

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
SEC Accession No. **0000950152-99-002482**

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### FILER

#### **PAGES INC /OH/**

CIK: **354564** | IRS No.: **341297143** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-K405** | Act: **34** | File No.: **000-10475** | Film No.: **99575089**  
SIC: **5190** Miscellaneous nondurable goods

#### Mailing Address

*801 94TH AVENUE NORTH  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)  [X]

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

For the fiscal year ended December 31, 1998

OR

[ ]

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

Commission File Number 0-10475

MEDIA SOURCE, INC.  
(FORMERLY KNOWN AS PAGES, INC.)

(Exact Name of Registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of  
incorporation or organization)

34-1297143

(I.R.S. Employer  
Identification No.)

5720 AVERY ROAD, DUBLIN, OHIO 43016  
(Address of principal executive offices)

Registrant's telephone number: (614) 793-8749  
Securities registered pursuant to Section 12(b) of the Act: None  
Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$0.01 Par Value per Share  
(Title of Class)

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  X NO  .  
--- ---

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of March 15, 1999, was \$387,907 (computed by reference to the last sale price of such stock as reported on the OTC Bulletin Board).

The number of Common Shares, each with \$0.01 par value, of the registrant outstanding as of March 15, 1999, was 328,200 (this number reflects the one-for-twenty reverse stock split effective March 9, 1999 and is subject to rounding).

Exhibit index on page 51  
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PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Media Source, Inc. (the "Company", formerly known as Pages, Inc.), was formed as an Ohio corporation in 1980, and on October 14, 1994, it reincorporated under the laws of the State of Delaware. The operations of the Company are principally through its wholly-owned subsidiary, MT Library Services, Inc. ("MTLS" formerly known as Pages Library Services, Inc.), a Florida corporation and its affiliates. One of these affiliates, Junior Library Guild ("JLG"), which the Company acquired in 1994, distributes children's literature throughout the United States, primarily through subscription services. The Company's United Kingdom subsidiary, Great British Book Fairs,

Limited, was sold and its Canadian distribution channel, Great Owl Book Fairs, Inc., closed in March, 1996. A spin-off of CASCO INTERNATIONAL, INC., ("CASCO"), formerly a wholly-owned subsidiary of the Company, was completed on December 31, 1996. The sale of certain business assets of Pages Book Fairs, Inc. ("PBF"), also a wholly owned subsidiary of the Company, was completed on June 25, 1998. The financial statements contained herein do not reflect the ongoing revenues and operations of PBF; which were material to the Company in the past.

The Company held a Special Stockholder's Meeting on February 18, 1999 to vote on two items; a name change and a reverse stock split. The proposed name change for the Company, Media Tech, Inc., was approved but subsequently found to be in use by another corporation. Thereafter, the Company legally changed its name from Pages, Inc. to Media Source, Inc. and changed the symbol for its common stock to "MESH" on the OTC Bulletin Board administered by the National Association of Securities Dealers, Inc. During the Special Stockholder's Meeting, the stockholders of the Company also approved a one-for-twenty reverse stock split. Stockholders of record as of March 9, 1999 owning less than twenty shares were deemed to own a fractional new share interest and the Company will pay, in cash, the fair value of all of the fractional new share interests owned, following the reverse split, based on the trading price of the common stock immediately after the reverse split.

#### NARRATIVE DESCRIPTION OF BUSINESS

**MARKET OVERVIEW.** The Company markets its children's literature primarily through JLG book subscriptions directly to librarians at public libraries and both private and public school libraries. The Company's primary focus group is kindergarten through grade 12. The U.S. student enrollment is over 38 million. There are over 16,000 public libraries and over 75,000 school libraries in the United States.

**LIBRARY SALES.** The Company markets directly to public and private school libraries and public libraries through MTLs. JLG, which was founded in 1929, offers high quality, award-winning children's literature in nine reading levels through a 12-month subscription program. The JLG name is a valued trademark and identity in the children's library market. A JLG subscription provides libraries with some of the highest quality current children's literature in first edition hardcover books at up to 50% off of publishers' cover prices. The National Library Services ("NLS") division, now discontinued, marketed high quality, hardcover books at prices up to 60% off of publishers' cover prices.

**MARKETING AND CUSTOMER SERVICE.** Currently, the Company markets its book subscriptions and children's literature through approximately 4 trained telephone sales representatives located in its Tampa, Florida office. The telephone sales representatives undergo extensive training, monitoring, and supervision

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to ensure quality control and consistency. The Company's computer system allows telephone sales representatives to sequence solicitations according to account profitability.

In primary and secondary schools, decisions relating to book subscriptions and literature are usually made by school librarians, media specialists, or reading specialists. Surveys conducted by the Company indicate that product quality, quantity, and customer service are the three most important factors considered by librarians in selecting a book subscription company. The Company has established an on-line system which can be accessed by each of its telemarketers and customer service representatives to retrieve messages and special requests from customers. Additionally, the Company maintains a customer service department with a national toll-free number. The customer service department incorporates information derived from customers, enabling the Company to measure the effectiveness of its marketing programs and monitor the performance of its services.

The Company currently offers 108 new book titles per year in its subscription service. In addition, customers are able to purchase up to 200 book titles previously offered at a reduced price. The Company's editorial department, located in New York, New York, selects book titles from more than 1,000 manuscripts and other sources submitted by children's book publishers each year based upon such factors as literary quality, educational value and sales potential. The Company has a history of selecting a wide variety of award-winning, favorably reviewed titles by critically acclaimed authors.

**PUBLISHING.** The Company published and marketed reasonably priced leisure-based children's printed literature and media products. The Company's books generally had a retail price ranging from \$0.99 to \$19.99, depending largely on whether the books were soft or hardcover. Most of the books sold were softcover having a retail price of less than \$5.95. In 1998, approximately 70% of the titles offered were purchased from other publishers or were reprints licensed from other publishers. The remaining titles offered were proprietary titles produced and published by the Company's Pages Publishing Group division under its Willowisp Press (R), Hamburger Press (R), Worthington Press (R), and

Riverbank Press(R) imprints. In 1998, the Company's book fairs included over 110 fiction and non-fiction books and related products published under its proprietary imprints. Approximately 850 proprietary titles of the Company consistently ranked at the top of the best selling books at the book fairs. In 1998, 50% of the top-selling 50 books through the Company's book fair distribution channel were proprietary titles. All of the Company's proprietary books were manufactured by independent printers, which were generally selected on the basis of price and quality. The Company had no agreements or contractual arrangements with any printer other than purchase order commitments issued in the normal course of business. The Company believed that it was not dependent on any one printer. The Company's Pages Publishing Group division may resume the printing of its' proprietary titles at some point in the future.

PAGES BOOK FAIRS. The principal distribution channel for the Company's children's literature, June 1998 and prior, was through its school book fairs. The Company was marketing its book fairs under its "Pages Book Fairs, the Original School Book Fair Company" trade name. The Company sold more than 6 million children's books and related items in 1998 through its book fairs. Based on information obtained through the conduct of its business, the Company believed that it operated the second largest school book fair business in the United States prior to its sale in June 1998. The Company continues to sell remaining PBF inventory and believes that it will continue to do so in the foreseeable future.

A typical book fair was generally one week in duration, conducted at a central location on school premises, and sponsored as a fund-raising event by parent groups, librarians, or media specialists. A school typically conducted one or two book fairs during the school year. Book fairs gave students the opportunity to browse and purchase quality, reasonably priced, leisure-based paperback books, hardcover books, and

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4 related products such as posters, pencils, erasers, and bookmarks. PBF provided to the schools, child-friendly display cases that were fully stocked with books and related products. The sponsor conducted the book fair, retained a percentage of the sales receipts, and remitted the balance to PBF. The amount of this net sale, after the sponsor's profit, was recorded by PBF as revenue.

DISTRIBUTION. Approximately 95% of the Company's elementary and middle school book fairs were "case fairs," in which fully stocked book cases were delivered to and retrieved from the schools by the Company's independent distributors. The balance of the Company's book fairs were "direct-marketed fairs," in which the books and merchandise were delivered and retrieved through the mail. Direct-marketed fairs were utilized for elementary and middle schools located in sparsely populated areas with a small number of schools where a case fair would not be cost-effective and for pre-schools because fewer titles were offered. Books and related merchandise for case fairs were distributed by the Company to its distributors from its warehouse in Worthington, Ohio. Books and merchandise for direct-marketed fairs were distributed directly to the schools from the Company's warehouse.

As of December 31, 1998, the Company terminated 8 company and 67 independent distributors located in territories throughout the United States. The Company's independent distributors were independent contractors who were compensated by the Company on a commission basis. All distributors were responsible for the custody and care of an inventory of the Company's products and for delivery, setup, resupply during the fair, and retrieval of the products after book fairs. The Company believed its distribution structure was superior to others in the book fair business because of the ability of the independent distributor to provide superior, personalized service at all hours of the day or night.

GROWTH OPPORTUNITIES. In 1998, the Company's 25,000 JLG subscriptions were enjoyed by approximately 12 million students and teachers. This access affords the Company an opportunity to increase sales of its products directly to teachers and librarians. The Company believes that its existing subscription sales organization and its marketing system are capable of absorbing additional volume and can be utilized to increase its share of the existing school library and public library markets. Currently, the Company has a customer base of approximately 6,500 which comprises approximately 7% of the entire school library and public library market nationwide. The Company plans to establish a sales force in Ohio and increase its sales force in Florida over the next several years to increase its revenue potential.

#### EMPLOYEES

As of March, 1999, the Company employed a total of approximately 16 permanent and 4 seasonal persons in the United States. The number of employees fluctuated during 1998 from a high of 165 to a low of 20 due to the cyclical nature of the Company's business. With the sale of the Company's book fair business segment, approximately 140 employees were reduced from the workforce. None of the Company's employees are represented by a labor union. The Company considers its relationship with its employees to be excellent.

The Company owns or licenses the rights to the principal trademarks used in its business. The Company's principal trademarks are registered and the Company considers protection of such trademarks to be important to its business. U.S. trademarks expire ten years after they are granted, but are renewable. It is the Company's policy to renew all of its trademarks for active business lines. The Company is not aware of any other pending claims of infringement or challenges to the Company's right to use its trademarks.

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COMPETITION

The distribution of children's leisure-based literature, in general, is a highly competitive business. However, the structure of JLG, the product and level of customer service that it provides are unique and the Company knows of no direct competitors.

SEASONALITY AND WORKING CAPITAL

The children's literature business correlates closely to the school year. As a result, the sales force is reduced during mid-June through mid-August and again around the Christmas season. As a subscription service, however, revenue is not seasonal and shipments of inventory continue throughout the year. Cash receipts decline during the summer months but do not cease as public libraries remain open.

YEAR 2000

The Year 2000 problem arises from the fact that, due to early limitations on memory and disk storage, many computer programs indicate the year by only two digits, rather than four. This limitation can cause problems that perform arithmetic operations, comparisons or sorting of data fields to yield incorrect results when working outside the year range of 1900-1999. This could cause computer applications to fail or to create erroneous results unless corrective measures are taken. Incomplete or untimely resolution of the Year 2000 issue could have a material impact on the Company's business, operations or financial condition in the future. The Company has been assessing the impact that the Year 2000 issue will have on its computer systems, including both hardware and software. In response to these assessments, which are ongoing, the Company spent approximately \$7,000 and has completed accounting and telemarketing software conversions to Year 2000 compliant software systems. The Company has found no other systems that it uses to have date-related deficiencies. The Company is also surveying its bank, customers and critical vendors to determine the status of their Year 2000 compliance programs.

Based upon current available information, the Company believes that the Year 2000 compliance is substantially completed. Assuming that project plans can be implemented as planned, the Company believes future costs related to becoming Year 2000 compliant, which will be expensed as incurred, will not have a material adverse impact on the Company's business, operations or financial condition.

SUBSEQUENT EVENTS

The Company held a Special Stockholder's Meeting on February 18, 1999 to vote on two items; a name change and a reverse stock split. The proposed name change for the Company, Media Tech, Inc., was approved but subsequently found to be in use by another corporation. Thereafter, the Company legally changed its name from Pages, Inc. to Media Source, Inc. and changed the symbol for its common stock to "MESH" on the OTC Bulletin Board administered by the National Association of Securities Dealers, Inc. During the Special Shareholder's Meeting, the stockholders of the Company also approved a one-for-twenty reverse stock split. Stockholders of record as of March 9, 1999 owning less than twenty shares were deemed to own a fractional new share interest and the Company will pay, in cash, the fair value of all of the fractional new share interests owned, following the reverse split, based on the trading price of the common stock immediately after the reverse split.

In March 1999, Keith A. Hadley, the Chief Financial Officer and Treasurer of the Company announced his resignation.

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ITEM 2. PROPERTIES

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The principal facilities of the Company are as follows:

<TABLE>  
<CAPTION>

LOCATION	USE	SIZE	OWNED/ LEASED	EXPIRATION
<S>	<C>	<C>	<C>	<C>
Worthington, Ohio	*Office and Warehouse	61,530 sq. ft.	Owned	
Dublin, Ohio	Office and Warehouse	4,700 sq. ft.	Leased	M/M
New York, New York	Office	750 sq. ft.	Leased	5/99
Tampa, Florida	Office	1,780 sq. ft.	Leased	8/99

\*The facilities are being used on a temporary basis by JLG. These facilities are all located in appropriately designed buildings, which are kept in good repair.

ITEM 3. LEGAL PROCEEDINGS

INTERNAL REVENUE SERVICE ASSESSMENT

During the Spring of 1993, the Company was advised that the Internal Revenue Service ("IRS") might assess additional income taxes in connection with the examination of the tax returns of PBF and its affiliates for the fiscal years ending July 31, 1988, 1989, 1990, and 1991. In June, 1993, the Company recorded a \$2 million adjustment to its purchase price allocation of PBF assets, which increased the cost in excess of assets acquired (i.e. - goodwill), and recorded a corresponding increase in accrued tax liabilities and related costs.

In October, 1995, the Company received four Notices of Deficiency from the IRS relating to this examination. The Notices of Deficiency assessed additional income taxes of approximately \$4.7 million and penalties of approximately \$1.3 million, plus interest. The asserted deficiencies were attributable primarily to a restructuring of PBF and related entities that occurred on August 1, 1988 (before PBF was acquired by the Company), in which, along with other events, certain assets were transferred between related companies. The IRS had challenged, among other things, the values assigned to those assets by the parties to the transaction, contending that the assets were undervalued and that PBF recognized a substantial taxable gain in the transaction. In January 1996, the Company filed petitions with the Tax Court disputing the IRS valuation of the assets transferred, and other points in the IRS assessment.

On October 28, 1996, the Company entered into a settlement with the IRS regarding the four Notices of Deficiencies and was assessed additional taxes for the fiscal years 1988, 1989, 1990, and 1991. The settlement included income taxes of \$750,000, plus interest of approximately \$750,000, for a total of approximately \$1.5 million. The Company negotiated a payment plan with the IRS that spread the payments, including interest, over twelve months starting in March, 1997. At December 31, 1997, the balance due was approximately \$300,000 and was paid in full by second quarter 1998.

On December 27, 1996, the Company filed an action in U.S. District Court for the Northern District of Ohio against Arthur Andersen & Co. LLP seeking in excess of \$16 million in damages. The complaint is a result of the final outcome of the IRS assessment described above and representations made by Arthur Andersen & Co. during the Company's purchase of PBF in 1992. On September 16, 1998, the Company settled its litigation for \$450,000 and incurred attorney's fees and expenses of \$160,000. Additionally, the

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Company is subject to litigation by expert witnesses used in this suit against its former auditors. Management believes it is probable that the Company will have to pay some judgment but the amount is not believed to be determinable by the Company.

ILLINOIS DEPARTMENT OF REVENUE SALES TAX ASSESSMENT

The Company is currently involved in litigation regarding sales tax for PBF. The Company has retained legal counsel and anticipates settlement of this matter during 1999. Management believes that the outcome of these legal proceedings may result in an unfavorable judgment and has recorded a liability of approximately \$500,000.

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

None.

PART II

ITEM 5. MARKET PRICE FOR THE COMPANY'S COMMON STOCK AND RELATED

STOCKHOLDER MATTERS

The Common Stock is traded on the OTC Bulletin Board under the symbol "MESH." The following table sets forth for the periods indicated the high and low sale prices for shares of the Common Stock, as reported on the OTC Bulletin Board.

<TABLE>  
<CAPTION>

	Trade Price	
	High*	Low*
Calendar Year Ended December, 1998		
Fourth Quarter	3 3/4	3 3/4
Third Quarter	6 1/4	5
Second Quarter	25	23 3/4
First Quarter	32 1/2	30
Calendar Year Ended December, 1997		
Fourth Quarter	52 1/2	30
Third Quarter	57 1/2	27 1/2
Second Quarter	42 1/2	27 1/2
First Quarter	65	35

</TABLE>

\*Based on March 9, 1999 one-for-twenty reverse stock split.

As of March 9, 1999, the Company had approximately 609 holders of record of its Common Stock.

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The Company has not paid dividends since December 27, 1985. The Company anticipates that for the foreseeable future it will retain any earnings in order to finance the expansion and development of its business, and no cash dividends will be paid on its common stock.

Effective February 23, 1998, Nasdaq implemented new listing standards. One of these requirements is that all companies have net tangible assets (total assets, excluding goodwill, minus total liabilities) of at least \$4 million. As of December 31, 1997, the Company had net tangible assets of \$760,700. The Company was notified by The Nasdaq Stock Market, Inc. that the Common Stock was scheduled for delisting at the close of business on March 16, 1998, unless the Company requested a temporary exception to the new requirements by sending a hearing request prior to the close of business on March 13, 1998.

The Company mailed a hearing request on March 9, 1998, and requested an expedited written hearing, the effect of which was to stay the delisting. On March 26, 1998, the Company delivered a written submission supporting its argument in favor of an exception and requesting a period of 120 days to implement a plan to increase its net assets. The plan included a strategic expense reduction initiative underway by management, the offer by the Company of convertible preferred stock, discussions the Company was currently having with manufacturers of various products with respect to purchasing their products for resale in the Company's book fairs but paying the purchase price with Common Stock rather than cash, and an exchange of the Company's convertible preferred stock for convertible preferred stock issued by another company.

On July 24, 1998, the Company was notified that an exception to the delisting of common stock was refused and delisting was effective with the close of business on July 28, 1998. The Securities of the Company were immediately eligible to trade on the OTC Bulletin Board, where they currently trade.

The Bulletin Board prices represent inter-dealer quotations, without adjustment for retail mark-up, markdown or commissions and may not represent actual transactions

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<TABLE>  
1998 Sales of Unregistered Securities

<CAPTION>

Date	Title	Amount*	Name of Purchaser	Offering Price/ Nature of Transaction *	Registration Exemption Claimed	Terms of Conversion or Exercise*
1/23/98	Warrant	19,575 sh	Provident Bank	10 year warrant exercisable at	Securities Act of 1933	10 year warrant

				\$45.00 in consideration for \$3.0 million subordinated note	Section 4(2) Exemption	exercisable at \$45.00
1/23/98	Warrant	4,210 sh	First Taconic Securities	5 year warrant exercisable at \$23.75 in consideration for subordinated financing	Securities Act of 1933 Section 4(2) Exemption	5 year warrant exercisable at \$23.75
4/1/98	Options	5,000 sh	S. Robert Davis Chairman of Media Source, Inc. (Accredited Investor)	5 year option exercisable at \$45.20 per share	Securities Act of 1933 Section 4(2) Exemption	5 year option exercisable at \$45.20 per share
4/1/98	Options	5,000 sh	William L. Clarke Former Senior Vice President of Media Source, Inc. (Accredited Investor)	5 year option exercisable at \$45.20 per share	Securities Act of 1933 Section 4(2) Exemption	5 year option exercisable at \$45.20 per share

</TABLE>

\*Based on March 9, 1999 one-for-twenty reverse stock split.

