents, orders, or other actions of any Person or of any governmental body required in connection with the execution and delivery by the Buyer of the Conveyance Papers, the performance by the Buyer of the transactions contemplated by the Conveyance Papers, and the fulfillment of the terms of the Conveyance Papers have been obtained and are in full force and effect.

Section 4.3 Notice of Breach. The representations and warranties set forth in Section 4.1 shall survive the conveyance of the Receivables to the Buyer, and termination of the rights and obligations of the Buyer and each Seller under this Agreement. Upon discovery by the Buyer or any Seller of a breach of any of the foregoing representations and warranties, the party

discovering such breach shall give prompt written notice to the other within three Business Days of such discovery.

ARTICLE V

COVENANTS OF EACH SELLER

Section 5.1 Sellers' Covenants. Each Seller with respect to itself hereby covenants and agrees with the Buyer as follows:

During the term of this Agreement, and until all Receivables sold to the Buyer shall have been paid in full or written-off as uncollectible, and all amounts owed by such Seller pursuant to this Agreement have been paid, unless the Buyer otherwise consents in writing, such Seller covenants and agrees as follows:

(a) Conduct of Business. The Seller will, and will cause each of its Subsidiaries to, carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted and do all things necessary to remain duly incorporated, validly existing and in good standing as a domestic corporation in its jurisdiction of incorporation and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted.

(b) Compliance with Laws. The Seller will, and will cause each of its Subsidiaries to, comply in all material respects with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject.

(c) Furnishing of Information and Inspection of Records. The Seller will furnish to the Buyer from time to time such information with respect to the Receivables as the Buyer may reasonably request, including, without limitation, listings identifying the Obligor and the Outstanding Balance for each Receivable. The Seller will at any time and from time to time during regular business hours permit the Buyer, or its agents or repre-

sentatives upon three Business Days notice, (i) to examine and make copies of and abstracts from all Records and (ii) to visit the offices and properties of the Seller for the purpose of examining such Records, and to discuss matters relating to Receivables or the Seller's performance hereunder with any of the officers, directors,

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employees or independent public accountants of the Seller having knowledge of such matters.

(d) Keeping of Records and Books of Account. The Seller will maintain a system of accounting established and administered in accordance with accounting practices currently used by LADD Subsidiaries, consistently applied, and will maintain and implement administrative and operating procedures (including, without limitation, an ability to recreate records evidencing Receivables in the event of the destruction of the originals thereof), and keep and maintain, all documents, books, records and other information reasonably necessary or advisable for the collection of all Receivables (including, without limitation, records adequate to permit the daily identification of each new Receivable and all Collections of and adjustments to each existing Receivable). The Seller will give the Buyer notice of any material change in the administrative and operating procedures referred to in the previous sentence.

(e) Performance and Compliance with Receivables and Contracts. The Seller will at its expense timely and fully perform and comply with all material provisions, covenants and other promises required to be observed by it under the Contracts related to the Receivables.

(f) Credit and Collection Policies. The Seller will comply in all material respects with the Credit and Collection Policy in regard to each Receivable and the related Contract.

(g) Collections. The Seller shall instruct all Obligors to cause all Collections to be deposited directly to a Lock-Box Account. The Seller may, however, in connection with Obligors which would otherwise be over their credit limit if goods were shipped prior to pay-

ment, direct Obligors to make payments directly to the Seller which shall deposit such Collections in a Lock-Box Account pursuant to Section 5.1(h) below.

(h) Collections Received. The Seller shall hold in trust, and deposit, immediately, but in any event not later than two Business Days of its receipt thereof, to a Lock-Box Account all Collections received from time to time by the Seller.

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(i) Sale Treatment. The Seller agrees to treat this conveyance for all purposes (including without limitation, tax and financial accounting purposes) as a sale and, to the extent any such reporting is required, shall report the transactions contemplated by this Agreement on its all relevant books, records, tax returns, financial statements and other applicable documents as a sale of the Receivables to the Buyer.

(j) No Sales, Liens, Etc. Except as otherwise provided herein, the Seller will not sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Adverse Claim upon (or the filing of any financing statement) or with respect to, any inventory or goods, the sale of which may give rise to a Receivable or any Receivable or related Contract, or upon or with respect to any account which concentrates in a Lock-Box Bank to which any Collections of any Receivable are sent, or assign any right to receive income in respect thereof.