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ITEM 6. SELECTED FINANCIAL DATA

All per share data has been adjusted to reflect the one-for-twenty reverse stock split.

<TABLE>

<CAPTION>

(In thousands, except per share data)

	YEAR ENDED DECEMBER 31				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Revenues	\$ 2,646	\$ 3,390	\$ 4,611	\$ 4,015	\$2,990
Costs and expenses	3,179	3,771	5,815	4,581	3,051
Valuation adjustment - note receivable	--	1,500	--	--	--
Loss from continuing operations before income taxes	(533)	(1,881)	(1,204)	(566)	(61)
(Provision) benefit for income taxes	--	--	--	--	--
Loss from continuing operations	(533)	(1,881)	(1,204)	(566)	(61)
Discontinued operations					
Loss from operations	(2,866)	(3,500)	(1,517)	(8,004)	(411)
Gain(Loss) on disposal	(577)	--	3,255	(650)	--
Cumulative effect of change in accounting principles	--	--	995	--	--
Net income (loss)	\$ (3,976)	\$ (5,381)	\$ 1,529	\$ (9,220)	\$ (472)
PER SHARE DATA:					
BASIC AND DILUTED:					
Loss from continuing operations	\$ (1.63)	\$ (5.97)	\$ (4.34)	\$ (2.29)	\$ (0.31)
Discontinued operations, net of cumulative effect of accounting change of \$3.58 in 1996	(10.49)	(11.10)	9.85	(35.04)	(2.02)
Net income (loss) available to common Stockholders	\$ (12.12)	\$ (17.07)	\$ 5.51	\$ (37.33)	\$ (2.33)
Cash dividends per common share	--	--	--	--	--
Weighted average common shares	328	315	278	247	203

<TABLE>

<CAPTION>

	AT DECEMBER 31				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED BALANCE SHEETS DATA:					
Working capital	\$ 106	\$ 289	\$ 3,935	\$15,719	\$13,527

Total assets	6,480	28,083	41,320	54,849	68,005
Long-term obligations	2,057	2,174	4,265	19,360	8,927
Stockholders' equity	1,226	5,202	12,876	10,674	19,593

NOTE 1: The tax provision was an allowance against previously recorded deferred tax assets.

NOTE 2: The prior years have been restated to reflect discontinued operations.

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PERFORMANCE CHART

The following chart compares the yearly change in the Company's total return (which reflect the restatement of results due to discontinued operations) to its Stockholders as compared to total return of the Center for Research in Securities Prices Total Return Index for the NASDAQ Stock Market (U.S.) and the Standard and Poors Publishing Group for the five-year period from December 31, 1993 to December 31, 1998. Total stockholder return for the Company, as well as for the Indexes, was determined by adding (a) the cumulative amount of dividends for a given year (assuming dividend reinvestment), and (b) the difference between the share price at the beginning and at the end of the year, the sum of which is then divided by the share price at the beginning of the year.

<TABLE>

INDEXED RETURNS  
YEARS ENDED

<CAPTION>

Company/Index	12/31/98	12/31/97	12/31/96	12/31/95	12/31/94	Base period 12/31/93
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Media Source, Inc.	0.8	14.0	30.2	15.1	41.9	100
Standard & Poor Publishing 500	192.1	163.8	113.0	114.5	92.5	100
Nasdaq Composite	282.3	202.2	166.2	135.4	96.8	100

</TABLE>

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-K under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other statements contained elsewhere in this Form 10-K regarding matters that are not historical facts are "forward-looking statements" (as such term is defined in the Private Securities Litigation Reform Act of 1995) and because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Those statements appear in a number of places in this Form 10-K and include remarks regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things: (i) the Company's ability to raise additional capital; (ii) future operating cash flows; (iii) ability of the Company to absorb additional volume; (iv) the Company's growth strategy; (v) the Company's opportunity to increase sales of its products and its market share; and (vi) trends affecting the Company's financial condition or results of operations. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected, anticipated or expected in the forward-looking statements as a result of various factors, many of which, such as the Company's ability to raise additional capital, are beyond the control of the Company. The accompanying information contained in this Form 10-K, including, without limitation, the information set forth under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," identifies important factors that could cause such differences.

YEAR ENDED DECEMBER 31, 1998, COMPARED TO YEAR ENDED DECEMBER 31, 1997

Revenues for the year ended December 31, 1998, approximated \$2.6 million, compared to approximately \$3.4 million for the year ended December 31, 1997, a decrease of 22% or approximately \$800,000. The decrease in revenues was principally attributable to the addition of one monthly subscription shipment in 1997 and a decrease of one monthly subscription shipment in 1998.

Cost of goods sold was approximately \$1.2 million for the year ended December 31, 1998, compared to approximately \$1.5 million for the year ended December 31, 1997, a decrease of 22% or approximately \$300,000. The decrease in cost of goods sold was due to the reduction in revenues discussed above. Cost of goods sold as a percentage of revenues remained at 44% for 1998 and 1997.

Selling, general, and administrative expense was approximately \$2.0 million for the year ended December 31, 1998, compared to approximately \$2.3 million for the year ended December 31, 1997, a decrease of 15% or approximately \$300,000. The decrease in selling, general, and administrative expense was attributable to the June, 1998 reduction in the workforce of the Company.

Interest expense was approximately \$310,000 for the year ended December 31, 1998, compared to interest income of \$210,000 for the year ended December 31, 1997, an increase of 248% or approximately \$520,000. Interest expense for 1997 included approximately \$350,000 of interest income earned on the \$5.0 million note receivable from a former subsidiary, CASCO INTERNATIONAL, INC. The average outstanding debt in 1998 approximated \$3.1 million compared to \$1.5 million for 1997. Additionally, the average interest rate for 1998 approximated 11.24%, compared to approximately 10.25% for 1997.

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Depreciation and amortization expense was approximately \$167,000 for the year ended December 31, 1998, compared to \$148,000 for the year ended December 31, 1997, an increase of 13% or approximately \$19,000.

There was no income tax provision for 1998 due to the Company's net operating loss position and the full valuation of any resulting deferred tax benefit.

The loss from continuing operations for 1998 was approximately \$500,000, compared to approximately \$1.9 million in 1997. The decrease in loss from continuing operations was due to lawsuit settlement proceeds of \$450,000 in 1998 as compared to a \$1.5 million loss for valuation adjustment on the CASCO INTERNATIONAL, INC. note receivable which was recognized in 1997.

1998 resulted in a net loss of approximately \$4.0 million versus a net loss of approximately \$5.4 million in 1997. Included in the 1998 net loss was approximately \$2.9 million from discontinued operations of the book fair business segment and approximately \$577,000 from the sale of PBF business assets. PBF incurred a \$3.5 million loss on discontinued operations in 1997. Earnings per share increased to a net loss of \$12.12 per share for 1998, versus a net loss per share of \$17.07 in 1997. The weighted average common and common equivalent shares for 1998 increased to 328,200 from 315,300 in 1997.

YEAR ENDED DECEMBER 31, 1997, COMPARED TO YEAR ENDED DECEMBER 31, 1996

Revenues for the year ended December 31, 1997, approximated \$3.4 million compared to approximately \$4.6 million for the year ended December 31, 1996, a decrease of 27% or approximately \$1.2 million. The decrease in revenues was principally attributable to the discontinuance of NLS in 1997.

Cost of goods sold was approximately \$1.5 million for the year ended December 31, 1997, compared to approximately \$1.7 million for the year ended December 31, 1996, a decrease of 10% or approximately \$200,000. Cost of goods sold as a percentage of revenues was 44% for 1997, compared to 36% for 1996. The increase in cost of goods sold as a percentage of revenues was due to additional reading levels for JLG in 1998.

Selling, general, and administrative expense approximated \$2.3 million for the year ended December 31, 1997, compared to approximately \$3.9 million for the year ended December 31, 1996, a decrease of 39% or \$1.6 million. The decrease was mainly attributable to the reduction of expenses from the discontinuance of NLS in 1997.

Interest income was approximately \$210,000 for the year ended December 31, 1997, compared to approximately \$80,000 of interest expense for the year ended December 31, 1996 a decrease of 361% or approximately \$290,000. Interest expense for 1997 included approximately \$350,000 of interest income earned on the \$5.0 million note receivable from CASCO INTERNATIONAL, INC. The average outstanding debt in 1997 approximated \$1.5 million, compared to \$1.1 million for 1996. The average interest rate for 1997 approximated 10.25%, compared to approximately 9.5% for 1996.

Depreciation and amortization expense was approximately \$148,000 for the year ended December 31, 1997, compared to \$224,000 for the year ended December 31, 1996, a decrease of 34% or approximately \$76,000.

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There was no income tax provision for 1997 due to the Company's net

operating loss position and the full valuation of any resulting deferred tax benefit.

The loss from continuing operations for 1997 was approximately \$1.9 million, compared to an operating loss from continuing operations of approximately \$1.2 million for 1996. The increased loss for 1997 was primarily attributed to the reduction in gross profit associated with the additional reading levels in JLG, the discontinuance of NLS, and a \$1.5 million valuation adjustment on the CASCO INTERNATIONAL, INC. note receivable.

1997 resulted in a net loss of approximately \$5.4 million, versus net income of approximately \$1.5 million in 1996. Included in the 1996 net income was a \$1.7 million gain from discontinued operations (\$3.3 million gain recorded on the sale of the Great British Book Fairs, Limited and \$1.6 million loss on the discontinuance of PBF) as compared to \$3.5 million loss from discontinued operations in 1997. Also included in the 1996 net income was approximately \$900,000 of income from the discontinued operations of the Company's former subsidiary, CASCO INTERNATIONAL, INC. Earnings per share decreased to a net loss of \$17.07 per share for 1997, versus a net income per share of \$5.51 in 1996. The weighted average common and common equivalent shares for 1997 increased to 315,300 from 277,550 in 1996.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company had a net increase in cash for the year ended December 31, 1998, of \$586,000. Cash provided by investing activities funded the net cash used in operating and financing activities during the year ended December 31, 1998. Cash on hand was \$998,000 at December 31, 1998, compared to \$412,000 at December 31, 1997.

For the year ended December 31, 1998, continuing operations provided \$1.2 million and net cash used in operations was \$2.3 million as compared to \$840,000 provided by continuing operations and \$2.7 million of net cash used for operations for the year ended December 31, 1997. Included in operating cash outlays for both 1998 and 1997 was \$3.5 million related to discontinued book fair operations. Included in operating cash outlays in 1997 was \$375,000 and \$1.2 million, relating to the settlements of the previously disclosed litigation with Gruner + Jahr and the Internal Revenue Service, respectively. The decrease in cash used in operations in 1998 versus 1997 resulted primarily from sale of book fair business from operations (approximately \$8.0 million).

Cash provided by investing activities was \$10.6 million for the year ended December 31, 1998, representing the sale of the Company's book fair business assets. In the year ended December 31, 1997, cash used in investing activities was \$265,000, primarily representing the purchase of fixed assets.

For the year ended December 31, 1998, net cash used in financing activities was \$7.7 million. This compares to net cash provided by financing activities of \$3.0 million for the year ended December 31, 1997. In 1998, proceeds from the sale of the Company's book fair business were used to repay debt obligations. Financing activities in 1997 consisted primarily of net borrowings of approximately \$1.4 million on the Company's line of credit and time note, approximately \$600,000 of stock issued for inventory purchases and consulting services, and approximately \$1.0 million raised through private placement of subordinated debt.

The Company's primary source of liquidity has been its existing credit facilities. At December 31, 1997, the Company had an \$11.5 million revolving credit facility (\$1.4 million unused at December 31, 1997) bearing interest at the lender's prime rate plus 1%, due June 30, 1998, and a \$1.0 million time note (none unused at December 31, 1997) bearing interest at the lender's prime rate plus 2%, due February 28,

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1998. The Company agreed to an early repayment of a \$5.0 million note receivable from CASCO INTERNATIONAL, INC., at a discounted amount of \$3.5 million. The \$3.5 million in proceeds was used to pay down the Company's existing line of credit and payoff the \$1.0 million time note. A revolving credit facility was simultaneously executed, replacing all prior revolving credit facilities, for \$8.0 million due on January 1, 2000. On January 21, 1998, the Company borrowed from Provident Bank \$3.0 million through a subordinated debt agreement, with warrants, bearing interest at 12.5 % and due January 21, 2004. On June 25, 1998, proceeds from the sale of the Company's book fair business were used to satisfy the subordinated debt held by Provident Bank and to pay \$7.8 million toward the outstanding balance due on its primary secured debt to The Huntington National Bank. At December 31, 1998, the only bank debt of the Company was a \$200,000 note payable to the Huntington National Bank bearing interest at the lender's prime rate plus 1%, due July 31, 2001.

The Company does not anticipate any material expenditures for property and equipment during the next twelve months.

As previously reported on Form 8-K filed July 10, 1998, and in the

Discontinued Operations footnote to the attached financial statements, on June 25, 1998, the Company sold its book fair business for \$10.5 million. \$1.0 million of the amount received was placed in escrow pending delivery of certain book inventories and book cases held at over 70 locations throughout the United States. In August, 1998, total funds in escrow were released after finalization of inventory and case collection and valuation.

At December 31, 1998, PBF had trade payables of \$376,000, in addition to, sales tax liabilities and lease obligations, of which nearly all were past normal terms. Since the book value of the assets of PBF are minimal and it has substantial liabilities, the Company is currently seeking professional advice as to what legal manner it should pursue in order to resolve or discharge these payables.

During 1998, the Company was not in compliance with its senior and subordinated debt covenants related to its tangible capital base, but has not received a notice of default from its lenders. This condition has been alleviated by the payoff of the subordinated debt and the substantial reduction in the senior debt to The Huntington National Bank.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company's exposure to market risk through derivative financial instruments and other financial instruments, such as investments in short-term marketable securities, is not material. A portion of the long-term debt of the Company has a variable interest rate and could be adversely affected by an increase in interest rates.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Financial Statement Schedule.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company filed a report on Form 8-K dated July 17, 1997, under item 4 announcing the dismissal of Deloitte & Touche, LLP as its principal independent accountant.

The Company filed a report on Form 8-K dated December 23, 1997, under item 4 announcing the appointment of new independent accountants, Hausser + Taylor, LLP.

The Company requested that the auditors of record for the year ended December 31, 1996, Deloitte and Touche, LLP, review and issue a representation letter to the current auditors of record, Hausser & Taylor, LLP, based on the restatement of the 1996 audit report originally prepared by Deloitte & Touche, LLP. The letter is required due to the restatement of the 1996 audit report to properly reflect the disposition of the book fair business in June, 1998 as discontinued operations. Deloitte & Touche, LLP refused to provide such a letter.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information concerning the directors and executive officers of the Company.

<TABLE>  
<CAPTION>

NAME	AGE	POSITION (1)	DIRECTOR OR EXECUTIVE OFFICER SINCE
<S>	<C>	<C>	<C>
S. Robert Davis	60	Chairman of the Board, President, Assistant Secretary, and Director	1990
Randall J. Asmo	34	Executive Vice President and Director	1992
Juan F. Sotos, M.D.	71	Director	1992

Robert J. Tierney	51	Director	1992
Keith A. Hadley	36	Chief Financial Officer and Treasurer	1998

(1) All positions are those held with the Company, except as otherwise indicated.

Executive officers are elected by the Board of Directors and serve until their successors are duly elected and qualify, subject to earlier removal by the shareholders. Directors are elected at the annual meeting of shareholders to serve for one year and until their respective successors are duly elected and qualify, or until their earlier resignation, removal from office, or death. The remaining directors may fill any vacancy in the Board of Directors for an unexpired term.

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BUSINESS EXPERIENCE OF DIRECTORS AND EXECUTIVE OFFICERS

S. ROBERT DAVIS was elected a director and Chairman of the Board in 1990, and Assistant Secretary in 1992. Prior to his election to the Board of Directors, he served as Assistant to the President from 1988 to 1990, on a part-time basis. Additionally, during the past five years, Mr. Davis has operated several private businesses involving the developing, sale and/or leasing of real estate but devotes substantially all of his business time to the Company. Mr. Davis is also the Chairman and a director of CASCO INTERNATIONAL, INC., a company with a class of securities registered pursuant to section 12 of the Securities Exchange Act of 1934.

RANDALL J. ASMO was elected Vice President in 1992 and a director in 1997. In 1998, Mr. Asmo was elected Secretary and Executive Vice President. Prior to that time, he served as Assistant to the President from 1990 to 1992. Additionally, since 1987, Mr. Asmo has served as Vice President of Mid-States Development Corp., a privately-held real estate development and leasing company, as Vice President of American Home Building Corp., a privately-held real estate development company, and as an officer of several other small business enterprises.

JUAN F. SOTOS, M.D. was elected as a director in 1992. Dr. Sotos has been a Professor of Pediatrics at The Ohio State University College of Medicine since 1962 and also serves as Chief of Endocrinology and Metabolism at Children's Hospital in Columbus, Ohio.

ROBERT J. TIERNEY was elected as a director in 1992. Dr. Tierney currently serves as the Acting Chairperson of the Ohio State University Department of Education Theory and Practice. Dr. Tierney is also active in education research and has served as a professor at The Ohio State University since 1984.

KEITH A. HADLEY was elected Chief Financial Officer and Treasurer in 1998. Previously, Mr. Hadley served as Compliance Manager at Crown NorthCorp, Inc., a publicly traded real estate asset management company, Audit and Corporate Tax Manager at Lexford Residential Trust, a REIT, and in several capacities in public accounting firms. Mr. Hadley resigned from the Company in March, 1999.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers and directors, and persons who beneficially own more than 10% of the Company's Common Stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission ("SEC") and the National Association of Securities Dealers, Inc. Executive officers, directors and greater than 10% beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to the Company and written representations from the executive officers and directors, the Company believes that all Section 16(a) filing requirements applicable to its executive officers, directors, and greater than 10% beneficial owners were complied with.

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ITEM 11. EXECUTIVE COMPENSATION  
-----

Each director who is not an officer of the Company receives a fee of \$1,100 for attendance at each Board meeting, a fee of \$550 for attendance at each telephonic Board meeting, and a fee of \$500 for attendance at each meeting of a Board committee of which he is a member. Directors who are also officers of the Company receive no additional compensation for their services as directors.