(k) No Extension or Amendment of Receivables. The Seller will not extend, amend or otherwise modify the terms of any Receivable, or amend, modify or waive any term or condition of any Contract related thereto.

(l) No Change in Business or Credit and Collection Policy. The Seller will not make any change in the character of its business or in the Credit and Collection Policy, which change would, in either case, impair the collectibility of any Receivable.

(m) No Mergers, Etc. The Seller will not (i) consolidate or merge with or into any other Person, or (ii) sell, lease or transfer all or substantially all of its assets to any other person; provided, however, that the Seller may consolidate or merge with a Person if the

Seller shall be the surviving entity and such merger or consolidation does not cause a Termination Event or Potential Termination Event under the Transfer Agreement.

(n) Change in Payment Instructions to Obligors. The Seller will not add or terminate any bank as a Lock-Box Bank or any account as a Lock-Box Account to or from those listed in Exhibit C to the Transfer Agreement or make any change in its instructions to Obligors regarding payments to be made to any Lock-Box

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Account, unless (i) such instructions are to deposit such payments to another existing Lock-Box Account or (ii) the Buyer and the Administrative Agent shall have received written notice of such addition, termination or change at least 30 days prior thereto and the Buyer shall have received a Lock-Box Agreement executed by each new Lock-Box Bank or an existing Lock-Box Bank with respect to each new Lock-Box Account, as applicable.

(o) Deposits to Lock-Box Accounts. The Seller will not deposit or otherwise credit, or cause or permit to be so deposited or credited, to any Lock-Box Account cash or cash proceeds other than Collections of Receivables.

(p) Change of Name, Etc. The Seller shall not change its name, identity or structure or its chief executive office, unless at least 10 days prior to the effective date of any such change the Seller delivers to the Buyer and the Collateral Agent (i) UCC financing statements, executed by the Seller, necessary to reflect such change and to continue the perfection of the Buyer's interest in the Receivables and (ii) new or revised Lock-Box Agreements executed by the Lock-Box Banks which reflect such change and enable the Collateral Agent to exercise its rights contained in Section 2.8 of the Transfer Agreement.

(q) Indemnification. Each Seller agrees to indemnify, defend and hold the Buyer and any Permitted Assignee harmless from and against any and all loss, liability, damage, judgment, claim, deficiency, or expense (including interest, penalties, reasonable attorneys' fees and amounts paid in settlement) to which the Buyer or such Permitted Assignee may become subject insofar as such loss, liability, damage, judgment, claim, deficiency, or expense arises out of or is based upon a breach by

such Seller of its representations, warranties and covenants contained herein, or any information certified in any Schedule delivered by such Seller hereunder or in connection with the Conveyance Papers, being untrue in any respect at any time. The obligations of such Seller under this Section 5.1(q) shall be considered to have been relied upon by the Buyer, LADD Funding Corp. and Enterprise and shall survive the execution, delivery, performance and termination of this Agreement regardless

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of any investigation made by the Buyer, any Permitted Assignee or on the behalf of any of them.

(r) ERISA. The Seller shall promptly give the Buyer written notice upon becoming aware that the Seller is not in compliance in all material respects with ERISA or that any ERISA lien on any of the Receivables exists.

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## ARTICLE VI

### REPURCHASE OBLIGATION

#### Section 6.1 Mandatory Repurchase.

(a) Breach of Warranty. (i) if on any day any Receivable sold by a Seller hereunder shall fail to meet the conditions set forth in the definition of Eligible Receivables or any representation or warranty made herein in respect of a Receivable shall no longer be true, such Seller shall be deemed to have received on such day a Collection of such Receivable in full and shall on such day pay to the Buyer an amount equal to the aggregate Outstanding Balance of such Receivable.

(b) Reconveyance Under Certain Circumstances. Each Seller agrees that, with respect to any Receivable

sold hereunder, in the event of a breach of any of the representations and warranties set forth in Sections 4.1(d), 4.1(e), 4.1(g), 4.1(h), 4.1(j), 4.1(l) and 4.1(-p), it will accept the reconveyance of any Receivable created on or after the date of such breach upon receipt by such Seller of notice given in writing by the Buyer and such Seller's failure to cure such breach within 30 days (or in the case of representations and warranties found in Sections 4.1(d) and 4.1(j), within 3 days) of such notice. In the event of a reconveyance under this Section 6.1(b), such Seller shall pay to the Buyer in immediately available funds on such 30th day (or third day, if applicable) an amount equal to the Outstanding Balance of any such Receivables.