The following table shows, for the fiscal years ended December 31, 1998, 1997, and 1996, the cash compensation paid by the Company and its subsidiaries, as well as certain other compensation paid or accrued for those years, to the Company's President and each of its four other most highly paid executive officers whose total salary and bonus exceeded \$100,000 (the "Named Executive Officers"), and the principal capacity in which they served:

<TABLE>  
<CAPTION>

SUMMARY COMPENSATION TABLE  
ANNUAL COMPENSATION

NAME AND PRINCIPAL POSITION -----	YEAR ----	SALARY -----	BONUS -----	OTHER ANNUAL COMPENSATION -----	SECURITIES UNDERLYING
					OPTIONS/WARRANTS/ SAR'S (#) (1) (2) -----
<S>	<C>	<C>	<C>	<C>	<C>
S. Robert Davis, Chairman and President	1998	\$185,000(6)	\$0	\$0	0
	1997	\$192,115	\$0	\$0	9,663
	1996	\$167,704	\$0	\$138,086(3)	12,204
William L. Clarke (4)	1998	\$ 79,046	\$0	\$ 270(5)	0
Senior Vice President	1997	\$145,140	\$0	\$ 541(5)	1,458
	1996	\$ 88,346	\$0	\$ 166(5)	7,593

</TABLE>

(1) Stock options previously granted to the Named Executive Officers, by their terms, automatically adjust to reflect certain changes in the outstanding Common Shares of the Company, including stock dividends.

(2) Stock Appreciation Rights were awarded under the executive incentive compensation plan dated October 8, 1996. Effective April 1, 1997, the Stock Appreciation Rights program was canceled and these shares rescinded, (S. Robert Davis, 12,204 shares and William L. Clarke, 7,593 shares).

(3) Represents the difference between the fair market value of the Common Shares received and the stock option exercise price on the date of exercise.

(4) Mr. Clarke was elected Senior Vice President of the Company in May, 1996. Mr. Clarke's position was eliminated in June, 1998.

(5) Represents life insurance premiums paid for term life insurance provided as part of the health insurance plan provided to employees of PBF generally.

(6) Mr. Davis was paid \$54,423 in salary through May 7, 1998. From that date through June, 1999, Mr. Davis has elected to defer his annual salary of \$185,000. In June, 1999, Mr. Davis may elect to continue to defer his salary or be paid in cash or stock.

No Executive Officers have employment agreements with the Company.

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COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Juan F. Sotos, M.D. and Robert J. Tierney served as the Executive Compensation Committee during the last fiscal year. Neither Dr. Tierney nor Dr. Sotos serve or have served as an officer or employee of the Company or any of its subsidiaries. Neither of such persons serves on the Board of Directors of any other public company.

EXECUTIVE COMPENSATION COMMITTEE'S REPORT ON EXECUTIVE COMPENSATION

The Executive Compensation Committee (the "Committee") has designed its executive compensation policies to provide incentives to its executives to focus on both current and long-term Company goals, with an overriding emphasis on the ultimate objective of enhancing stockholder value. The Committee has followed an executive compensation program, comprised of cash and equity-based incentives, which recognizes individual achievement and encourages executive loyalty and initiative. The Committee considers equity ownership to be an important factor in providing executives with a closer orientation to the Company and its stockholders. Accordingly, the Committee encourages equity ownership to its executives through the grant of options to purchase Common Stock. Similarly, the Committee believes the Company's Employee Stock Purchase Plan encourages employees to build a meaningful stake in the Company, further aligning their interests with those of the stockholders.

The Company believes that providing attractive compensation opportunities is necessary to assist the Company in attracting and retaining competent and experienced executives. Base salaries for the Company's executives, and the executives employed by the Company's subsidiaries, have historically been established on a case-by-case basis by the Board of Directors,

based upon current market practices and the executive's level of responsibility, prior experience, breadth of knowledge, and salary requirements. Since its appointment in March 1993, the Committee has carried forward those policies. The base salaries of executive officers have historically been reviewed annually by the Board of Directors and are now reviewed annually by the Committee. Adjustments to such base salaries have been made considering: (a) historical compensation levels; (b) the overall competitive environment for executives; and (c) the level of compensation necessary to attract and retain executive talent. Stock options historically have been awarded upon hiring, promotion, or based upon merit considerations. As the value of a stock option is directly related to the market price of the Company's Common Stock, the Board of Directors believes the grant of stock options to executives encourages executives to take a view towards the long-term performance of the Company. Other benefits offered to executives are generally the same as those offered to the Company's other employees.

The Committee utilizes the same policies and considerations enumerated above with respect to compensation decisions regarding the Chairman of the Board and President, S. Robert Davis. Mr. Davis' 1998 base salary was determined primarily by reference to historical compensation, scope of responsibility, and the Company's desire to retain his services. The Committee believes its compensation policies with respect to its executive officers promote the interests of the Company and its stockholders through current motivation of the executive officers coupled with an emphasis on the Company's long-term success.

Executive Compensation Committee  
 Juan F. Sotos, M.D.  
 Robert J. Tierney

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OPTION/WARRANT GRANTS IN LAST FISCAL YEAR TO NAMED EXECUTIVE OFFICERS

All options that were granted during 1998 were also canceled during 1998.

AGGREGATED OPTIONS EXERCISED IN 1998 AND FISCAL YEAR-END OPTION/WARRANT VALUES

The following table provides certain information with respect to options exercised in fiscal 1998 by the Named Executive Officers and the value of such officers' unexercised options/warrants at December 31, 1998.

<TABLE>  
 <CAPTION>

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED (\$)	NUMBER OF UNEXERCISED OPTIONS /WARRANTS AT YEAR END (#)		VALUE OF UNEXERCISED IN-THE-MONEY (1) OPTIONS/WARRANTS AT YEAR END (\$) (2)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
S. Robert Davis	None	N/A	9,663	0	\$0	0

(1) "In-the-Money" options are options whose base (or exercise) price was less than the market price of Common Stock at December 31, 1998.

(2) Assuming a stock price of \$2.00 per share (as adjusted for one-for-twenty reverse stock split), which was the closing price of a share of Common Stock reported for the OTC Bulletin Board on December 31, 1998.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, to the best of the Company's knowledge, certain information as of March 9, 1999, with respect to the beneficial ownership of shares of the Company's common stock by each person known to the Company to be the beneficial owner of more than 5% of the Company's outstanding common stock, by each director, by the President, and each of the Named Executive Officers serving as of December 31, 1998, and by all directors and executive officers of the Company as a group. All information in the following table has been adjusted to reflect the one-for-twenty reverse stock split.

<TABLE>  
 <CAPTION>

NAME AND ADDRESS	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP (1)	PERCENT OF CLASS (2)
<S>	<C>	<C>

S. Robert Davis 5720 Avery Road Dublin, Ohio 43016	112,768 (3)	32.82%
Charles R. Davis 2124 Pine Valley Club Drive Charlotte, North Carolina 28277	25,311	7.37%
Randall J. Asmo 5720 Avery Road Dublin, Ohio 43016	4,945 (4)	1.44%
Juan F. Sotos, M.D. 4400 Squirrel Bend Columbus, Ohio 43220	3,468 (5)	1.01%
Robert J. Tierney 4805 Olentangy Blvd. Columbus, Ohio 43214	716 (6)	0.21%
	-----	-----
All executive officers and directors as a group (4 persons)	121,897 (7)	35.48%
	-----	-----

</TABLE>

(1) Represents sole voting and investment power unless otherwise indicated.

(2) Based on 328,200 shares of common stock outstanding as of March 15, 1999, plus, as to each person listed, that portion of the 34,188 unissued shares of common stock subject to outstanding options and warrants which may be exercised by such person within the next 60 days, and as to all executive officers and directors as a group, unissued shares of common stock as to which the members of such group have the right to acquire beneficial ownership upon the exercise of stock options/warrants within the next 60 days.

(3) Includes 1,255 shares owned by Mr. Davis' wife as to which Mr. Davis disclaims beneficial ownership and includes 9,663 unissued Common Shares as to which Mr. Davis has the right to acquire beneficial ownership upon the exercise of stock options and warrants within the next 60 days.

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(4) Includes 4,539 unissued Common Shares as to which Mr. Asmo has the right to acquire beneficial ownership upon the exercise of stock options within the next 60 days.

(5) Includes 578 unissued common shares as to which Dr. Sotos, a Director of the Company, has the right to acquire beneficial ownership upon the exercise of stock options within the next 60 days.

(6) Includes 578 unissued common shares as to which Dr. Tierney, a Director of the Company, has the right to acquire beneficial ownership upon the exercise of stock options within the next 60 days.

(7) The number of shares of common stock beneficially owned by all executive officers and directors as a group includes 15,358 unissued shares of common stock as to which they have the right to acquire beneficial ownership upon the exercise of stock options and warrants within the next 60 days, and 1,255 shares of common stock owned by Mrs. S. Robert Davis as to which Mr. Davis disclaims any beneficial ownership.

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

In July, 1997, the Company entered into a 12 percent subordinated convertible debt agreement for \$500,000 with S. Robert Davis, Chairman of Media Source, Inc. After one year from the debt's issue date, up to 85 percent of the face value of the debt is convertible at \$37.50 per share into common stock of Media Source, Inc.

In August 1997, the Company issued a \$130,000 13.5 percent subordinated note to Charles R. Davis, son of S. Robert Davis and a 7.4 percent owner of Media Source, Inc. This note was originally due February 22, 1998, and was extended and paid in full on June 30, 1998.

In September, 1997, in exchange for personally guaranteeing the Company's \$1.0 million time note, S. Robert Davis, Chairman, received a three year warrant for 50,000 shares of common stock, exercisable at \$45.00 per share.

In December, 1997, the Company recognized a valuation loss of \$1.5 million on the CASCO INTERNATIONAL, INC. ("CASCO") \$5.0 million note receivable. In January, 1998, an early repayment of \$3.5 million was made by CASCO to Media

Source, Inc. S. Robert Davis is the Chairman of Media Source, Inc. and of CASCO, owning 11.9 percent of CASCO's common stock. Charles R. Davis is the son of S. Robert Davis and the President of CASCO. Charles Davis owns 8 percent of Media Source, Inc.'s common stock.

In 1998, several investors provided the Company \$850,000 in subordinated notes payable with interest paid quarterly at 12 percent due August 1, 2000, of which 85 percent of the face value is convertible into common stock after one year from purchase. S. Robert Davis, Chairman of the Company, provided \$500,000 of the total.

In May 1998, S. Robert Davis deferred compensation through June 1999 and also deferred certain rental payments for corporate offices in Dublin, Ohio from July 1998 forward.

Also in 1998, S. Robert Davis personally guaranteed to The Huntington National Bank, a \$200,000 subordinated note payable for Media Source, Inc.

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On June 25, 1998, the Company negotiated the sale of its book fair company assets to Scholastic. Certain requirements and stipulations were mandated by Scholastic in order for them to enter into the purchase contract. The requirements of S. Robert Davis, Board Chairman, were as follows:

1. That S. Robert Davis personally guarantee, to Scholastic, \$6,400,000 of inventory located in approximately 70 distributor warehouses and the Company's warehouse in Columbus, Ohio. Davis did provide said guarantee to Scholastic.
2. That S. Robert Davis personally guarantee, to Scholastic, the delivery of 11,000 cases used in the marketing of books in its business. For each case not delivered of the 11,000 cases, the Company was required to pay \$350.00. The maximum exposure under this portion of the agreement to Mr. Davis was \$3,850,000 if the Company was unable to deliver any of the cases. Davis did provide said guarantee to Scholastic.
3. That S. Robert Davis, Charles R. Davis and Randall J. Asmo sign non-compete agreements for the next five years to Scholastic.

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#### PART IV

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

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(a) 1. Financial Statements:

See Index to Consolidated Financial Statements and Financial Statement Schedule following "Signatures."

2. Exhibits:

See the Exhibit Index.

(b) Reports on Form 8-K filed by Media Source, Inc. during the quarter ended December 31, 1998.

The Company filed a report on Form 8-K dated July 14, 1998, under item 7. The Company announced that pro forma financial information will be filed as soon as practicable, but not later than 60 days after the date of this report.

The Company filed a report on Form 8-K dated July 29, 1998, under item 5. The Company announced that it has been informed by Nasdaq that its securities will be delisted from The Nasdaq Stock Market effective with the close of business July 28, 1998.

The Company filed a report on Form 8-K dated January 13, 1999, under item 5. The Company announced that a Special Stockholders Meeting will be held on February 18, 1999 to vote on a proposal to approve (1) a one-for-twenty reverse stock split and (2) the Company's name change from Pages, Inc. to Media Tech, Inc.

(d) Financial Statement Schedule

See Index to Consolidated Financial Statements and Financial Statement Schedule following "Signatures."

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SIGNATURES

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Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, Media Source, Inc. has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Media Source, Inc.  
(Registrant)

Dated: March 26, 1999

By: /s/

-----  
S. Robert Davis  
Chairman of the Board, President,  
and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of Media Source, Inc. and in the capacities and on the date indicated.

Dated: March 26, 1999

By: /s/

-----  
S. Robert Davis  
Chairman of the Board, President,  
and Director  
(Principal executive officer)

Dated: March 26, 1999

By: /s/

-----  
Keith A. Hadley  
Chief Financial Officer and Treasurer  
(Principal financial and accounting  
officer)

Dated: March 26, 1999

By: /s/

-----  
Randall J. Asmo  
Director

Dated: March 26, 1999

By: /s/

-----  
Juan F. Sotos, M.D.  
Director

Dated: March 26, 1999

By: /s/

-----  
Robert J. Tierney  
Director

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MEDIA SOURCE, INC. AND SUBSIDIARIES  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND  
FINANCIAL STATEMENT SCHEDULE

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Consolidated balance sheets	29, 30
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All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

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To the Board of Directors and Stockholders  
Media Source, Inc.  
Columbus, Ohio

We have audited the accompanying consolidated balance sheets of Media Source, Inc. (formerly Pages, Inc.) and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, cash flows and stockholders' equity for the years then ended. Our audits also include the information in the consolidated financial statement schedule for the years ended December 31, 1998 and 1997, listed in the index at Item 14(d). These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedule based on our audits. The consolidated financial statements and consolidated financial statement schedule of the Company as of December 31, 1996, were audited by other auditors whose report dated March 21, 1997, expressed an unqualified opinion on those statements.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the two years then ended in conformity with generally accepted accounting principles. Also, in our opinion, the consolidated financial statement schedule for the years ended December 31, 1998 and 1997, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ Hausser + Taylor, LLP

Columbus, Ohio  
February 5, 1999

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<TABLE>

MEDIA SOURCE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

<CAPTION>

	Years ended December 31		
	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Revenues	\$ 2,646,160	\$ 3,390,539	\$ 4,611,393
Costs of goods sold	1,163,210	1,487,026	1,655,872
	-----	-----	-----
Gross profit	1,482,950	1,903,513	2,955,521
Operating expenses:			
Selling, general and administrative	1,989,422	2,345,278	3,856,042
Depreciation and amortization	167,369	148,342	223,671
	-----	-----	-----
Income (loss) from operations	(673,841)	(590,107)	(1,124,192)
Other expense (income):			
Interest, net	309,078	(208,671)	79,917
Valuation adjustment - note receivable	--	1,500,000	--
Gain on settlement of lawsuit	(450,000)	--	--
	-----	-----	-----
Income (loss) from continuing operations before income taxes	(532,919)	(1,881,436)	(1,204,109)
Provision for income taxes	--	--	--
	-----	-----	-----
Income (loss) from continuing operations	(532,919)	(1,881,436)	(1,204,109)
Loss from discontinued operations	(2,866,344)	(3,499,866)	(1,517,194)
	-----	-----	-----
Gain(loss) on disposal	(577,230)	--	3,255,337
Cumulative effect of change in accounting principle	--	--	994,664
	-----	-----	-----

NET INCOME (LOSS)	\$ (3,976,493)	\$ (5,381,302)	\$ 1,528,698
	=====	=====	=====
Earnings per common share*:			
Income (loss) from continuing operations	\$ (1.63)	\$ (5.97)	\$ (4.34)
Net income (loss)	\$ (12.12)	\$ (17.07)	\$ 5.51
	=====	=====	=====
Weighted average number of common shares outstanding	328,200	315,300	277,550
	=====	=====	=====

</TABLE>

\*All per share data has been adjusted to reflect the one-for-twenty reverse stock split.

The accompanying notes are an integral part of the consolidated financial statements.

28

29  
<TABLE>

MEDIA SOURCE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

<CAPTION>

	December 31	
	-----	-----
ASSETS	1998	1997
	----	----
<S>	<C>	<C>
Current Assets:		
Cash	\$ 998,432	\$ 412,060
Accounts receivable, net of allowance for doubtful accounts of \$94,000 and \$356,000, respectively	867,333	2,662,140
Inventory	1,271,336	12,991,795
Prepaid expenses	167,485	1,429,726
Note receivable from CASCO INTERNATIONAL, INC	--	3,500,000
	-----	-----
Total current assets	3,304,586	20,995,721
	-----	-----
Property and equipment:		
Buildings	--	1,070,201
Equipment	656,642	1,988,863
	-----	-----
Less accumulated depreciation	656,642	3,059,064
	(536,888)	(1,100,657)
	-----	-----
Land	119,754	1,958,407
	--	420,000
	-----	-----
Total property and equipment, net	119,754	2,378,407
	-----	-----
Other assets:		
Assets held for disposal (net)	1,253,335	--
Cost in excess of net assets acquired, net of accumulated amortization of \$1,007,000 and \$899,000, respectively	1,715,109	4,441,484
Other	86,860	267,654
	-----	-----
	3,055,304	4,709,138
	-----	-----
TOTAL ASSETS	\$6,479,644	\$28,083,266
	=====	=====

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

29

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<TABLE>

MEDIA SOURCE, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

<CAPTION>

December 31  
-----

LIABILITIES AND STOCKHOLDERS' EQUITY	1998 ----	1997 ----
<S>	<C>	<C>
Current Liabilities:		
Accounts payable	\$ 678,108	\$ 6,173,483
Short-term debt obligations	--	11,082,227
Accrued liabilities	333,514	880,693
Accrued tax liabilities	506,745	1,103,501
Deferred revenue	1,568,892	1,265,366
Current portion of long-term debt obligations	109,780	126,488
Current portion of capital lease obligations	--	74,872
	-----	-----
Total current liabilities	3,197,039	20,706,630
	-----	-----
Long-term debt and capital lease obligations	2,056,914	2,174,452
	-----	-----
Total liabilities	5,253,953	22,881,082
	-----	-----
Commitments and contingencies		
Stockholders' Equity		
Preferred shares: \$.01 par value; authorized 300,000 shares; none issued and outstanding		
Common shares: \$.01 par value; authorized 20,000,000 shares; issued 343,137 shares and 324,864 shares, respectively	68,627	68,627
Capital in excess of stated value	21,908,833	21,908,833
Notes receivable from stock sales	(902,373)	(902,373)
Accumulated deficit	(19,608,273)	(15,631,780)
	-----	-----
	1,466,814	5,443,307
Less 14,936 shares of common stock in treasury, at cost	(241,123)	(241,123)
	-----	-----
Total stockholders' equity	1,225,691	5,202,184
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 6,479,644	\$ 28,083,266
	=====	=====