Section 6.2 Dilutions. Each Seller agrees that if on any day the Outstanding Balance of a Receivable sold by the Seller hereunder is either (x) reduced as a result of defective, rejected or returned goods or other dilution factor, any billing adjustment or other adjustment, or (y) reduced or canceled as a result of a setoff or offset in respect of any claim by any Person (whether such claim arises out of the same or a related transaction or an unrelated transaction) then such Seller shall be deemed to have received on such day a collection of such Receivable in the amount of such reduction or cancellation and shall pay to the Buyer an amount equal to such reduction or cancellation.

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#### CONDITIONS PRECEDENT

Section 7.1 Conditions to the Buyer's Obligations Regarding Receivables. The obligations of the Buyer to purchase the Receivables on any Business Day shall be subject to the satisfaction of the following conditions:

(a) All representations and warranties of each Seller contained in this Agreement shall be true and correct on the Effective Date and on the day of creation of any Receivable thereafter with the same effect as though such representations and warranties had been made on such date;

(b) All information concerning the Receivables provided to the Buyer shall be true and correct in all

material respects as of the Effective Date, in the case of Receivables sold to the Buyer on the Effective Date, or the date such Receivables are created, in the case of Receivables created after the Effective Date;

(c) At the Effective Date, each Seller shall have substantially performed all other obligations required to be performed by the provisions of this Agreement;

(d) With respect to Receivables sold to the Buyer by the Effective Date, each Seller shall have either delivered to the Buyer or filed the financing statement(s) required to be filed pursuant to Section 2.1(b); and

(e) All corporate and legal proceedings and all instruments in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to the Buyer, and the Buyer shall have received from each Seller copies of all documents (including, without limitation, records of corporate proceedings) relevant to the transactions herein contemplated as the Buyer may reasonably have requested.

Section 7.2 Conditions Precedent to Each Seller's Obligations. The obligations of each Seller to sell Receivables on any Business Day shall be subject to the satisfaction of the following conditions:

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(a) All representations and warranties of the Buyer contained in this Agreement shall be true and correct with the same effect as though such representations and warranties had been made on such date;

(b) Payment or provision for payment of the Purchase Price in accordance with the provisions of Section 3.3 hereof shall have been made; and

(c) All corporate and legal proceedings and all instruments in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to such Seller, and such Seller shall have received from the Buyer copies of all documents (including, without limitation, records of corporate proceedings) relevant to the transactions herein contemplated as such Seller may reasonably have requested.

ARTICLE VIII

TERM AND TERMINATION

Section 8.1 Term. This Agreement shall commence as of the date of execution and delivery hereof and shall continue in full force and effect until the earlier of: (a) the date on which the Net Investment shall have been reduced to zero and all other Aggregate Unpays shall have been paid to Enterprise pursuant to the Transfer Agreement; or (b) upon the occurrence of an Event of Bankruptcy with respect to either the Buyer or any Seller, or (c) either the Buyer or a Seller becomes unable for any reason to purchase or re-purchase Receivables in accordance with the provisions of this Agreement or default in its obligations hereunder, which default continues unremedied for more than 30 days after written notice (any such date being a "Termination Date"); provided, however, that the termination of this Agreement pursuant to this Section 8.1 hereof shall not discharge any Person from any obligations incurred prior to such termination, including, without limitation, any obligations to make any payments with respect to Receivables sold prior to such termination; provided, further, that the events of termination referred to in clause (b) or (c) above shall only terminate the Agreement with respect to the Seller who has been affected thereby.

Section 8.2 Effect of Termination. No termination or rejection or failure to assume the executory obligations of this Agreement in the bankruptcy of any Seller or the Buyer shall be deemed to impair or affect the obligations pertaining to any executed sale or executed obligations, including, without limitation, pre-termination breaches of representations and warranties by such Seller or the Buyer. Without limiting the foregoing, prior to termination, the failure of such Seller to deliver computer records of Receivables or any reports regarding the Receivables shall not render such transfer or obligation executory, nor shall the continued duties of the parties pursuant to Article 5 or Section 9.1 of this Agreement render an executed sale executory.

ARTICLE IX

MISCELLANEOUS PROVISIONS

Section 9.1 Amendment. This Agreement and any other Conveyance Papers and the rights and obligations of the parties hereunder may not be changed orally, but only by an instrument in writing signed by the Buyer, Enterprise and each Seller. Any reconveyance executed in accordance with the provisions hereof shall not be considered amendments to this Agreement.

Section 9.2 Governing Law; Submission to Jurisdiction; Integration.

(a) THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA. THE PARTIES HERETO HEREBY SUBMIT TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN THE CITY OF NEW YORK AND OF ANY FEDERAL OR STATE COURT SITTING IN CHARLOTTE, NORTH CAROLINA FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. Each party hereto hereby irrevocably waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. Nothing in this Section 9.2 shall affect the right of the Buyer to bring any action or proceeding against any Seller or its property in the courts of other jurisdictions.

Section 9.3 Notices. All demands, notices and communications hereunder shall be in writing and shall be deemed to have been duly given if personally delivered at or mailed by registered mail, return receipt requested, to

(a) in the case of the Buyer:

LADD Furniture, Inc.  
William S. Creekmuir  
Senior V.P. and CFO  
One Plaza Center  
Box HP3  
High Point, N.C. 27261-1500  
Telephone: (910) 889-0333  
Telecopy: (910) 888-6344

(b) in the case of the Sellers:

c/o LADD Furniture, Inc.  
William S. Creekmuir  
Senior V.P. and CFO  
One Plaza Center  
Box HP3  
High Point, N.C. 27261-1500  
Telephone: (910) 889-0333  
Telecopy: (910) 888-6344

or, as to each party, at such other address as shall be designated by such party in a written notice to each other party.

Section 9.4 Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Agreement or any other Conveyance Paper shall for any reason whatsoever be held invalid, then such covenants, agreements, provisions, or terms shall be deemed severable from the remaining covenants, agreements, provisions, or terms of this Agreement or any other Conveyance Paper and shall in no way affect the validity or enforceability of the other provisions of this Agreement or of any other Conveyance Paper.

Section 9.5 Assignment. This Agreement and all other Conveyance Papers may not be assigned by the parties hereto except that the Buyer may assign its rights hereunder to LADD Funding Corp. pursuant to that certain Receivables Purchase Agreement, dated as of even date herewith, between the Buyer, as seller thereunder, and LADD Funding Corp., as buyer, and further, that LADD

Funding Corp. may, pursuant to the Transfer Agreement, assign all of its rights to Enterprise and its successors

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and assigns thereunder, or to another person approved in writing by each Seller (each, a "Permitted Assignee"). The Buyer hereby notifies each Seller (and each Seller hereby acknowledges that) the Buyer, pursuant to the aforementioned Receivables Purchase Agreement and the subsequent assignment by LADD Funding Corp. to Enterprise in the Transfer Agreement, has assigned its rights hereunder to Enterprise and that Enterprise has collaterally assigned its rights under the Transfer Agreement to the Collateral Agent and may, from time to time, assign interests in its rights under the Transfer Agreement to one or more Liquidity Providers. All rights of the Buyer hereunder may be exercised by LADD Funding Corp. or by its assignee Enterprise.

Section 9.6 Further Assurances. The Buyer and each Seller agree to do and perform, from time to time, any and all acts and to execute any and all further instruments required or reasonably requested by the other party more fully to effect the purposes of this Agreement and the other Conveyance Papers, including, without limitation, the execution of any financing statements or continuation statements or equivalent documents relating to the Receivables for filing under the provisions of the UCC or other laws of any applicable jurisdiction.

Section 9.7 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Buyer, any Seller, Enterprise or any Permitted Assignee, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exhaustive of any rights, remedies, powers and privilege provided by law.

Section 9.8 Counterparts. This Agreement and all other Conveyance Papers may be executed in two or more counterparts including telefax transmission thereof (and by different parties on separate counterparts), each of which shall be an original, but all of which together

shall constitute one and the same instrument.

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Section 9.9 Binding Effect; Third-Party Beneficiaries. This Agreement and the other Conveyance Papers will inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns. Any Permitted Assignee, including Enterprise, shall be considered a third-party beneficiary of this Agreement.

Section 9.10 Merger and Integration. Except as specifically stated otherwise herein, this Agreement and the other Conveyance Papers set forth the entire understanding of the parties relating to the subject matter hereof, and all prior understandings, written or oral, are superseded by this Agreement and the other Conveyance Papers. This Agreement and the other Conveyance Papers may not be modified, amended, waived or supplemented except as provided herein.