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

30

31  
<TABLE>

MEDIA SOURCE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

<CAPTION>

	Years ended December 31 -----		
	1998 ----	1997 ----	1996 ----
<S>	<C>	<C>	<C>
Cash Flow used in Operations:			
Loss from continuing operations	\$ (532,919)	\$ (1,881,436)	\$ (1,204,109)
	-----	-----	-----
Reconciliation to net cash flow used in continuing Operations:			
Depreciation and amortization	167,369	148,342	223,671
Valuation adjustment - note receivable	--	1,500,000	--
(Gain) Loss on sale of distribution channel	577,230	--	(3,255,337)
Changes in working capital items of continuing operations:			
Accounts receivable	9,415	227,636	462,499
Inventory	318,958	(239,024)	(97,137)
Prepaid expenses and other assets	(51,491)	143,851	(714,448)
Accounts payable and accrued liabilities	385,322	793,320	(1,532,425)
Deferred revenue	303,526	149,363	(174,885)
	-----	-----	-----
Net cash provided by (used in) continuing operations	1,177,410	842,052	(6,292,171)
	-----	-----	-----
Net cash provided by (used in) discontinued operations	(3,443,574)	(3,499,866)	2,732,807
	-----	-----	-----
Net cash provided by (used in) operations	(2,266,164)	(2,657,814)	(3,559,364)
	-----	-----	-----

Cash Flow provided by (used In) Investing Activities:			
Payments for purchases of property and equipment	(34,658)	(265,209)	(308,243)
Proceeds from sale of property and equipment	103,936	--	--
Proceeds from disposition of distribution channel	10,500,000	--	11,287,500
	-----	-----	-----
Net cash flow provided by (used in) investing activities	10,569,278	(265,209)	10,979,257
	-----	-----	-----
Cash Flow provided by (used In) Financing Activities:			
Proceeds from issuance of stock	--	597,217	298,698
Proceeds from debt and lease obligations	19,695,895	25,922,362	31,129,222
Proceeds from CASCO note	3,500,000	--	--
Proceeds from subordinated debt issued	--	980,000	--
Payments on debt and lease obligations	(30,912,637)	(24,482,407)	(39,062,757)
	-----	-----	-----
Net cash flow provided by (used in) financing activities	(7,716,742)	3,017,172	(7,634,837)
	-----	-----	-----
Increase (decrease) in cash	586,372	94,149	(214,944)
Cash, beginning of year	412,060	317,911	532,855
	-----	-----	-----
Cash, end of year	\$ 998,432	\$ 412,060	\$ 317,911
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

31

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<TABLE>

MEDIA SOURCE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
For the years ended December 31, 1998, 1997 and 1996

<CAPTION>	Shares*	Common Stock	Capital In Excess of Par Value	Notes Receivable from Stock Sales	Foreign Currency Translation	Accumulated Deficit	Treasury Stock	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance December 31, 1995	273,728	\$54,746	\$22,760,194	--	\$ (374,654)	\$ (11,525,564)	\$ (241,123)	\$10,673,599
Year ended December 31, 1996:								
Exercise of stock options	51,136	10,227	1,191,594	(903,123)				298,698
Foreign currency translation					374,654			374,654
Net income						1,528,698		1,528,698
Balance December 31, 1996	324,864	64,973	23,951,788	(903,123)	--	(9,996,866)	(241,123)	12,875,649
Year ended December 31, 1997:								
Spin-off of CASCO INTERNATIONAL, INC.			(2,635,768)			(253,612)		(2,889,380)
Proceeds from in-kind inventory purchases, services, and private placements	18,273	3,654	592,813	750				597,217
Net loss						(5,381,302)		(5,381,302)
Balance December 31, 1997	343,137	68,627	21,908,833	(902,373)	--	(15,631,780)	(241,123)	5,202,184
Year ended December 31, 1998:								
Net loss						(3,976,493)		(3,976,493)
Balance December 31, 1998	343,137	\$68,627	\$21,908,833	\$ (902,373)	\$ --	\$ (19,608,273)	\$ (241,123)	\$ 1,225,691

</TABLE>

\*Adjusted for one-for-twenty reverse stock split.

The accompanying notes are an integral part of the consolidated financial statements.

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MEDIA SOURCE, INC. AND SUBSIDIARIES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Media Source, Inc. ("the Company" formerly known as Pages, Inc.) and its wholly-owned subsidiaries after elimination of all material intercompany accounts and transactions. The Company's children's literature subscription service is operated through its MT Library Services, Inc. ("MTLS" formerly known as Pages Library Services, Inc.) subsidiary, Junior Library Guild ("JLG"). The Company's discontinued children's literature business segment was operated principally through Pages Book Fairs, Inc. and related entities ("PBF") and the Company's discontinued incentive/recognition awards business segment was operated through CASCO INTERNATIONAL, INC., ("CASCO," formerly known as C.A. Short Company, Inc.).

USE OF MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. The reported amounts of revenues and expenses during the reporting period may be affected by the estimates and assumptions management is required to make. Actual results could differ from those estimates.

REVENUE RECOGNITION

Revenues from the sale of children's literature are recognized upon shipment and delivery of the related merchandise. The Company provides for estimated returns from the sale of children's literature when those products are shipped.

ACCOUNTS RECEIVABLE

The Company mainly sells its products to public and private school libraries and public libraries across the United States. The accounts receivable are well diversified and are expected to be repaid in the normal course of business.

INVENTORY

Inventory consists of finished goods which are comprised of books. Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method. External production costs (which include costs for design, art, editorial services, and color separations in the publishing of finished goods inventory) are expensed as inventory is shipped.

PREPAID EXPENSES

Prepaid expenses at December 31, 1998 and 1997, include approximately \$167,000 and \$1,000,000, respectively, of prepaid selling costs that include employee costs and incentive payments to distributors and salespeople for the scheduling of future sales events and sales of book subscriptions. Such costs are directly attributable to obtaining specific future commitments to hold a selling event or start a

subscription and are expensed in the year the related sales occur. Prepaid expenses are significantly lower in 1998 due to the discontinuance of the book fair business segment and represent costs associated with sales of book subscriptions only.

BUILDINGS AND EQUIPMENT

Buildings and equipment are recorded at cost and depreciated over their estimated useful life on the straight-line method. Estimated useful lives range from three to thirty-one years. Major repairs and improvements are capitalized; minor repairs are expensed as incurred. Depreciation expense for the years ended December 31, 1998, 1997, and 1996, totaled approximately \$264,000, \$447,000, and \$491,000, respectively. The 1998 depreciation reflects the disposal of the book

fair business assets in June.

Assets held for disposition at December 31, 1998 consist of a warehouse, office facility and real estate in Worthington, Ohio currently being used by JLG on a temporary basis. Accumulated depreciation for this property was approximately \$801,000 and \$727,000 at December 31, 1998 and 1997, respectively.

COST IN EXCESS OF NET ASSETS ACQUIRED AND OTHER ASSETS  
-----

The majority of cost in excess of net assets acquired is amortized on a straight-line basis over 40 years. Management periodically evaluates its accounting for cost in excess of net assets acquired by considering such factors as historical performance, current operating results, and future operating income. At each balance sheet date, the Company evaluates the reasonableness of goodwill based upon expectations of nondiscounted cash flows from operations and eventual disposition for each subsidiary having a material goodwill balance. At June 1998, Goodwill of approximately \$2.6 million relating to the discontinued book fair segment was written off. Based upon its most recent analysis, the Company believes that no material impairment of goodwill exists at December 31, 1998. Based on this periodic review, management believes that the carrying value of cost in excess of net assets acquired is reasonable and the amortization period is appropriate. Amortization expense on cost in excess of net assets acquired for the years ended December 31, 1998, 1997, and 1996 totaled approximately \$108,000, \$254,000, and \$132,000, respectively.

Other assets include payments for covenants not to compete, cash surrender value of life insurance and deferred loan costs. The covenants not to compete and deferred loan costs are amortized using the straight-line method over the terms of the related contracts. Amortization expense totaled approximately \$6,500, \$61,000, and \$78,000, for the years ended December 31, 1998, 1997, and 1996, respectively. The decrease in 1998 was attributable to the sale of the book fair business, customer lists and the write off of non-compete agreements in June.

LONG-LIVED ASSETS  
-----

In 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The Statement establishes accounting standards for the impairment of long-lived assets, including assets held for disposition, certain identifiable intangibles, and goodwill related to those assets. There was no material effect on the financial statements from the adoption because the Company's prior impairment recognition practice was consistent with the major provisions of the Statement. Under provisions of the Statement, impairment losses are recognized when expected future cash flows are less than the assets' carrying value. Management has reviewed long-lived assets, assets held for disposal and intangible assets including goodwill and determined that impairment adjustments were not deemed to be necessary at December 31, 1998, 1997 or 1996.

DEFERRED REVENUE  
-----

Deferred revenue represents customer prepayments for goods and services that the Company will deliver in the future. Upon delivery of such goods and services, deferred revenues are recognized as revenues.

PER SHARE DATA  
-----

Per share amounts are computed in accordance with SFAS No. 128, "Earnings Per Share", which requires companies to present basic earnings per share and diluted earnings per share. Basic earnings per share are computed by dividing net income/(loss) by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share are computed by dividing net income/(loss) by the weighted average number of shares of common stock outstanding and dilutive options and warrants outstanding during the year. All per share data has been adjusted to reflect the one-for-twenty reverse stock split.

STOCK-BASED COMPENSATION  
-----

The Company has stock option plans which reserve shares of common stock for issuance to executives, key employees and directors. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Management believes it is also probable that the options will never be exercised, therefore SFAS No. 123 would have no impact to the financial statements of the Company.

CONCENTRATION OF CREDIT RISK

The Company's cash balances, which are in excess of federally insured levels, are maintained at large regional financial institutions. The Company continually monitors its balances to minimize the risk of loss for these balances.

The Company grants credit to customers throughout the country. No one customer accounts for any significant percentage of sales or receivables.

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosure about the Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments. During 1997, the Company acquired a \$5.0 million note receivable from CASCO in connection with the spin-off of this wholly-owned subsidiary. The note was to be repaid over a five-year period. The Company agreed to early repayment of the note at a \$1.5 million discount in January 1998. Accordingly, at December 31, 1997, the Company recognized the \$1.5 million valuation adjustment since the fair value of the note was established shortly thereafter.

The fair value of cash and long-term debt approximate the carrying amounts as of December 31, 1998. The fair value of the Company's long-term debt was estimated based on current rates for debt with similar remaining maturities.

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RECLASSIFICATIONS

Certain reclassifications to the 1997 and 1996 consolidated financial statements have been made to conform to the current year's presentation.

2. STOCK OPTIONS, WARRANTS AND STOCK APPRECIATION RIGHTS

At December 31, 1998, 12,033 common shares of the Company were reserved for issuance under the incentive stock option plan, 7,656 shares were reserved under non-statutory stock options, and 14,499 shares were reserved under outstanding warrants. Information for the stock options and warrants is summarized as follows:

<TABLE>  
<CAPTION>

	Years ended December 31		
	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Incentive Stock Option Plan			
Outstanding, beginning of year	25,950	18,037	2,906
Adjusted shares due to spin-off of CASCO INTERNATIONAL, INC	0	2,844	0
Granted	0	11,399	22,975
Canceled	(13,917)	(6,330)	(3,014)
Exercised	0	0	(4,830)
	-----	-----	-----
Outstanding, end of year	12,033	25,950	18,037
	=====	=====	=====
Exercise price range of options outstanding	\$27.60 to \$46.40	\$27.60 to \$188.00	\$35.00 to \$217.60
Exercise price range of options exercised during the year	--	--	\$37.50 to \$53.80
Non-Statutory Stock Options			
Outstanding, beginning of year	11,675	7,907	102,250
Adjusted shares due to spin-off of CASCO INTERNATIONAL, INC.	0	1,247	0
Granted	10,000	6,500	1,000
Canceled	(14,019)	(3,979)	(49,038)
Exercised	0	0	(46,305)
	-----	-----	-----
Outstanding, end of year	7,656	11,675	7,907
	=====	=====	=====
Exercise price range of options outstanding	\$35.00 to \$50.00	\$35.00 to \$124.40	\$42.50 to \$144.00

Exercise price range of options exercised during the year	--	--	\$16.00 to \$24.00
Warrants			
-----			
Outstanding, beginning of year	10,289	250	0
Adjusted shares due to spin-off of CASCO INTERNATIONAL, INC.	0	39	0
Granted	23,785	10,000	250
Canceled	(19,575)	0	0
Exercised	0	0	0
	-----	-----	-----
Outstanding, end of year	14,499	10,289	250
	=====	=====	=====
Exercise price range of warrants outstanding	\$23.75 to \$45.00	\$34.60 to \$40.00	\$40.00
Exercise price range of warrants exercised during the year	--	--	--

</TABLE>

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The Incentive Stock Options are exercisable at the fair market value on the date of grant, and were granted from shares available for issuance from the Company's 1993 Incentive Stock Option Plan. The options outstanding at December 31, 1998 are all presently exercisable and expire six years from grant date at various dates through July 2003. All options are 100% vested.

The non-statutory options are priced at the fair market value on the date of grant. All of the non-statutory options outstanding at December 31, 1998, are exercisable and expire at various dates through November 2002.

Warrants to purchase 10,289 shares of Media Source, Inc. common stock were issued in connection with the Company's ability to raise additional capital. The warrants are priced at either the market value of the common stock at date of the agreement to issue the warrants or at market, or 1/8 above the market value of the common stock at date of issuance of the warrant. All but one of the warrants is exercisable and expire various dates through December, 2002.

The Stock Appreciation Rights issued November 1, 1996 were canceled April 1, 1997. The expense and related liability of \$431,287, recorded in 1996, was reversed in 1997.

A summary of options and warrants outstanding at December 31, 1998, is as follows:

<TABLE>  
<CAPTION>

Date Granted or Issued	Shares Reserved	Shares Exercisable	Exercise Price	Proceeds Company Upon Exercise
-----	-----	-----	-----	-----
<S>	<C>	<C>		<C>
Incentive Stock Options:				
September 29, 1995	181	181	\$46.40	\$ 8,399
November 13, 1995	434	434	44.40	19,270
May 8, 1996	1,041	1,041	41.20	42,889
July 24, 1996	1,157	1,157	30.20	34,941
March 14, 1997	1,150	1,150	43.00	49,450
July 14, 1997	8,070	8,070	27.60	222,732
	-----	-----		-----
	12,033	12,033		377,681
	-----	-----		-----
Non-Statutory Stock Options:				
November 1, 1996	1,156	1,156	36.80	42,541
August 8, 1997	3,250	3,250	35.00	113,750
August 8, 1997	3,250	3,250	50.00	162,500
	-----	-----		-----
	7,656	7,656		318,791
	-----	-----		-----
Warrants:				
August 14, 1996	289	289	34.60	9,999
August 27, 1997	5,000	5,000	40.00	200,000
September 2, 1997	2,500	2,500	45.00	112,500
December 24, 1997	2,500	2,500	37.50	93,750
January 23, 1998	4,210	4,210	23.75	99,988
	-----	-----		-----

	14,499	14,499	516,237
	-----	-----	-----
Total Options and Warrants	34,188	34,188	\$1,212,709
	=====	=====	=====

</TABLE>

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3. NOTES RECEIVABLE FROM STOCK SALES

-----

In the Third and Fourth Quarters of 1996, certain officers and employees exercised stock options for notes. These notes are full recourse promissory notes bearing interest at 7 percent. The principal sum is due in September 1999. The interest is payable only in the event and only to the extent that the fair market value of the shares of common stock at the close of business in September 1999 exceeds the exercise price. No provision has been made in the 1998, 1997 or 1996 financial statements for such interest.

4. DEBT OBLIGATIONS

-----

Debt obligations consisted of the following:

<TABLE>

<CAPTION>

	1998	1997
	----	----
<S>	<C>	<C>
Line of credit with interest at prime plus 1 percent; interest payable monthly, maturing on June 30, 1998, collateralized by substantially all assets of the Company (\$1,417,773 unused at December 31, 1997)	--	\$10,082,227
Subordinated note payable with interest payable quarterly at 8.5 percent, due July 31, 2001 - personally guaranteed by S. Robert Davis, Chairman of Media Source, Inc.	\$ 200,000	--
Time note with interest at prime plus 2 percent; due February 28, 1998	--	1,000,000
Mortgage payable with interest at prime plus 1 1/4 percent; principal and interest payable in monthly installments of \$11,280, maturing on March 1, 2008, collateralized by office and warehouse facility	499,911	581,217
Second mortgage note payable with interest at 12.825 percent; principal and interest payable in monthly installments of \$5,313, maturing on November 1, 2008, collateralized by office and warehouse facility	366,783	384,852
Subordinated notes payable with interest payable quarterly at 12 percent, due August 1, 2000, 85 percent of face value of notes convertible into common stock after one year from purchase at conversion prices of \$37.50 - \$55.00. \$500,000 of the notes payable are to S. Robert Davis, Chairman of Media Source, Inc.	850,000	850,000
Subordinated note payable with interest payable quarterly at 10 percent, due in 2005	250,000	250,000
Subordinated note payable to Charles R. Davis, son of S. Robert Davis, Chairman of Media Source, Inc. with interest payable quarterly at 13.5 percent, due June 30, 1998	--	130,000
Promissory note payable with interest at 10 percent, payable in Five annual installments through April 29, 1998	--	27,539
	-----	-----
Total debt obligations	2,166,694	13,305,835
Less short-term obligations	\$ 109,780	11,338,715
	-----	-----
Total long-term obligations	\$2,056,914	\$ 1,967,120
	=====	=====

</TABLE>

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The prime interest rate at December 31, 1998 and 1997 was 73/4% and 8 1/2%,

respectively. Future maturities on debt as of December 31, 1998 and during the next five years and thereafter are as follows:

<TABLE>	
<S>	<C>
1999	\$ 109,780
2000	971,755
2001	335,045
2002	149,797
2003	115,180
Thereafter	485,137
	-----
	\$2,166,694
	=====
</TABLE>	

In 1997, the maximum line amount on the line of credit was calculated, in part, based on the Company's eligible borrowing base that includes inventory and other eligible accounts. The facility contained certain restrictive provisions including, among others, maintaining a minimum tangible net worth, limitation on dividends paid on common stock to \$100,000 annually and certain other restrictions on actions which required lender pre-approval.

On January 21, 1998, the Company also entered into two new credit agreements. The Company obtained \$3.0 million in subordinated debt financing bearing interest at 12.5 percent payable monthly, due in 2004. Warrants to purchase shares of the Company's common stock were issued in connection with this subordinated debt financing. Additionally, an \$8.0 million line of credit was obtained from the Company's primary lender, replacing all prior lines of credit, with interest at prime plus 1 percent payable monthly, due in 2000 and collateralized by substantially all assets of the Company. Proceeds from the sale of the book fair business assets in June 1998 were used to satisfy both of these credit agreements and establish a subordinated note payable of \$200,000. The Company was in default on the covenants on this note at December 31, 1998 but received a waiver from the lender.

5. LEASE OBLIGATIONS  
-----

The Company has substantially reduced its lease obligations in 1998. Operating leases are principally for office and warehouse facilities and vehicles. There are no capital leases as of December 31, 1998, capital lease obligations as of December 31, 1997 were approximately \$77,000. Rent expense under operating leases amounted to \$450,000, \$790,000, and \$1,070,000 for the years ended December 31, 1998, 1997, and 1996, respectively. Future minimum lease payments under leases are as follows:

<TABLE>	
<CAPTION>	
Year Ended	Operating
December 31,	-----
<S>	<C>
1999	\$26,723
Thereafter	0
	-----
	\$26,723
	=====
</TABLE>	

40  
6. INCOME TAXES  
-----

The Company utilizes SFAS No. 109 "Accounting for Income Taxes." Under SFAS 109, the liability method is used in accounting for income taxes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Under SFAS No. 109, if on the basis of available evidence, it is more likely than not that all or a portion of the deferred tax asset will not be realized, the asset must be reduced by a valuation allowance. Based on available evidence, a valuation allowance has been established for an amount of the asset that more likely than not, will not be recognized.