Section 9.11 Headings. The headings herein are for purposes of reference only and shall not otherwise affect the meaning or interpretation of any provision hereof.

Section 9.12 Exhibits. The schedules and exhibits referred to herein shall constitute a part of this Agreement and are incorporated into this Agreement for all purposes.

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IN WITNESS WHEREOF, the Buyer and the Sellers each have caused this Agreement to be duly executed by their respective officers as of the day and year first

above written.

CLAYTON-MARCUS COMPANY, INC.  
as Seller

By: (Signature of William S. Creekmuir)  
Name: William S. Creekmuir  
Title: V.P., Secr. & Treas.

BARCLAY FURNITURE CO.  
as Seller

By: (Signature of William S. Creekmuir)  
Name: William S. Creekmuir  
Title: V.P., Secr. & Treas.

PILLIOD FURNITURE, INC.  
as Seller

By: (Signature of William S. Creekmuir)  
Name: William S. Creekmuir  
Title: V.P., Secr. & Treas.

LADD FURNITURE, INC.,  
as Buyer

By: (Signature of William S. Creekmuir)  
Name: William S. Creekmuir  
Title: Sr. V.P., Secr., Treas. & CFO

SECOND AMENDMENT TO AMENDED AND RESTATED  
CREDIT AGREEMENT

This Second Amendment to Amended and Restated Credit Agreement (this "Second Amendment"), dated as of March 30, 1995, is entered into by and among LADD FURNITURE, INC. (the "Company"), the guarantors identified as such on the signature pages attached hereto (the "Guarantors"), the banks identified as such on the signature pages attached hereto (the "Banks") and NATIONSBANK, N.A. (Carolinas) f/k/a NATIONSBANK OF NORTH CAROLINA, N.A., as agent for the Banks (in such capacity, the "Agent"). All capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Credit Agreement (as defined below).

RECITALS

A. The Company, the Guarantors, the Banks and the Agent entered into that certain Amended and Restated Credit Agreement dated as of October 19, 1994 and that certain First Amendment to Amended and Restated Credit Agreement dated as of February 16, 1995 (collectively, the "Credit Agreement").

B. The Company has requested that the Credit Agreement be amended to accommodate the creation of a new subsidiary and to allow such subsidiary to purchase and sell certain of the Company's trade receivables.

C. The Banks have agreed to such amendment pursuant to the terms set forth below.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendment to Existing Definitions. The following definitions set forth in Section 1.01 of the Credit Agreement shall be modified as follows:

(a) The definition of Material Subsidiary shall be amended in its entirety to read as follows:

"Material Subsidiary" shall mean, as at any date of determination thereof, any Subsidiary of the Company

whose net sales (for the rolling four Quarterly Periods ending on the Quarterly Date falling on or immediately preceding such date of determination) exceed \$20,000,000 or whose assets exceed \$15,000,000 as at such date; provided that each of Cherry Grove, Inc., LFI Capital

Management Inc. and LADD Funding Corp. shall not be deemed to be a Material Subsidiary; and provided further that, notwithstanding the foregoing, each Guarantor (as of the date hereof) shall be deemed to be a "Material Subsidiary" and once a Subsidiary becomes a Guarantor it shall remain a Guarantor regardless if it still meets the definition of a Material Subsidiary.

- (b) The definition of Pledgor shall be amended in its entirety to read as follows:

"Pledgor" shall mean each holder of outstanding shares of capital stock of any Special Subsidiary other than LADD Funding Corp.

- (c) The definition of Special Subsidiary shall be amended in its entirety to read as follows:

"Special Subsidiary" shall mean, each of Cherry Grove, Inc., a Delaware corporation, LFI Capital Management, Inc., a Delaware corporation and LADD Funding Corp., a Delaware corporation.