Temporary differences between income for financial reporting purposes and tax reporting purposes relate primarily to accounting methods for doubtful accounts, inventory costs, accrued and prepaid expenses and reserves, and depreciation and amortization expense.

For the years ended 1998, 1997, and 1996 there was no provision (benefit) for

income taxes.

A reconciliation of income taxes based upon the application of the federal statutory tax rate is as follows:

	December 31, 1998	December 31, 1997	December 31, 1996
<S>	<C>	<C>	<C>
Provision (benefit) for taxes at statutory rate	\$ (1,148,800)	\$ (1,910,300)	\$ 542,700
United Kingdom operations	--	--	(437,500)
Goodwill amortization	(13,000)	67,000	(88,500)
Interest	--	--	(227,400)
Establishment of valuation allowance	1,434,800	1,964,300	367,700
Stock options exercised and stock appreciation rights	--	(153,500)	(99,400)
Other	(273,000)	32,500	(57,600)
	-----	-----	-----
Total provision (benefit) for income taxes	\$ --	\$ --	\$ --
	=====	=====	=====

</TABLE>

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The components of net deferred tax assets as of December 31, 1998 and 1997 are as follows:

	December 31, 1998	December 31, 1997
<S>	<C>	<C>
Assets		
Provision for doubtful accounts	\$ 57,000	\$ 193,000
Inventory costs capitalized for tax purposes	31,000	321,000
Inventory Reserve	85,000	--
Accruals and reserves to be expensed as paid for tax purposes	179,000	243,000
Other	27,000	23,000
Net operating loss carryforwards	8,917,000	6,536,000
Investment tax credit carryforwards	122,000	122,000
	-----	-----
	9,418,000	7,438,000
Less valuation allowance	(9,213,000)	(6,880,200)
	-----	-----
Deferred tax asset, net of valuation allowance	205,000	557,800
	-----	-----
Liabilities:		
Costs deducted as paid for tax purposes	(59,000)	(410,800)
Excess of tax over financial accounting depreciation and amortization	(146,000)	(147,000)
	-----	-----
	(205,000)	(557,800)
	-----	-----
Net deferred tax asset	\$ --	\$ --
	=====	=====

</TABLE>

At December 31, 1998, operating loss carryforwards of approximately \$25.3 million are available to offset future taxable income and will expire during the years 1999 through 2011.

#### 7. CHILDREN'S LITERATURE ACQUISITIONS AND DISPOSALS

During 1995, the Company acquired several small operations involved in the publishing and distribution of children's literature. These acquisitions were accounted for using the purchase method of accounting. The aggregate cost of these acquisitions approximated \$779,000 in cash and was allocated to the net assets acquired based upon their face values. Cost assigned to cost in excess of net assets acquired approximated \$471,000 in 1995.

During 1995, the Company disposed of or phased out the operations of several acquisitions made in 1993 and 1994 and curtailed the distribution of early childhood product through the mail to pre-schools and daycare centers. Combined revenues, included in the accompanying consolidated financial

statements, of these operations for 1995, approximated \$2.3 million. The combined costs and expenses associated with these operations including the loss on disposition or phase out included in cost of goods sold and selling, general, and administrative expense in the accompanying consolidated financial statements for 1995, approximated \$2.7 million.

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On March 6, 1996, the Company sold to Scholastic Limited, a United Kingdom subsidiary of Scholastic, Inc. and its affiliates ("Scholastic") all the capital stock of Great British Book Fairs, Limited ("Limited"), the Company's United Kingdom subsidiary for approximately \$4.8 million cash. Additionally, as part of the transaction, (i) Scholastic paid in full (1) the outstanding balance of \$2.1 million due by Limited to Lloyds Bank and (2) an intercompany payable due from Limited to the Company in the amount of \$2.3 million, and (ii) the Company signed a Non-Competition Agreement pursuant to which, in return for the payment of \$1.5 million in cash, the Company agreed for a five-year period not to compete with the book fair business of Scholastic and its affiliates in the following countries: Canada, the United Kingdom, Ireland, Germany, Italy, Greece, Eastern Europe, including without limitation, the Commonwealth of Independent States, Turkey, the countries of the Middle East, and Africa.

On March 6, 1996, the Company closed its distribution channel, Great Owl Book Fairs, Inc., in Canada and on March 13, 1996, the Company sold a portion of its inventory in Canada to Scholastic Canada, Ltd., a corporation organized under the laws of Canada for \$575,000 cash.

The net proceeds of the above-described transactions of \$8.95 million after the repayment of the Lloyds Bank debt and estimated transaction costs were used to reduce the Company's domestic bank indebtedness. Included in the accompanying 1996 financial statements is a \$3.2 million gain on the transaction.

Effective on the close of business on June 25, 1998, the Company sold certain of its assets relating to the book fair business, operated by Pages Book Fairs, Inc., its wholly-owned subsidiary, for \$10.5 million. These assets included inventory, display cases, and customer lists. The Company has discontinued its book fair business and the accompanying financial statements reflect the results from the book fair business as discontinued operations. The comparative statements have been reclassified to reflect the discontinued operations.

The sale of the book fair assets during the second quarter of 1998 resulted in a net loss of approximately \$577,000 which includes the write-off of goodwill of approximately \$2.6 million and the costs related to the sales of the book fair business of approximately \$371,000.

#### 8. DISCONTINUED OPERATIONS

Effective on the close of business on December 31, 1996, the Company completed a tax-free spin-off of the common stock of the Company's wholly-owned subsidiary CASCO INTERNATIONAL, INC. (CASCO) through a distribution to the stockholders of one and one-half shares of CASCO common stock for every ten shares of Media Source, Inc. common stock outstanding on the record date. Effective January 1, 1997, CASCO issued a subordinated debenture to the Company in the principal amount of \$5.0 million bearing interest at 7% per annum payable quarterly, with principal payments of \$100,000 each due at the end of the first four years, and a final payment of \$4,600,000 due at the end of the fifth year. This note was repaid at a \$1.5 million discount in January 1998.

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Operating results for CASCO are included in the discontinued operations line of the financial statements. For 1996, revenues for CASCO were \$22.0 million and net income was \$911,000. Included in the 1996 CASCO income is the cumulative effect of an accounting change adopted by CASCO as of January 1, 1996. CASCO changed its method of accounting for the recognition of revenues relating to advance deposits. Previously, CASCO recognized such deferred revenue at the conclusion of the respective safety award programs. Effective with the change, revenues are recognized over the course of the programs based on CASCO's historical and expected redemption percentages. The corresponding deferred commission costs (included in prepaid expenses on the accompanying financial statements) have also been recognized in association with this change in the same direct proportion as the revenue recognition. The effect of this accounting change in 1996 was to decrease the loss before cumulative effect of change in accounting principle by \$209,190, net of associated commission expense of \$32,704. The cumulative effect of the accounting change of \$995,000 has not been tax effected based on the absence of any applicable tax to the Company on a consolidated basis. The proforma income (loss) amounts for CASCO assuming the new accounting method is applied retroactively is \$(83,181) in 1996.

Operating results for PBF are also included in the discontinued operations line of the financial statements. Revenues for PBF were \$11.7 million for 1998, \$24.4 million for 1997, and \$25.2 million for 1996. Net income (losses) were (\$3.3) million for 1998, (\$3.6) million for 1997 and \$1.6 million for 1996. Included in the 1998 net loss was a loss on the sale of PBF of \$577,000 and included in the 1996 net income was a gain on the sale of the Company's United Kingdom subsidiary of \$3.2 million.

The components of net assets for the PBF discontinued operations included in the consolidated balance sheets at December 31, 1998 follow:

<TABLE>  
<CAPTION>

	December 31, 1998
	-----
<S>	<C>
Cash	\$ 62,236
Accounts receivable, net	234,671
Other assets	9,246
Accounts payable	(383,814)
Accrued liabilities	(610,116)
Long-term debt obligations	(450,000)

</TABLE>

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9. SUPPLEMENTAL DISCLOSURE FOR CASH FLOW INFORMATION

Cash paid for interest during the years ended December 31, 1998, 1997, and 1996, aggregated approximately \$757,000, \$1,275,000, and \$1,151,000 and cash paid for taxes was approximately \$341,000, \$1,190,000, and \$18,100, respectively.

During the years ended December 31, 1998, 1997 and 1996, the Company acquired approximately \$0, \$82,000 and \$75,000, respectively, in equipment through capital financing leases.

During 1997, the Company acquired a \$5.0 million note receivable from CASCO in connection with the spin-off of this wholly-owned subsidiary effective on the close of business on December 31, 1996. Interest at 7% was paid quarterly to the Company. This note was repaid early to the Company at a \$1.5 million discount in January 1998.

Also in 1997, the Company issued \$420,000 in Common Stock (at \$35.00 per share) to a printing vendor in exchange for inventory. \$47,700 in Common Stock (at \$31.80 per share) and two 3 year options for 3,250 shares each, exercisable at \$35.00 and \$50.00, respectively, were issued in exchange for public relations services.

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10. INTERIM FINANCIAL INFORMATION (UNAUDITED):

All per share data has been adjusted to reflect the one-for-twenty reverse stock split.

<TABLE>  
<CAPTION>

	Twelve Months Ended December 31, 1998			
	Quarter Ended March 31	Quarter Ended June 30	Quarter Ended Sept. 30	Quarter Ended Dec. 31
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Revenues	\$ 488,208	\$ 701,172	\$ 726,836	\$ 729,944
Gross Profit	263,868	400,619	420,322	398,141
Income (loss) from continuing operations before income taxes	(194,002)	(227,772)	271,931 (2)	(383,076)
Income (loss) from discontinued operations	(801,704)	(2,782,399) (1)	(157,401)	297,930
Net income (loss) available to common stockholders	\$ (995,706)	\$ (3,010,171)	\$ 114,529	\$ (85,145)
	=====	=====	=====	=====
Income/(loss) per common share:				
Discontinued operations	\$ (2.44)	\$ (8.48)	\$ (0.48)	\$ 0.91
Net income (loss)	\$ (3.03)	(9.17)	0.35	(0.26)
	=====	=====	=====	=====
Weighted average common shares	328,200	328,200	328,200	328,200
	=====	=====	=====	=====

</TABLE>

<TABLE>  
<CAPTION>

Twelve Months Ended December 31, 1997

	Quarter Ended March 31	Quarter Ended June 30	Quarter Ended Sept. 30	Quarter Ended Dec. 31
<S>	<C>	<C>	<C>	<C>
Revenues	\$ 773,521	\$ 807,765	\$ 762,672	\$1,046,581
Gross Profit	498,690	450,099	439,125	515,599
Income (loss) from continuing operations before income taxes	27,966	(275,348)	56,894	(1,690,948) (3)
Income (loss) from discontinued operations	(267,592)	(569,929)	(1,824,114)	(838,231)
Net income (loss) available to common Stockholders	(239,626)	\$ (845,277)	\$ (1,767,220)	\$ (2,529,179)
	=====	=====	=====	=====
Income/(loss) per common share:				
Discontinued operations	\$ (0.86)	\$ (1.84)	\$ (5.74)	\$ (2.59)
Net income (loss)	\$ (0.77)	\$ (2.73)	\$ (5.56)	\$ (7.82)
	=====	=====	=====	=====
Weighted average common shares	309,950	309,700	318,000	323,500
	=====	=====	=====	=====

</TABLE>

Per share calculations are based on the average number of shares and potential common stock outstanding for each quarter using the treasury stock method. Thus, the sum of the quarters may not necessarily be equal to the full year's earnings per share amounts.

- (1) Includes loss on sale of the Company's Pages Book Fairs subsidiary of \$577,000 (See Note 7).
- (2) Includes gain on settlement of lawsuit of \$450,000. (See Note 11).
- (3) Includes valuation adjustment on note receivable of \$1.5 million (See Note 9).

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11. COMMITMENTS AND CONTINGENCIES

INTERNAL REVENUE SERVICE ASSESSMENT

During the Spring of 1993, the Company was advised that the Internal Revenue Service ("IRS") might assess additional income taxes in connection with the examination of the tax returns of PBF and its affiliates for the fiscal years ending July 31, 1988, 1989, 1990, and 1991. In June, 1993, the Company recorded a \$2 million adjustment to its purchase price allocation of PBF assets, which increased the cost in excess of assets acquired (i.e. - goodwill), and recorded a corresponding increase in accrued tax liabilities and related costs.

In October 1995, the Company received four Notices of Deficiency from the IRS relating to this examination. The Notices of Deficiency assessed additional income taxes of approximately \$4.7 million and penalties of approximately \$1.3 million, plus interest. The asserted deficiencies were attributable primarily to a restructuring of PBF and related entities that occurred on August 1, 1988, in which, along with other events, certain assets were transferred between related companies. The IRS had challenged, among other things, the values assigned to those assets by the parties to the transaction, contending that the assets were undervalued and that PBF recognized a substantial taxable gain in the transaction. In January 1996, the Company filed petitions with the Tax Court disputing the IRS valuation of the assets transferred, and other points in the IRS assessment.

On October 28, 1996, the Company entered into a settlement with the IRS regarding the four Notices of Deficiency received assessing additional taxes for the fiscal years 1988, 1989, 1990, and 1991. The settlement included income taxes of \$750,000, plus interest of approximately \$750,000, for a total of approximately \$1.5 million. The Company had negotiated a payment plan with the IRS that spread the payments including interest over twelve months starting in March 1997. At December 31, 1997, the balance due approximated \$300,000 and was paid in full by second quarter 1998.

On December 27, 1996, the Company filed an action in U.S. District Court for the Northern District of Ohio against Arthur Andersen & Co. LLP seeking in excess of \$16 million in damages. The complaint was a result of the final outcome of the IRS assessment and representations made by Arthur Andersen & Co. during Media Source, Inc.'s purchase of School Book Fairs, Inc. at May 19, 1992. On September 16, 1998, the Company settled its litigation for \$450,000 and incurred attorney's fees and expenses of \$160,000. Additionally, the Company is subject to litigation by expert witnesses used in its suit against its former auditors for which it is probable that the Company will have to pay some judgment but the amount is not believed to be determinable by the Company.

Additionally, the Company is the subject of a state sales tax audit and litigation for one of its subsidiaries. Management believes the outcome of this audit and legal proceedings may result in an unfavorable judgment and has reserved approximately \$500,000.

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## 12. RETIREMENT PLAN

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In 1991, the Company established a defined contribution plan pursuant to Section 401(k) of the Internal Revenue Code, covering all eligible employees. Employees become eligible upon reaching age 21 and completing a year of service. The Company's contributions into the Plan are discretionary. There were no Company contributions in years 1998, 1997 or 1996.

## 13. BUSINESS CONTINUATION

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As shown in the consolidated financial statements, the Company incurred a loss of approximately \$4.0 million in 1998 compared to a loss of approximately \$5.4 million in 1997. Of these losses, approximately \$1.1 million and \$1.9 million were attributable to continuing operations of the Company for 1998 and 1997, respectively. In addition, accounts payable decreased to \$678,108 in 1998 compared to \$6,173,483 in 1997, and working capital decreased by \$181,000 in 1998.

As discussed in Notes 7 and 8, management has taken measures to promote the future profitability of the Company including the sale of several unprofitable business lines. The Company intends to expand its JLG sales force over the next several years, as the existing sales staff has thus far only been able to cover approximately 30% of the potential library subscribers. Management believes that with the increased sales staff and expanded sales territory coverage that new subscriber revenues will increase.

The Company is aggressively pursuing ramping up sales via the Internet. Management believes that this will increase sales to existing subscribers and also attract new subscribers at a minimal cost to the Company.

Management believes the implementation of these actions will enable the Company to continue its business, survive and operate in the near term.

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## 14. EARNINGS PER SHARE

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The following table represents the computation of basic and diluted earnings per share. All per share data has been adjusted to reflect the one-for-twenty reverse stock split.

&lt;TABLE&gt;

&lt;CAPTION&gt;

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
BASIC EARNINGS PER SHARE:			
Weighted average number of common shares Outstanding	328,200	315,300	277,550
	-----	-----	-----
Income/(loss) from continuing operations	\$ (532,919)	\$ (1,881,436)	\$ (1,204,109)
Discontinued operations before cumulative effect of accounting change	(3,443,574)	(3,499,866)	1,738,143
Cumulative effect of accounting change	--	--	994,664
	-----	-----	-----
Net income/(loss) available to common Stockholders	\$ (3,976,493)	\$ (5,381,302)	\$ 1,528,698
	=====	=====	=====
INCOME/(LOSS) PER COMMON SHARE:			
Income/(loss) from continuing operations	\$ (1.63)	\$ (5.97)	\$ (4.34)
Discontinued operations before cumulative effect of change in accounting principle	(10.49)	(11.10)	6.27
Cumulative effect of accounting change	--	--	3.58
	-----	-----	-----

Basic earnings/(loss) per share	\$ (12.12)	\$ (17.07)	\$ 5.51
DILUTED EARNINGS PER SHARE:			
Weighted average number of common shares Outstanding - basic	328,200	315,300	277,550
EFFECT OF DILUTIVE SECURITIES:			
Add dilutive stock options	--	--	38,550
Deduct shares that could be repurchased from the Proceeds of the dilutive options	--	--	(23,250)
Diluted potential common shares	328,200	315,300	292,850
INCOME/(LOSS) PER COMMON SHARE:			
Income/(loss) from continuing operations	\$ (532,919)	\$ (1,881,436)	\$ (1,204,109)
Effect of dilutive securities	--	--	--
Income/(loss) from operations available to Stockholders	(532,919)	(1,881,436)	(1,204,109)
Discontinued operations before cumulative effect of Accounting change	(3,443,574)	(3,499,866)	1,738,143
Cumulative effect of accounting change	--	--	994,664
Net income/(loss) available to common Stockholders and assumed conversions	\$ (3,976,493)	\$ (5,381,302)	\$ 1,528,698
DILUTED EARNINGS/(LOSS) PER COMMON SHARE:			
Income/(loss) from continuing operations	\$ (1.63)	\$ (5.97)	\$ (4.11)
Discontinued operations before cumulative effect of Change in accounting principle	(10.49)	(11.10)	5.93
Cumulative effect of change in accounting principle	--	--	3.40
Diluted earnings/(loss) per share	\$ (12.12)	\$ (17.07)	\$ 5.22

</TABLE>

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At December 31, 1998 and 1997, options and warrants were outstanding but were not included in the computation of dilutive EPS because the potential common stock would be antidilutive. See Note 2 for a summary of options and warrants issued and the exercise prices.

At December 31, 1996, additional options and warrants were outstanding during the year but were not included in the computation of dilutive EPS because the options' and warrants' exercise price was greater than the average market price of the common stock.

15. STOCK SPLITS

On March 9, 1999, the Company effected a one-for-twenty reverse stock split. Shareholders of record as of March 9, 1999 received one share of common stock for every twenty shares they owned. Share and per share data for all periods presented herein have been adjusted to give effect to the split.

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<TABLE>

MEDIA SOURCE, INC. AND SUBSIDIARIES  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
Three Years Ended December 31, 1998, 1997, and 1996

<CAPTION>

COL. A	COL. B	COL. C	COL. D	COL. E	COL. F
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	ADDITIONS CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>	<C>
1998:					
Allowance for doubtful accounts	\$ 356,000	\$ 64,000	\$20,000 (c)	\$ 346,000 (a)	\$ 94,000

Allowance for valuation on deferred tax assets	\$6,880,200	\$1,434,800 (b)	\$ 898,000 (d)	\$9,213,000
1997:				
Allowance for doubtful accounts	\$ 316,000	\$ 51,000	\$ 11,000 (a)	\$ 356,000
Allowance for valuation on deferred tax assets	\$5,170,000	\$1,964,300 (b)	\$ (254,100) (d)	\$6,880,200
1996:				
Allowance for doubtful accounts	\$ 457,000		\$ 141,000 (a)	\$ 316,000
Allowance for valuation on deferred tax assets	\$4,802,300	\$ 367,700 (b)		\$5,170,000

</TABLE>

- (a) Doubtful accounts written off against reserve.  
 (b) Change in valuation allowance relating to change in assessment as to future realizability of deferred tax asset.  
 (c) Amounts charged through discontinued operations.  
 (d) Amounts related to discontinued operations.

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EXHIBIT INDEX  
 MEDIA SOURCE, INC. FORM 10-K  
 FOR FISCAL YEAR ENDED DECEMBER 31, 1998

- (a) 1. Financial Statements. See Index to Consolidated Financial Statements and Financial Schedule on page 26.  
 2. Financial Statement Schedule. See Index to Consolidated Financial Statements and Financial Statement Schedule on page 26.  
 3. Exhibits. The following exhibits are required to be filed as part of this report:

Exhibit No.	Description
3(a)(1)	Certificate of Incorporation dated October 5, 1994.
3(b)(1)	Bylaws of the Company.
3(c)(2)	Agreement of merger.
4(a)	Warrant dated August 29, 1997, between the Company and The Huntington National Bank.
4(b)	Warrant dated September 2, 1997, between the Company and S. Robert Davis.
4(c)	Warrant dated December 24, 1997, between the Company and John W. McKittrick.
10(a)(3)	Lease dated January 1, 1993, for St. Petersburg, Florida, Office and Warehouse.
10(b)	Lease Amendment dated December 10, 1997, for St. Petersburg, Florida, office and warehouse.
10(c)(4)	Unconditional Guaranty of Lease Effective January 1, 1993, for Lease of St. Petersburg, Florida, Office and Warehouse.
10(d)(3)	Non-Statutory Stock Option Agreement dated May 19, 1992, between the Company and Randall J. Asmo.
10(e)(3)	Non-Statutory Stock Option Agreement dated June 3, 1992, between the Company and S. +Robert Davis.
10(f)(6)	Non-Statutory Stock Option Agreement dated November 1, 1996, between the Company and Dr. Juan F. Sotos.
10(g)(6)	Non-Statutory Stock Option Agreement dated November 1, 1996, between the Company and Robert J. Tierney.
10(h)(3)	Media Source, Inc. 1993 Incentive Stock Option Plan.

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- 10(i) (5) Non-Competition Agreement dated as of March 6, 1996.
- 10(j) (7) Second Amended and Restated Loan Agreement dated December 31, 1996, between the Company and the Huntington National Bank.
- 10(k) (7) First Amendment to Second Amended and Restated Loan Agreement dated June 30, 1997, between the Company and The Huntington National Bank.
- 10(l) (7) Time Note dated August 29, 1997, between the Company and The Huntington National Bank.
- 10(m) Second Amendment to Second Amended and Restated Revolving Note Dated January 21, 1998, between the Company and The Huntington National Bank.
- 10(n) Credit Agreement by and between Media Source, Inc. and the Provident Bank dated January 21, 1998.
- 10(o) (6) Promissory Note from S. Robert Davis for exercise of stock options dated September 26, 1996.
- 10(p) (6) Promissory Note from Charles R. Davis for exercise of stock options dated September 26, 1996.
- 10(q) (6) Promissory Note from employees for exercise of stock options dated December, 1996.
- 10(r) (7) 13 1/2% Subordinated Note Due February 22, 1998, Dated August 21, 1997, between the Company and Charles R. Davis.
- 10(s) (7) Note Purchase Agreement and 12% Convertible Subordinated Note Due 2000, No. 4 between the Company and S. Robert Davis.
- 10(t) Lease dated August 20, 1998 for Tampa, Florida office.
- 10(u) Subordinated Note Payable dated September 28, 1998 between the Company and Huntington National Bank
- 10(v) (8) Asset Purchase Agreement dated June 25, 1998 between the Company and Scholastic, Inc.
- 10(w) Extension and Modification to lease date June 27, 1996 for New York, New York office.
- 10(x) 10% Subordinated Note Due 2005, Dated June 6, 1996, between the Company and Standard Printing Company.
- 10(y) Cognovit Promissory Note from Dan Welsh for purchase of Spoken Arts dated November 6, 1995
- 21 Subsidiaries of Media Source, Inc.
- 27 Financial Data Schedule (filed only electronically).

-----

(1) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994, File Number 0-10475, filed in Washington, D.C.

(2) Incorporated by reference to the Company's Proxy Statement dated August 4, 1994, File Number 0-10475, Filed in Washington, D.C.

(3) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992, File Number 0-10475, filed in Washington, D.C.

(4) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993, File Number 0-10475, filed in Washington, D.C.

(5) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995, File Number 0-10475, filed in Washington, D.C.

(6) Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, File Number 0-10475, filed in Washington, D.C.

(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for

the quarter ended September 30, 1997, File Number 0-10475, filed in Washington, D.C.

(8) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, File Number 0-10475, filed in Washington, D.C.

THE MOBILECOMM BUILDING  
OFFICE LEASE AGREEMENT

THIS LEASE made and entered into as of this 20th day of August, 1998, by and between WRE, INC. c/o W. ALAN WOODFORD, AGENT, ("Landlord") and JUNIOR LIBRARY GUILD, a Florida Corporation ("Tenant").

Landlord and Tenant, for and in consideration of the keeping by the parties of their respective obligations hereinafter contained, as well as for other good and valuable considerations in hand paid simultaneously with the execution and delivery of this Lease, receipt whereof is hereby acknowledged, agree as follows:

1. DEMISED PREMISES. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the real property, office space, Suite(s) 400, more particularly described in Exhibit "A" attached hereto ("Premises"), together with use of the Building common areas shared with other tenants of the Building, with a street address of 1915 N. Dale Mabry Highway, Tampa, Florida 33607 ("Building").
2. LANDLORD'S WORK. Landlord, at Landlord's sole cost and expense, will perform or cause to be performed in the Premises the following: replace or repair any stained or missing ceiling tiles ("Landlord's Work"). Tenant otherwise accepts the Premises in "as is" condition.
3. TENANT'S WORK. Tenant, at its sole cost and expense, shall deliver to Landlord detailed plans and specifications for any additional alterations and modifications to the interior of the suite proposed by Tenant ("Tenant's Work"). Tenant shall obtain Landlord's prior written approval of such plans and specifications prior to commencing any of Tenant's Work, and Landlord agrees that such written consent shall not unreasonably be withheld. Tenant's Work shall be completed in a good, first class, and workmanlike manner and in full accordance with the requirements and regulations of all governmental authorities having jurisdiction.

4. TERM.

(a) The initial Term of this Lease shall be for a period of six (6) months, commencing on August 24, 1998, ("Commencement Date") and expiring on February 23, 1999, unless sooner terminated in accordance with the provisions of this Lease.

(b) Unless sixty (60) days prior written notice is given by one party to the other this initial Term shall automatically renew for an additional six (6)

month term (the "Renewal Period") at a rate of One Thousand Nine Hundred Twenty Eight and 33/100 Dollars (\$1,928.33) per month plus applicable sales tax.

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(c) Tenant shall have access to the Premises prior to the Lease term at its sole risk for the purposes of telephone installation and storage of personalty.

5. RENT AND RENT ADJUSTMENT. Tenant hereby covenants and agrees that it shall pay to Landlord in advance, without setoff or deduction (except as expressly permitted hereinafter) and without demand, rental for the use of the Premises ("Rent"), as follows:

(a) Beginning base Rent to be set at Twenty Two Thousand Two Hundred Fifty and 00/100 Dollars (\$22,250.00) per annum plus applicable sales tax, for the rental use of offices, common areas and based on a rentable area of approximately 1,780 square feet. Rent shall be due and payable in advance in monthly installments, starting at occupancy or Lease Commencement, August 24, 1998, whichever is sooner, at One Thousand Eight Hundred Fifty Four and 17/100 Dollars (\$1,854.17) per month, (hereinafter referred to as "Base Rent"), plus applicable sales tax, and due and payable on the first day of each and every successive calendar month thereafter during the Term.

(b) If neither party serves sixty (60) days prior written notice as provided for in Paragraph 4(b), Base Rent for the Renewal Period will be One Thousand Nine Hundred Twenty Eight and 33/100 Dollars (\$1,928.33) per month plus applicable state tax, for the rental use of offices, common areas and based on a rentable area of approximately 1,780 square feet. Rent shall be due and payable in advance in monthly installments, and due and payable on the first day of each and every successive calendar month thereafter during the Term.

(c) Tenant further agrees to pay to Landlord all sales excise, and use taxes imposed by law on Rent, additional rental, and other charges or services due from Tenant to Landlord under this lease, said taxes to be remitted together with Rent, additional rental charges, or services to which they pertain. To the extent such taxes have been timely paid by Tenant as provided herein, Landlord agrees that it shall indemnify Tenant from any and all liability arising from the failure of Landlord to timely remit such taxes to the taxing authority.

(c) Tenant shall pay Rent, in advance, in lawful currency of the United States of America, to Landlord by delivering or mailing it to the Landlord's notice address, or to such other address or in such other manner as the Landlord from time to time specifies to Tenant by written notice to the Tenant. All rental payments shall be made payable to W. ALAN WOODFORD, AS AGENT. If the Tenant pays by mail, Tenant agrees to mail Rent in advance so that it will reasonably be received by Landlord on or before the rental due date. In addition to any other remedies available to Landlord, Tenant shall pay a late charge of twenty-five dollars (\$25.00) per day for each day that Rent shall not be paid after the fifth (5th) day following the due date, and said late charge shall be deemed additional Rent.

(d) Tenant shall further pay as an adjustment to the Base Rent hereunder an amount equal to Tenant's Proportionate Share (the ratio that the rentable area of the Premises bears to the total rentable area of the Building) of the excess from time to time of actual Operating Expenses paid by Landlord for any calendar year over the Operating Expenses paid for the Base Year 1998. Operating Expenses means all direct and indirect costs and expenses in each calendar year of operating, maintaining, insuring, managing and owning the Building and the real property in its immediate proximity, real estate taxes and assessments of the Building, plus the Building's allotted share from time to time of the Operating Expenses from the exterior common areas. Operating Expenses shall not

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include the cost of capital improvements, depreciation, interest, lease commissions and principal payments on mortgage and other non-operating debts of Landlord. Operating Expenses shall, however, include the amortization of capital improvements which are primarily for the purpose of reducing Operating Expenses, or which are required by governmental authority. For each calendar year after the base year, Landlord may assess an adjustment by furnishing in reasonable detail the Operating Expenses or particular expense in excess for the prior calendar year. Within thirty (30) days following receipt by Tenant of said rent adjustment, Tenant shall pay its proportionate share of the excess over the base year Operating Expense amount for the prior calendar year. If this Lease terminates before the end of a calendar year, payment will be based on the percentage of the year in which the Tenant occupied the Premises.

#### 6. SECURITY DEPOSIT.

(a) Tenant has deposited with the execution of this Lease agreement One Thousand Eight Hundred Fifty Four and 00/100 Dollars (\$1,854.00) with the Landlord as security for the full and faithful performance by the Tenant of all of the terms, covenants and conditions of this Lease upon the Tenant's part to be performed. Security Deposit shall increase, at the option of Landlord (with notice to Tenant), in direct proportion to expanded rental space or Base Rent.

(b) Tenant agrees that Security Deposit shall not be regarded as trust funds and Landlord may commingle said sum with other monies of Landlord and that Landlord shall be entitled to retain all interest, if any, earned thereon. In the event of a bona fide sale, subject to this Lease, the Landlord shall transfer the security deposit to the purchaser for the benefit of the Tenant, and shall be considered released from all liability for the return of the security. Tenant agrees to look to the new Landlord solely for the return of such deposit. Upon Tenant's default under any term or provision of this Lease, Landlord may apply the same in liquidation of Landlord's damages; and Landlord shall not thereby waive any right or remedy available to Landlord under this Lease or by law with respect to such default.

7. ALTERATIONS/IMPROVEMENTS AND KEYS. Except for the Tenant's Work, Tenant agrees to make no alterations, additions, or improvements to the Premises

without Landlord's prior consent, which consent may be withheld or denied at Landlord's sole and absolute discretion; and all such additions, alterations, and improvements shall be at Tenant's sole cost and expense, unless herein otherwise expressly provided. Notwithstanding the foregoing, Tenant shall have the right to change and re-key locks, and modify, replace or alter fire and security alarms at no cost to Landlord. All such additions, alterations, and improvements, regardless of whether the same are installed prior or subsequent to the Commencement Date of this Lease shall be and remain the property of Landlord. Upon the termination of this Lease in any manner whatsoever Landlord, at its sole option, may require Tenant, at Tenant's expense, to remove any or all of such additions, alterations, or improvements and restore the Premises to the same condition as exists at Lease Commencement. Tenant shall return all keys or the cost thereof, including changing the locks shall be deducted from the security deposit.

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#### 8. REPAIRS.

(a) Tenant accepts the Premises in an "as-is" condition, as of the date of this Lease. Landlord shall, at Landlord's sole cost and expense, maintain in good condition, order, and repair, the Building including common areas, doors and glass surfaces, the foundation, roof, loading-bearing walls, elevators, exterior fencing, the plumbing system, heating, air-conditioning, ventilating, electrical, lighting, and sprinkling equipment, and in the Premises: electrical devices and lighting fixtures, systems and facilities located in or serving the Premises; provided, however, Tenant shall reimburse Landlord upon demand for all maintenance or repairs necessitated by the negligent, intentional, or wrongful act of Tenant, its agents, employees, or invitees.

(b) If directed by proper authority, Landlord shall provide alterations, repairs or improvements to the Building necessitated by the American with Disabilities Act of 1990 (ADA) and any regulations thereunder, including any similar zoning requirements, ordinances, statues, regulations or building codes, whether now in effect of hereafter enacted.

(c) Tenant, at Tenant's sole cost and expense, shall maintain in good, clean and sanitary condition, order, and repair, free from accumulations of trash or rubbish throughout the Term of this Lease, the Premises including, but not limited to, all doors, walls, ceilings, floors, carpeting, windows, glass surfaces, and draperies. If any maintenance required by this Paragraph, Landlord may perform same on Tenant's behalf, and Tenant shall reimburse Landlord, upon demand, for all costs and expenses incurred together with interest thereon at the highest rate permitted by law until paid. Reasonable wear and tear are excepted from the provisions of this Paragraph.

9. ASSIGNMENT AND SUBLETTING. Tenant shall not assign this Lease, nor sublet the Premises, or any part thereof nor use the same, or any part hereof, nor permit the same, or any part stipulated, nor make any alterations herein, and all

additions thereto, without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Landlord has the right to assign this Lease, and any such assignment by Landlord shall confer upon assignee all the rights, powers and obligations that Landlord has hereunder

10. PERSONAL PROPERTY. All personal property placed or moved in the Premises above described shall be at the risk of Tenant or owner thereof, and Landlord shall not be liable for any damage to said personal property, or to the Tenant arising from the bursting or leaking of water pipes, or from any act of negligence or any co-leases or occupants of the Building or any other person whomsoever.

11. USE AND COMPLIANCE WITH LAWS.

(a) Tenant hereby covenants and agrees to use all of the Premises for the purpose of office space, and shall not use the Premises for any other use or purpose whatsoever without Landlord's prior written consent. Except with respect to the clean-up of any "Hazardous Materials" existing in, on or about the Premises prior to the Commencement Date, Tenant shall, throughout the Term of this Lease, and at no expense whatsoever to the Landlord, promptly execute and comply with all laws, ordinances, orders, rules,

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regulations, and requirements of all federal, state, county, and municipal governments, and appropriate departments, commissions, boards, and offices thereof, including all rules, orders and regulations of the Southeastern Underwriters Association for the prevention of fires, foreseen and unforeseen, ordinary as well as extraordinary, and whether or not the same shall presently be within the contemplation of the parties hereto or shall involve any changes of governmental policy or require structural or extraordinary repairs, alterations, or additions and irrespective of the cost thereof, that may be applicable to Tenant's business operations on the Premises.

(b) Tenant covenants and agrees not to suffer, permit, or maintain other than "Hazardous Materials" existing on the Premises as of the Commencement Date, nor to introduce in, on or about any portion of the Premises, any asbestos, polychlorinated biphenyls, petroleum products or any other hazardous or toxic materials, wastes and substances which are defined, determined or identified as such in any federal, state, or local laws, rules or regulations (whether now existing or hereinafter enacted or promulgated) or any judicial or administrative orders or judgments or any other materials which may be deemed hazardous or toxic if infiltrated in high concentrations into the land or ground water underlying the Premises. Any such asbestos, polychlorinated biphenyls, substances are herein collectively called "Hazardous Materials".

(c) Tenant further covenants and agrees to indemnify, protect and save Landlord harmless against and from any and all damages, losses, liabilities, obligations, penalties, claims, litigation, demands, defenses, judgments, suits, proceedings, costs, disbursements or expenses of any kind or of any nature

whatsoever including without limitation attorneys' and experts' fees and disbursements which may at any time be imposed upon, incurred by or asserted or awarded against Landlord and arising from or out of any Hazardous Materials on, in, under or affecting all or any portion of the Premises, introduced by, or on behalf of, Tenant including, without limitation, (i) the costs of removal of any and all Hazardous Materials from all or any portion of the Premises, (ii) additional costs required to take necessary precautions to protect against the release of Hazardous Materials on, in, under or affecting the Premises, into the air, any body of water, any other public domain or any surrounding areas, and (iii) any costs incurred to comply, in applicable laws, orders, judgments and regulations with respect to Hazardous Materials.

12. CASUALTY. The term "casualty" means fire, hurricane, flood, tornado, rain, wind, sinkhole, or other act of God, riot, civil commotion, or other acts of a public enemy; and theft, vandalism, or any other criminal or tortuous acts of third parties. In the event the Premises shall be destroyed or damaged by fire or other casualty during the Term of this lease so as to be untenable, the following options shall be available:

(a) If the Premises can be repaired within fourteen (14) days after the casualty, then Landlord shall restore the Premises (exclusive of Tenant's Work, Tenant's fixtures, equipment, signs, tenant improvements, and any items installed in or affixed to the Premises) by repairs or reconstruction at Landlord's expense, in which event Rent shall continue.

(b) If the Premises can not be repaired within fourteen (14) days after the casualty, Tenant or Landlord may elect to cancel this Lease as of the time of the casualty by notice to

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the other within three (3) days of the casualty. If there is no notice, Tenant shall be relieved from Rent accruing until the Premises are tenantable, and the Lease will remain in effect.

13. UTILITIES AND EXPENSES. Tenant hereby covenants to pay, discharge, defend, indemnify, and hold Landlord harmless of and from the following costs, expenses, and obligations as the same become due:

(a) All required telephone service, pest control services, janitorial service and trash removal service;

(b) Utilities including electricity, in excess of that normally furnished to other tenants and to the Premises during the Term of this Lease. Tenant shall pay ten dollars (\$10.00) per hour as additional rent for the use of extra air conditioning (HVAC) hours beyond the normal business/operating hours for the Building.