- (d) The definition of Special Subsidiary Events of Default shall be amended in its entirety to read as follows:

"Special Subsidiary Events of Default" shall mean the occurrence of any of the following:

(a) Prohibition of Fundamental Change; Capitalization. Any Special Subsidiary enters into any transaction of merger or consolidation or amalgamation, or liquidates, winds up or dissolves itself (or suffers any liquidation or dissolution); or any Special Subsidiary acquires any business or assets from, or acquires capital stock of, or is a party to any acquisition of, any Person; or any Special Subsidiary conveys, sells, leases, transfers or otherwise disposes of, in one transaction or a series of transactions, all or any material part of its business or assets, whether now owned or hereafter acquired; or any Special Subsidiary authorizes any equity capital (other than equity capital

issued by LADD Funding Corp. to the Company); or any Special Subsidiary or the issuer of the Pledged Stock fails to note on its record books the beneficial ownership interest of the Pledgors and, as collateral assignee of the Pledgors, the Agent in its capital stock; provided however, that the foregoing shall not include (i) any acquisition by Cherry Grove, Inc. of intellectual property assets from any Obligor or any issuance of equity securities in connection therewith; (ii) any acquisition by LFI Capital Management, Inc. of the Indebtedness of any Obligor or any other Subsidiary of the Company or the acquisition of any note executed by LADD Funding Corp. in

favor of the Company; or (iii) any purchase of receivables by LADD Funding Corp. from the Company or any Receivables Sale by LADD Funding Corp.

(b) Limitation on Liens. Any Special Subsidiary creates, incurs, assumes or suffers to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except (i) Liens imposed by any governmental authority for taxes, assessments or charges not yet due or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of such Special Subsidiary in accordance with GAAP or (ii) Liens on the assets of LADD Funding Corp. in connection with a Receivables Sale.

(c) Indebtedness. Any Special Subsidiary creates, incurs or suffers to exist any Indebtedness except for (i) Indebtedness owing to any other Special Subsidiary or to the Company or (ii) unsecured Indebtedness of LADD Funding Corp. not to exceed, in the aggregate, \$4,750 at any one time.

(d) Investments. Subject to the proviso in respect of LFI Capital Management, Inc. contained in clause (a) above, any Special Subsidiary makes or permits to remain outstanding any Investments other than short term Investments of excess working capital.

(e) Capital Expenditures. Any Special Subsidiary makes any capital expenditures in excess of \$10,000 (in the aggregate) during any fiscal year of such Special Subsidiary.

(f) Lines of Business. Any Special Subsidiary engages in any line or lines of business activity other than the business of (i) in the case of Cherry Grove, Inc., owning

and licensing intellectual property, (ii) in the case of LFI Capital Management, Inc., holding Indebtedness of the Obligors or any other Subsidiary of the Company and (iii) in the case of LADD Funding Corp., the purchase of receivables generated by the Company and the sale of receivables.

(g) Business Operations. Any Special Subsidiary:

(i) pays any salary or any other form of compensation for services to any Person, except (I) as necessary in the ordinary course of conducting its business, (II) the reasonable fees and expenses of its outside counsel and auditors, and (III) payments to members of its board of directors not exceeding customary levels of similarly situated companies;

(ii) incurs any obligation, contractually or otherwise, to any Person other than as is related or

incidental to the activities contemplated by clauses (a) and (f) above; or

(iii) creates or maintains any Plan, is or becomes a participant in any Multiemployer Plan or incurs any liability to the PBGC.

(h) Capital Stock. (i) All of the issued and outstanding capital stock of Cherry Grove, Inc. and LFI Capital Management, Inc. is (A) not owned by the Pledgors executing the Pledge Agreement or (B) is not subject to a first priority and perfected security interest in favor of the Agent, for the benefit of the Banks, (ii) any of the capital stock of Cherry Grove, Inc. or LFI Capital Management, Inc. is subject to a Lien other than a Lien under the Pledge Agreement or (iii) any of the capital stock of LADD Funding Corp. is subject to a Lien or is owned by any Person other than the Company.

2. Liens. The Company and the Guarantors, as applicable, affirm the liens and security interests created and granted in the Credit Agreement and the Basic Documents and agree that this Second Amendment shall in no manner adversely affect or impair such liens and security interests.

3. Representations and Warranties. The Company hereby represents and warrants to the Banks and the Agent that (a) no Event of Default exists and is continuing under the Credit Agreement; (b) the Company has no claims,

counterclaims, offsets, credits or defenses to the Basic Documents and the performance of its obligations thereunder, or if the Company has any such claims, counterclaims, offsets, credits or defenses to the Basic Documents or any transaction related to the Basic Documents, same are hereby waived, relinquished and released in consideration of the Banks' execution and delivery of this Second Amendment; and (c) since the date of the last financial statements of the Company delivered to Banks, no material adverse change has occurred in the business, financial condition or prospects of the Company other than as previously disclosed to the Banks.