(c) All charges for labor, services, and materials used in connection with

any improvements or repairs to the Premises which are undertaken by Tenant.

(d) All sales and excise taxes imposed by law on the Rent, additional rental, and other charges and services due to Landlord from Tenant hereunder.

(e) All ad valorem taxes assessed, imposed, or levied by law upon or against all fixtures and personal property of regardless of whether such taxes are extraordinary or ordinary or foreseen or unforeseen, prior to the time the same become delinquent. Notwithstanding the foregoing, it is understood that Tenant shall have no obligation to pay for any ad valorem real estate taxes or assessments assessed, imposed or levied upon or against the Premises.

(f) Upon Tenant's default in payment or performance of any cost, expense, or obligation imposed upon Tenant by the terms of this Lease or by law, Landlord, upon fifteen (15) days prior written notice to Tenant of such default, may pay, perform and discharge the same, together with all interest and penalties thereon, without prejudice to Landlord's rights and remedies as reserved herein or provided by law, and the same, together with interest thereon at the rate of eighteen percent (18%) per annum until paid, shall be due and payable to Landlord upon demand. All expenses Landlord incurs because of Tenant's default under any of the terms or conditions of this Lease, including attorney's fees, shall be deemed additional rental; and Landlord shall have all rights and remedies with respect to such additional rental provided herein for nonpayment of Rent.

14. LIENS PROHIBITED. Tenant shall not permit any liens to attach to any interest in the Premises for labor, services, or materials furnished thereto pursuant to a contract with Tenant; and, in the event such liens do attach, Tenant shall cause the same to be canceled and discharged of record, by bond or otherwise, within thirty (30) days after the filing date of such lien, and shall also defend and pay damages and attorney fees, if any, on behalf of the other, for any action, suit or proceeding which may be brought thereon for the enforcement of such lien. Upon the failure by Tenant to do so, Landlord may, after expiration of said thirty (30) day period, transfer such lien to a bond posted by Landlord pursuant to the provision of Chapter 713, Florida Statutes, and recover from Tenant all costs of such bond. Landlord hereby notifies all persons and entities that any liens claimed by any party as the result of improving the Premises pursuant to a contract with Tenant, or with any person other than Landlord, shall extend to, and only to, the right, title and interest in and to the Premises, if any, of the person contracting for such improvements.

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This paragraph shall be construed so as to prohibit, in accordance with the provision of Chapter 713, Florida Statutes, the interest of Landlord in the Premises being subject to any lien for any improvements made by Tenant or any other person on the Premises.

15. DEFAULT. As used in the provisions of this Lease, each of the following

events shall constitute, and is hereinafter referred to as, an "Event of Default":

(a) If the Tenant fails, (i) to pay Rent or any other sum which it is obligated to pay to Landlord or to any third party pursuant to any provisions of this Lease, within three (3) days after the same is due, or (ii) to perform any of its other obligations under the provisions of this Lease within ten (10) days after the Landlord gives written notice of such default, (or, if the default is one that requires more than ten (10) days to correct, Tenant shall have a reasonable time to correct it if Tenant diligently prosecutes such correction to completion); or

(b) If the Tenant, (i) applies for or consents to the appointment of a receiver, trustee or liquidator of the Tenant or of all or a substantial part of its assets, (ii) files a voluntary petition in bankruptcy or admits in writing its inability to pay its debts as they come due, (iii) makes an assignment for the benefit of its creditors, (iv) files a petition or an answer seeking a reorganization or any arrangement with creditors, or seeks to take advantage of any insolvency law, (v) performs any other act of bankruptcy, or (vi) files an answer admitting the material allegations of a petition filed against the Tenant in any bankruptcy, reorganization or insolvency proceeding; or

(c) If (i) an order, judgment or decree is entered by any court or competent jurisdiction adjudicating the Tenant a bankrupt or an insolvent, approving a petition seeking such a reorganization, or appointing a receiver, trustee or liquidator of the Tenant or of all or a substantial part of its assets, and such action is not canceled, dissolved or discharged within sixty (60) consecutive days, or (ii) there otherwise commences as to the Tenant or any of its assets proceeding under any bankruptcy, reorganization, arrangement, insolvency, readjustment, receivership or similar law, and it such order, judgment, decree or proceeding continues unstayed for more than sixty (60) consecutive days after any stay thereof expires; or

(d) If Tenant fails to continuously occupy the Premises or conduct business operations thereon for a period of more than thirty (30) days for any reason (other than for a financial reason) beyond Tenant's control.

16. LANDLORD'S REMEDIES. Upon an Event of Default, Landlord may exercise any one or all of the following options:

(a) Terminate Tenant's right to possession under this Lease and re-enter and take possession of the Premises and relet or attempt to relet the Premises on behalf of Tenant, at any such rent and under such terms and conditions as Landlord may best obtain under the circumstances for the purpose of reducing Tenant's liability; and Landlord shall not be deemed to have thereby accepted a surrender of the Premises, and Tenant shall remain liable for all Rent and additional rental due under this Lease and for all damages suffered by Landlord because of Tenant's breach of any of the covenants of this Lease, including brokerage commissions, and expenses to prepare the Premises for a new tenant. At any time during such repossession or reletting, Landlord may, by delivering written notice to

Tenant, elect to exercise its option under the following subparagraph to accept a surrender of the Premises, terminate and cancel this Lease, and retake possession and occupancy of the Premises on behalf of Landlord. Nothing contained in this subparagraph shall be construed as imposing any enforceable duty upon Landlord to relet the Premises or otherwise mitigate or minimize Landlord's damages by virtue of Tenant's default.

(b) Declare this Lease to be terminated, and re-enter upon and take possession of the Premises without notice to Tenant, whereupon the Term hereby granted and all right, title and interest of Tenant in the Premises shall terminate. Such termination shall be without prejudice to Landlord's right to collect from Tenant any Rent or additional rental that has accrued prior to such termination, together with all damages suffered by Landlord because of Tenant's breach of any covenant contained in this Lease.

(c) Declare the entire remaining unpaid Rent for the Term of this Lease then in effect to be immediately due and payable, and, at Landlord's option, take immediate action to recover and collect the same by any available procedure.

(d) Pursue any combination of such remedies and/or any other right or remedy available to the Landlord on account of such Event of Default under this Lease and/or at law or in equity. The remedies provided in this paragraph shall be cumulative to those provided elsewhere herein or by law.

17. TENANT'S BANKRUPTCY. In addition to Landlord's remedies under Paragraph 16, above, in the event Landlord is unable to terminate this Lease in accordance with Paragraph 16 (b) above because such termination is not allowed under the Bankruptcy Code (hereinafter defined), upon the filing of a petition by or against Tenant under the Bankruptcy Code, Tenant, as debtor and as debtor in possession, and any trustee who may be appointed, agree:

(a) to perform promptly every obligation of Tenant under this Lease until this Lease is either rejected or assumed by order of a United States Bankruptcy Court or other United States Court of competent jurisdiction; or deemed rejected by operation of Law, pursuant to 11 U.S.C. Statute 365 (c) (4);

(b) to pay monthly in advance on the first day of each month as reasonable Compensation for use and occupancy of the Premises an amount equal to the greater of the monthly installment of the Base Annual Rental or Rent and all additional rent;

(c) to reject or assume this Lease within sixty (60) days of the filing of such petition under Chapter 7 of the Bankruptcy Code or within thirty (30) days of the filing of a petition under any other Chapter;

(d) to give Landlord at least forty-five (45) days prior written notice of any proceeding relating to any assumption of this Lease;

(e) to give Landlord at least thirty (30) days prior written notice of any abandonment of the Premises, any such abandonment to be deemed conclusively a rejection of this Lease;

(f) to be deemed conclusively to have rejected this Lease in the event of the failure to comply with any of the above;

(g) to have consented to the entry of an order by an appropriate United States Bankruptcy Court providing all of the above, waiving notice and hearing of the entry of same; and

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Notwithstanding anything in this Lease to the contrary, all amounts payable by Tenant to or on behalf of Landlord hereunder, whether or not expressly denominated as Rent, shall constitute "rent" for the purposes of Section 520(b)(7) of the Bankruptcy Code, including, without limitation, reasonable attorneys' fees incurred by Landlord by reason of Tenant's bankruptcy. Nothing contained in this Paragraph shall be deemed in any manner to limit Landlord's rights and remedies under the Bankruptcy Code, as presently existing or as may hereafter be amended. In the event that the Bankruptcy Code is interpreted or amended during the term of this Lease to so permit, or is superseded by an act of an Event of Default under this Lease:

(a) if tenant is adjudicated insolvent by the United States Bankruptcy Code, or

(b) if a petition is filed by or against Tenant under the Bankruptcy Code and such petition is not vacated within thirty (30) days. In either of such events, this Lease and all rights of Tenant hereunder shall automatically terminate with the same force and effect as is the date of either such event were the date stated herein for the expiration of the Term, and Tenant shall vacate and surrender the Premises, but shall remain liable as herein provided. Landlord reserves any and all rights and remedies provided herein or at law.

Tenant's "bankruptcy" means, (i) the application by Tenant or any guarantor of Tenant or its or their consent to the appointment as a receiver, trustee or liquidator of Tenant or any guarantor of Tenant or a substantial part of its or their assets, (ii) the filing of a voluntary petition in bankruptcy or the admissions in writing by Tenant or any guarantor of Tenant of its inability to pay its debts as they become due, (iii) the making by Tenant or any guarantor of Tenant of an assignment for the benefit of its creditors, (iv) the filing of a petition or an answer seeking a reorganization or any arrangement with its creditors or an attempt to take advantage of any insolvency law, (v) the filing of an answer admitting the material allegations of a petition filed against Tenant or any insolvency allegations of a petition filed against Tenant or any

guarantor of Tenant in any bankruptcy, reorganization or insolvency proceeding, (vi) the entering of an order, judgment or decree by any court of competent jurisdiction adjudicating Tenant or any guarantor of Tenant a bankrupt or an insolvent, approving a petition seeking such a reorganization, or appointing a receiver, trustee or liquidator of Tenant or any guarantor of Tenant or of all or a substantial part of its or their assets, or (vii) the commencing of any proceeding under any bankruptcy, reorganization, arrangement, insolvency, readjustment, receivership or similar law, and the continuation of such order, judgment, decree of proceeding unstayed for any period of sixty (60) consecutive days after the expiration of any stay thereof. Neither Tenant's interest in this Lease, nor any estate created hereby in Tenant nor any receiver or assignee for the benefit or creditors or otherwise by operation of law except as may specifically be provided by the Bankruptcy Code, Title 11 U.S.C. (the "Bankruptcy Code").

18. SECURITY INTEREST. Tenant hereby grants Landlord a security interest all equipment, trade fixtures, personal property and improvements installed in, affixed to, or kept on the Premises as security for Tenant's full and complete performance of tenant's obligations hereunder. Upon Tenant's default in any obligation hereunder, Tenant hereby

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expressly agrees that Landlord may exercise, with respect to such trade fixtures, equipment, and improvements, and all rights Landlord may have at the time of such default as a secured party under Chapter 670, Florida Statutes. If Tenant is not in default under the terms hereof, all trade fixtures and equipment owned by the Tenant, may be removed by Tenant at any time during the term, or upon the expiration thereof. Tenant agrees to repair any damages to the Building occasioned by the removing of such trade fixtures.

19. COSTS OF ENFORCEMENT. In the event that Landlord shall bring an action to recover any sum due hereunder or for any breach hereunder and shall obtain a judgment in its favor, Landlord shall be entitled to recover all costs and expenses incurred, including reasonable attorneys' fees through all proceedings, trials and appeals.

20. ENTRY. Tenant agrees to permit Landlord and Landlord's agents entry to the Premises:

(a) At any time during the Term of this Lease upon reasonable notice to Tenant and at times reasonably convenient to Tenant for the purpose of: inspecting the Premises; preventing waste thereto; making such repairs or performing such maintenance as contemplated by Paragraph 8; showing the Premises to prospective tenants; or discharging any duty imposed upon Landlord by this Lease or bylaw.

(b) Within thirty (30) days prior to the termination of this Lease, upon

reasonable notice, and at times reasonably convenient to Tenant, for the purpose of showing the Premises to prospective tenants, provided such entry does not unreasonably disturb or interrupt Tenant's business operations.

21. LIABILITY. Tenant hereby agrees that Landlord shall not be liable to Tenant for any damages or injuries to the property of Tenant or to the persons or property of Tenant's officers, agents, employees, or invitees, or any other person, occasioned by or due to alleged or real defects in the Premises, and Tenant agrees that it will hold Landlord harmless against any liability arising out of, any injury to or death of any person or damage to any person or damage to any property, occurring anywhere upon the Premises, other than injuries to or death of any person or damage to any property proximately caused by negligent or intend tortuous act or omission of the Landlord or its agents, officers, employees or invitees. Without limitation of the generality of the foregoing, Tenant agrees that at its own cost and expense, Tenant will procure and maintain in force throughout the Term of this Lease, for the benefit of Tenant, and which shows Landlord and Landlord's mortgagees as additional insured, as their respective interests shall appear, a policy or policies of public liability insurance, in form and coverage satisfactory to Landlord, written by an insurance company authorized to engage in the business of general liability insurance in the State of Florida (if required by law), with a Best's rating of A or better, protecting Landlord, Landlord's mortgagee and Tenant against any and all claims for injury to persons or property occurring in, upon, or about the Premises, and each and every part thereof. Such public liability policy or policies shall have a combined single limit for personal injury and property damage of not less than One Million Dollars

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(\$1,000,000.00) with respect to injuries, death, or damagers in any one occurrence. Tenant shall promptly pay when due and all insurance premiums in connection with any policy or policies of insurance and shall deliver appropriate a certificate of such insurance to Landlord. Should Tenant fail to furnish evidence of such insurance as provided for in this Lease, Landlord may, in addition to exercising any of its other rights because of Tenant's default, obtain such insurance and the premiums of such insurance shall be deemed to be additional rental to be paid to Landlord by Tenant on demand, together with interest thereon at the rate of eighteen percent (18%) per annum. All such policies shall require thirty (30) days written notice to Landlord prior to any cancellation or modification thereof.

22. NOTICES. Any notice or demand required under this Lease or by law shall be in writing and shall be delivered by hand or deemed to have been delivered when mailed either by overnight courier delivery service or by registered or certified mail, return receipt requested, and addressed to:

Landlord: W. Alan Woodford, Agent  
334 Golfview Drive,  
Pittsburgh, PA 15241-3308; and

Tenant: Junior Library Guild  
1915 N. Dale Mabry Hwy., Ste. 400  
Tampa, FL 33607  
Attn: Mr. Randall J. Asmo

23. CONDEMNATION. If the whole or any portion of the Premises is condemned for any public use or purpose by any legally constituted authority with the result that the same are no longer reasonably suitable for Tenant's continued use thereof, then Tenant shall have the option of canceling this Lease, and Rent shall be accounted for between Landlord and Tenant as of this date of taking. In the event of such cancellation, Landlord shall be entitled to all compensation to be paid by condemning authority, except that Tenant may pursue any claim Tenant may have for business interruption or moving expenses. Tenant agrees to execute such instruments of assignments as may be reasonably required by Landlord in any proceedings for the recovery of such damages if requested by Landlord, and to turn to Landlord any damages that may be recovered in such proceedings.

24. SURRENDER/HOLDING OVER. Upon the expiration or earlier termination of this Lease, Tenant shall surrender the Premises to Landlord in good order and condition, except for ordinary wear and tear and except for the results of any taking or damage or destruction not caused by Tenant. Tenant shall remove from the Premises on or prior to such expiration or earlier termination all of its property (including signage) situated thereon and shall repair any damage caused by such removal. Property not so removed shall become the property of Landlord and Landlord may assess a fee for its removal or disposal. If Tenant holds over without the Landlord's written consent after the expiration or other termination of this Lease, or if Tenant continues to occupy the Premises after termination of Tenant's right of possession pursuant to any provision of this Lease, Tenant

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shall throughout the entire holdover period pay rent equal to twice the Base Rent and additional Base Rent which would have been applicable had the Term of this Lease continued through the period of such holding over by Tenant. Landlord and Tenant maintain the right to terminate this month to month tenancy with thirty (30) days written notification to the other party. No possession by Tenant after the expiration of the Term of this Lease shall be construed to extend the Term of this Lease unless Landlord has consented to such possession in writing.

25. ESTOPPELL CERTIFICATE. Either party shall, without charge, at any reasonable time and from time to time hereafter, within ten (10) days after written request of the other, certify by written instrument, duly executed and acknowledged, for any mortgages or purchaser, or proposed mortgagee or proposed purchaser, or any other person specified in such request:

(a) that this Lease is unmodified and in full force and effect, or if there has been any modification, that the same is in full force and effect as so

modified, and identifying any such modifications;

(b) whether or not there are any existing defaults with respect to the terms of this Lease known by the party executing said instrument with respect to the other party, and if any such defaults are known, specifying the same and part of such other party;

(c) the dates through which Rent and all other charges hereunder have been paid;

(d) the commencement and expiration dates of the term of this Lease; and,

(e) as to any other matter as may reasonably be so requested. Any such certificate may be relied upon by the party requesting it and any other person to whom the same may be exhibited or delivered and the contents of such certificate shall be binding on the party executing same. Tenant agrees to subordinate this Lease upon request of Landlord without charge or delay.

26. RADON. Pursuant to Section 404.056, Florida Statutes (1990), notification is hereby given to Tenant as follows:

"RADON GAS: Radon is a naturally occurring radioactive gas, that, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in Florida. Additional information regarding radon and radon testing may be obtained from your county public health unit."

27. TIME. It is understood and agreed between the parties hereto that time is of the essence of during the term of this contract/Lease.

28. BROKERAGE. Tenant acknowledges that Lincoln Property Company of Florida, Inc. ("Landlord's Agent") represents the Landlord and Binswanger ("Tenant's Agent") represents the Tenant with regard to this Lease agreement and a real estate commission will be paid by Landlord pursuant to the terms and conditions of a listing agreement between Landlord and Landlord's Agent. Except as indicated above, Tenant warrants that it is not represented by a broker, and accordingly, has no expectation that a commission be

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paid on its behalf. In such event, Tenant agrees to indemnify Landlord from all claims from a third party broker.

29. RIGHTS. The rights of the Landlord under the foregoing shall be cumulative, and failure on the part of the Landlord to exercise promptly any rights given hereunder shall not operate to forfeit any of the said rights.

30. COMPLIANCE. Tenant shall comply with all governmental rules, codes, and

regulations governing the construction, maintenance and location of signs, and shall promptly remove all of its signs upon termination of this Lease to the satisfaction of Landlord and at no cost to Landlord.

31. EXTENSION/RELOCATION. Tenant and Landlord agree to enter into good faith negotiations to extend the Term of this Lease at least sixty (60) days prior to the expiration of the Term. Tenant and Landlord further agree that Landlord may move Tenant into comparable space, as determined in the sole discretion of Landlord, as a right to relocate Tenant upon thirty (30) days notice. At Tenant's option, Tenant may terminate this lease upon receipt of Landlord's notice of its intent to relocate Tenant by providing Landlord with thirty (30) days written notice of its intent to terminate. Landlord and tenant agree to equally split the costs involved in any relocation within the building during the initial term.