4. Acknowledgment of Guarantors. The Guarantors acknowledge and consent to all of the terms and conditions of this Second Amendment and agree that this Second Amendment and all documents executed in connection herewith do not operate to reduce or discharge the Guarantors' obligations under the Credit Agreement or the other Basic Documents. The Guarantors acknowledge and agree that the Guarantors have no claims, counterclaims, offsets, credits or defenses to the Basic Documents and the performance of the Guarantors' obligations thereunder, or if Guarantors did have any such claims, counterclaims, offsets, credits or defenses to the Basic

Documents or any transaction related to the Basic Documents, the same are hereby waived, relinquished and released in consideration of the Banks' execution and delivery of this Second Amendment.

5. No Other Changes. Except as expressly modified and amended in this Second Amendment, all of the terms, provisions and conditions of the Basic Documents shall remain unchanged.
6. Counterparts. This Second Amendment may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.
7. ENTIRETY. THIS SECOND AMENDMENT AND THE OTHER BASIC DOCUMENTS EMBODY THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND SUPERSEDE ALL PRIOR AGREEMENTS AND UNDERSTANDINGS, IF ANY, RELATING TO THE SUBJECT MATTER HEREOF. THESE BASIC DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE

PARTIES.

This Second Amendment is executed as of the day and year first written above.

ATTEST: BORROWER  
LADD FURNITURE, INC.

By: \_\_\_\_\_  
Assistant Secretary  
  
(corporate seal)

By: \_\_\_\_\_  
William S. Creekmuir  
Senior Vice President and  
Chief Financial Officer

ATTEST: GUARANTORS  
PENNSYLVANIA HOUSE, INC.

By: \_\_\_\_\_  
Assistant Secretary  
  
(corporate seal)

By: \_\_\_\_\_  
William S. Creekmuir  
Vice President

ATTEST: BROWN JORDAN COMPANY

By: \_\_\_\_\_  
Assistant Secretary  
  
(corporate seal)

By: \_\_\_\_\_  
William S. Creekmuir  
Vice President

ATTEST: CLAYTON-MARCUS COMPANY, INC.

By: \_\_\_\_\_  
Assistant Secretary  
  
(corporate seal)

By: \_\_\_\_\_  
William S. Creekmuir  
Vice President

ATTEST: LADD CONTRACT SALES CORPORATION

By: \_\_\_\_\_  
Assistant Secretary

By: \_\_\_\_\_  
William S. Creekmuir

Vice President

(corporate seal)

ATTEST: FURNIER FURNITURE, INC.

By: \_\_\_\_\_

Assistant Secretary

(corporate seal)

By: \_\_\_\_\_

William S. Creekmuir

Vice President

ATTEST: BARCLAY FURNITURE CO.

By: \_\_\_\_\_

Assistant Secretary

(corporate seal)

By: \_\_\_\_\_

William S. Creekmuir

Vice President

ATTEST: AMERICAN FURNITURE COMPANY, INCORPORATED

By: \_\_\_\_\_

Assistant Secretary

(corporate seal)

By: \_\_\_\_\_

William S. Creekmuir

Vice President

ATTEST: PILLIOD FURNITURE, INC.

By: \_\_\_\_\_

Assistant Secretary

(corporate seal)

By: \_\_\_\_\_

William S. Creekmuir

Vice President

ATTEST: LEA INDUSTRIES, INC.  
(a North Carolina corporation)

By: \_\_\_\_\_  
Assistant Secretary  
  
(corporate seal)

By: \_\_\_\_\_  
William S. Creekmuir  
Vice President

[signatures continued]

BANKS  
NATIONSBANK, N.A. (CAROLINAS) f/k/a  
NATIONSBANK BANK OF NORTH CAROLINA,  
N.A. as Agent and as a Bank

By: \_\_\_\_\_  
Gregory W. Powell  
Senior Vice President

CIBC INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

CREDITANSTALT CORPORATE FINANCE,  
INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

WACHOVIA BANK OF NORTH CAROLINA,  
N.A.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ABN AMRO BANK N.A.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BRANCH BANK AND TRUST COMPANY

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

COMMONWEALTH BANK, a division of  
MERIDIAN BANK

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

[signatures continued]

FIRST UNION NATIONAL BANK OF NORTH  
CAROLINA

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

PNC BANK, NATIONAL ASSOCIATION

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

NBD BANK f/k/a NBD BANK, N.A.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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