32 CONFIDENTIALITY. All terms of this lease, most specifically Paragraph 5: Rent and Rent Adjustment, shall remain in confidence between Tenant and Landlord.

33. TOTALITY. Except for "Building Rules and Regulations" which Landlord may issue from time to time to be made part of this Lease, this Lease may not be amended, modified, or terminated, nor may any obligation hereunder be waived orally, and no such amendment, modification, termination, or waiver shall be effective for any purpose unless it is in writing, signed by the party against whom enforcement thereof is sought. It is, however, expressly stated that Tenant and any invitees shall not smoke in the Building. Tenant and its employees and agents further shall not park in areas reserved for others or designated for customer parking on the ground floor closest to the Building.

34. SEVERABILITY. If any provision of this Lease or any application thereof shall be invalid or unenforceable, the remainder of this Lease and any other applications of such provision shall not be affected thereby. This Lease and any provision thereof cannot be recorded unless Landlord so chooses.

35. SUCCESSORS. This Lease shall be binding upon and insure to the benefit of, and be enforceable by, the respective successors and assigns of the parties hereto.

36. GOVERNANCE. This Lease shall be governed by, and construed in accordance with, the laws of the State of Florida.

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37. PARTIES. Landlord and Tenant shall not be considered or deemed to be joint venturers or partners, and neither shall have the power to bind or obligate the other as set forth herein.

38. TERMS. All terms used in this Lease, regardless of the number or gender in which they are used, shall be deemed and construed to include any other number, singular or plural, and by other gender, masculine, feminine or neuter, as the

context or sense of this Lease or any section, subsection or clause herein may require as if such terms had been fully and property written in such number or gender.

IN WITNESS WHEREOF, the parties hereto have hereunto executed this instrument for the purpose herein expressed, the day and year above written.

SIGNED, SEALED AND DELIVERED IN THE PRESENCE OF:

TENANT:

JUNIOR LIBRARY GUILD

/s/ Randall J. Asmo Co-Chairman

/s/ illegible

-----

Witness

Name: Randall J. Asmo

Its: Co-Chairman

-----

/s/ illegible

-----

Witness

LANDLORD:

-----

Witness

-----

W. Alan Woodford, Agent

-----

Witness

THE 1915 NORTH DALE MABRY BUILDING  
FLOOR PLAN - FOURTH FLOOR

[MAP FLOOR PLAN]

PAYMENT OF THE OBLIGATIONS EVIDENCED BY THIS NOTE  
IS SUBJECT TO THE SUBORDINATION PROVISIONS CONTAINED HEREIN

THE HUNTINGTON NATIONAL BANK  
COMMERCIAL LOAN NOTE  
Business Purpose

=====  
City Office \_\_\_\_\_ Division \_\_\_\_\_ Branch \_\_\_\_\_ [ ] Secured  
Account No. \_\_\_\_\_ Note No. \_\_\_\_\_ [X] Unsecured  
Account Name Pages, Inc., Pages Book Fairs, Inc. and Pages Library Services,  
-----  
Inc.  
----  
[X] Corporations [ ] Partnerships [ ] Individuals/Proprietorships  
[ ] Other \_\_\_\_\_  
=====

\$200,000.00 Columbus, Ohio \_\_\_\_\_, 1998

FOR VALUE RECEIVED, the undersigned, jointly and severally, promise to pay to the order of THE HUNTINGTON NATIONAL BANK (hereinafter called the "Bank," which term shall include any holder hereof), at such place as the Bank may designate or, in the absence of such designation, at any of the Bank's offices, the sum of Two Hundred Thousand Dollars (\$200,000.00) (hereinafter called the "Principal Sum"), together with interest as hereinafter provided. The undersigned promise to pay the Principal Sum and the interest thereon at the time and in the manner hereinafter provided in this note (this "Note").

INTEREST  
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Interest will accrue on the unpaid balance of the Principal Sum until paid at the rate of eight percent (8 1/2%) per annum.

Upon the occurrence of an "Event of Default" pursuant to the Loan Agreement, interest will accrue on the unpaid balance of the Principal Sum and unpaid interest, if any, until paid at the rate of twelve percent (12 1/2%) per annum.

All interest shall be calculated on the basis of a 360 day year for the actual number of days the Principal Sum or any part thereof remains unpaid.

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#### MANNER OF PAYMENT

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The Principal Sum shall be payable on July 31, 2001, and accrued interest shall be due and payable quarterly beginning on January 1, 1999, and continuing on the 1st day of each April, July, October and January thereafter, and at maturity, whether by demand, acceleration or otherwise.

#### LATE CHARGE

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Any installment or other payment not made within 10 days of the date such payment or installment is due shall be subject to a late charge equal to 5% of the amount of the installment or payment.

#### SUBORDINATION

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(a) The indebtedness evidenced by this Note (the "Subordinated Indebtedness") is hereby made subordinate and junior in right of payment, in the manner and to the extent provided herein, to the prior payment in full of all Senior Indebtedness of the undersigned. The term "Senior Indebtedness" means any and all indebtedness for borrowed money in an aggregate amount not exceeding \$500,000.00 at any time that is now or hereafter owing by the undersigned to any one entity, not affiliated with the undersigned, that (i) is designated by the undersigned (in a written notice provided to the Bank within one year after the date of this Note) as the Senior Creditor for purposes hereof, and (ii) is reasonably acceptable to the Bank (such entity hereinafter referred to as the "Senior Creditor").

(b) In the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization, sale or transfer of any material asset or interest in the undersigned, or other similar proceedings or transactions in connection therewith, relative to the undersigned, to their respective creditors, or to their respective properties, or in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the undersigned, whether or not involving insolvency or bankruptcy, then Senior Creditor shall be entitled to receive payment in full of all principal of and premium, if any, interest, and fees on the Senior Indebtedness including, without limitation, interest or fees accruing subsequent to the filing of a petition in any such insolvency or bankruptcy proceeding, notwithstanding any law, rule or regulation that would otherwise limit Senior Creditor's right to receive such post-petition interest or fees, before the Bank is entitled to receive any payment otherwise due under this Note, and Senior Creditor shall be

entitled to receive for application in payment thereof any payment, distribution, or dividend of any kind or character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the indebtedness evidenced by this Note, except securities which are subordinate and junior in right of payment to the payment of all the Senior Indebtedness then outstanding.

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(c) No action which Senior Creditor, or the undersigned with the consent of Senior Creditor, may take or refrain from taking with respect to any Senior Indebtedness, or any note or notes evidencing the same, or any collateral therefor, including a waiver or release thereof, or any agreement or agreements (including guaranties) in connection therewith, shall affect the subordination of the Subordinated Indebtedness to the payment of the Senior Indebtedness, as set forth herein. Without limitation, such subordination shall in no way be affected or impaired by, and by acceptance of this Note the Bank hereby irrevocably consents to: (i) any amendment, restatement, alteration, extension, renewal, waiver, indulgence or other modification of the documents evidencing the Senior Indebtedness; (ii) any settlement or compromise in connection with the Senior Indebtedness; (iii) any substitution, exchange, release or other disposition of all or any part of the Senior Indebtedness; (d) any failure, delay, neglect, act or omission by the Senior Creditor to act in connection with the Senior Indebtedness; or (v) any advances for the purpose of performing or curing any term or covenant contained in the documents or agreements evidencing the Senior Indebtedness with respect to which the undersigned shall be or would otherwise be in default; all of the foregoing notwithstanding any defect in the genuineness, validity, regularity or enforceability of the documents or agreements evidencing the Senior Indebtedness or any other circumstances, whether or not referred to herein, that might otherwise constitute a legal or equitable discharge or a defense of the Bank.

NEGATIVE COVENANTS

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Each of the undersigned (hereinafter sometimes referred to individually as a "Company" and collectively as the "Companies") covenants that until the obligations evidenced by this Note shall be fully and indefeasibly paid in full in cash:

(a) SALE OF ASSETS: MERGER; SUBSIDIARIES; TRADENAMES. Such Company will not, except in the ordinary course of business, sell, lease, transfer or otherwise dispose of, any of its assets, except that such Company may sell or otherwise dispose of its inventory in the ordinary course of its business. Such Company will not, without the prior written consent of the Bank (which consent shall not be unreasonably withheld) and without the execution of such documents deemed necessary by the Bank, and will not permit any of its affiliates to, consolidate with, merge into, or make investments in any other entity, or permit

any other entity to consolidate with or merge into it. Without the prior written consent of the Bank, Pages, Inc. (the "Parent") shall not acquire all or substantially all of the assets or business of any other company, person or entity make investments in any other company, person or entity, or transfer any assets to any other company, person or entity. With respect to any acquisition of, or investment in, all or substantially all of the assets or business of any other company, person or entity for which the written consent of the Bank is provided, the Parent shall execute and deliver to the Bank such documents deemed necessary by the Bank. In addition, Pages Book Fairs, Inc. and Pages Library Services, Inc. shall not acquire all or substantially all of the assets or business of any other company, person or entity or make investments in any other company, person or entity. Such Company has no subsidiaries except that Pages Book Fairs, Inc. and RABC, Inc. are wholly-owned subsidiaries of the Parent. Each Company conducts business only in the name of such

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Company. Such Company will not create or acquire any subsidiaries without the prior written consent of the Bank, which consent will not be withheld unreasonably.

(b) NEGATIVE PLEDGE. Such Company will not cause or permit or agree or consent to cause or permit in the future (upon the happening of a contingency or otherwise), any of its real or personal property, whether now owned or hereafter acquired, to become subject to a lien or encumbrance, except; (i) liens in connection with deposits required by workers' compensation, unemployment insurance, social security and other like laws; (ii) taxes, assessments, reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar title exceptions or encumbrances affecting real property, PROVIDED they do not in the aggregate materially detract from the value of said property or materially interfere with its use in the ordinary conduct of business; (iii) inchoate liens arising under ERISA to secure the contingent liability of such Company; and (iv) liens securing the Senior Indebtedness. In addition, such Company has not agreed and will not agree (upon the happening of a contingency or otherwise) to enter into an agreement or grant a "negative pledge" or other covenant similar to this paragraph in favor of any other lender, creditor or third party.

(c) OTHER BORROWINGS AND CONTINGENT LIABILITIES. Except for the Subordinated Indebtedness and the Senior Indebtedness, such Company will not, (a) create or incur any extensions of credit or indebtedness, including without limitation any indebtedness for borrowed money or advances or through the execution of capitalized lease agreements or (b) guarantee, indorse or otherwise become surety for or upon the obligations of others, except by indorsement of negotiable instruments for deposit or collection in the ordinary course of business.

(d) TRANSACTIONS WITH AFFILIATES. None of the Companies shall directly or

indirectly enter into or permit to exist any transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any of its affiliates, shareholders, directors or any affiliates of the same, on terms that are less favorable to such Company than those which might be obtained at the time from persons or entities who are not affiliated with the Company or its shareholders.

AFFIRMATIVE COVENANTS  
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(a) FINANCIAL INFORMATION AND REPORTING. The Parent shall deliver the following to the Bank on a consolidated and consolidating basis:

(i) within 45 days after the end of each quarter, financial statements, including a balance sheet and statements of income and surplus, and a statement of cash flows of the Companies, on a combined and consolidated basis, certified by the president or chief financial officer of the Parent (a "Financial Officer") as fairly representing the Companies' financial condition as of the end of such period;

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(ii) within 45 days after the end of each quarter, statements signed by a Financial Officer certifying the compliance of each of the Companies with the terms of this Note and the calculation of the Debt Service Coverage Ratio;

(iii) within 90 days after the end of each fiscal year, audited unqualified financial statements with consolidating schedules, prepared in accordance with generally accepted accounting principles consistently applied and certified by independent public accountants satisfactory to the Bank, containing a balance sheet, statements of income and surplus, statements of cash flows and reconciliation of capital accounts, along with any management letters written by such accountants;

(iv) immediately upon the filing or release, as the case may be, copies of any Securities and Exchange Commission or State Securities Law disclosures, filings, documents or any press releases; and

(v) at the request of the Bank, such other information as the Bank may from time to time reasonably require.

(b) DEBT SERVICE COVERAGE RATIO. The Companies, on a combined and consolidated basis, shall maintain at all times a ratio (the "Debt Service Coverage Ratio") of (a) EBITDA to (b) Debt Service of not less than 1.25 to 1.00. The Debt Service Coverage Ratio of the Companies shall be determined as of the last day of each fiscal quarter, beginning December 31, 1998, for the twelve month period ending on such date (or, if fewer than twelve months have occurred since June 30, 1998, for the period from June 30, 1998 to such date).

"EBITDA" means for any period for the Companies, on a combined and consolidated basis, (i) the sum of the amounts for such period of (A) Consolidated Net Income, PLUS (B) Consolidated Interest Expense, PLUS (C) charges for federal, state, local and foreign income taxes, PLUS (D) depreciation, amortization expense and non-cash charges which were deducted in determining Consolidated Net Income, MINUS the sum of the amounts for such period of (X) other non-operating income not already excluded from the determination of Consolidated Net Income, PLUS (Y) to the extent not deducted from Consolidated Interest Expense, any net payments received during such period under interest rate contracts and any interest income received in respect of its cash investments.

"Consolidated Net Income" means for any period the net income (or deficit) after taxes of the Companies for such period, on a combined and consolidated basis, which in accordance with GAAP would be included as net income on the statements of income of the Companies for such period.

"Consolidated Interest Expense" means, for any period, as determined in conformity with GAAP, total interest expense of the Companies, on a combined and consolidated basis, whether paid or accrued or due and payable (without duplication), including without limitation the interest component of capital lease obligations for such period, all bank fees, commissions, discounts and other fees and charges owed with respect to letters of credit, and net costs under interest rate contracts.

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"Debt Service" shall mean with respect to any period, the sum of (a) Consolidated Interest Expense, PLUS (b) scheduled principal payments on term obligations and capital leases of the Companies for such period.

DEFAULT

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Upon the occurrence of any of the following events:

(a) the failure of any of the undersigned to make any payment of interest or of the Principal Sum on or before the date such payment is due;

(b) any of the undersigned fails to perform or observe any covenant contained in this Note;

(c) a final judgment or judgments for the payment of money aggregating in excess of \$100,000.00 is or are outstanding against any one of the undersigned and any such judgment or judgments have not been discharged in full or stayed;

(d) the occurrence of any event which allows the acceleration of the

maturity of any indebtedness in excess of \$100,000.00, if any, of any one of the undersigned to the Bank, any of the Bank's affiliates, or any other person, corporation or entity under any indenture, agreement or undertaking;

(e) the death or dissolution of any of the undersigned, or any indorser, surety, or guarantor, or the failure of any indorser, surety or guarantor to perform any obligation to the Bank;

(f) the undersigned or any one of them shall become insolvent or bankrupt, or make an assignment for the benefit of creditors or consent to the appointment of a trustee, receiver or liquidator;

(g) bankruptcy, reorganization, arrangement, insolvency, liquidation or receivership proceedings are instituted by or against the undersigned (or any one of them) under federal or state law;

(h) any warranty, representation or other statement by or on behalf of any one of the undersigned contained in this Note or in any instrument furnished in compliance with or in reference to this Note is false or misleading in any material respect, or any one of the undersigned fails to perform or observe any covenant contained in any mortgage, security agreement or other agreement in favor of the Bank; or

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(i) the Bank for any reason in good faith deems itself insecure with respect to the obligations evidenced hereby,

then the Bank may, at its option, without notice or demand, accelerate the maturity of the obligations evidenced hereby, which obligations shall become immediately due and payable. In the event the Bank shall institute any action for the enforcement or collection of the obligations evidenced hereby, the undersigned agree to pay all costs and expenses of such action, including reasonable attorneys' fees, to the extent permitted by law.

#### GENERAL PROVISIONS

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Each of the parties executing this Note, and any indorser, surety, or guarantor, hereby jointly and severally waive presentment, notice of dishonor, protest, notice of protest, and diligence in bringing suit against any party hereto, waive the defenses of impairment of collateral for the obligation evidenced hereby, impairment of a person against whom the Bank has any right of recourse, and any defenses of any accommodation maker and consent that without discharging any of them, the time of payment and any other provision of this promissory note may be extended or modified an unlimited number of times before or after maturity without notice to the

undersigned. Each of the undersigned jointly and severally agrees that it will pay the obligations evidenced hereby, irrespective of any action or lack of action on the Bank's part in connection with the acquisition, perfection, possession, enforcement, disposition, or modification of all the obligations evidenced hereby or any and all security therefor, and no omission or delay on the Bank's part in exercising any right against, or taking any action to collect from or pursue the Bank's remedies against any party hereto will release, discharge, or modify the duties of the undersigned, or any of them, to make payments hereunder. Each of the undersigned agrees that the Bank, without notice to or further consent from the undersigned, may release or modify any collateral, security, document or other guaranties now held or hereafter acquired, or substitute other collateral, security or other guaranties, and no such action will release, discharge or modify the duties of the undersigned, or any of them, hereunder. Each of the undersigned agrees that the Bank will not be required to pursue or exhaust any of its rights or remedies against the undersigned, or any of them, or any guarantors of the obligations evidenced hereby with respect to the payment of any said obligations, or to pursue, exhaust or preserve any of the Bank's rights or remedies with respect to any collateral, security or other guaranties given to secure said obligations. Each of the undersigned waives any claim or other right which it might now have or hereafter acquire against any other person or entity that is primarily or contingently liable on the obligations that arise from the existence or performance of each of the obligations of the undersigned under this Note, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution, indemnification, or any right to participate in any claim or remedy of the Bank or any collateral security which the Bank now has or hereafter acquires, whether such claim, remedy or right arises in equity, under contract or statute, at common law, or otherwise.

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The obligations evidenced hereby may from time to time be evidenced by another note or notes given in substitution, renewal or extension hereof. Any security interest or mortgage which secures the obligations evidenced hereby shall remain in full force and effect notwithstanding any such substitution, renewal, or extension.

The captions used herein are for references only and shall not be deemed a part of this Note. If any of the terms or provisions of this Note shall be deemed unenforceable, the enforceability of the remaining terms and provisions shall not be affected. This Note shall be governed by and construed in accordance with the law of the State of Ohio.

WAIVER OF RIGHT TO TRIAL BY JURY  
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EACH OF THE UNDERSIGNED HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (1) ARISING UNDER THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (2) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE UNDERSIGNED OR THE BANK, OR ANY OF THEM, WITH RESPECT TO THIS NOTE OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH OF THE UNDERSIGNED HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT THE UNDERSIGNED, OR ANY OF THEM, OR THE BANK MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF EACH OF THE UNDERSIGNED TO THE WAIVER OF THE RIGHT OF THE UNDERSIGNED TO TRIAL BY JURY.

WARRANT OF ATTORNEY

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Each of the undersigned authorizes any attorney at law to appear in any Court of Record in the State of Ohio or in any state or territory of the United States after the above indebtedness becomes due, whether by acceleration or otherwise, to waive the issuing and service of process, and to confess judgment against any one or more of the undersigned in favor of the Bank for the amount then appearing due together with costs of suit, and thereupon to waive all errors and all rights of appeal and stays of execution. No such judgment or judgments against less than all of the undersigned shall be a bar to a subsequent judgment or judgments against any one or more of the undersigned against whom judgment has not been obtained hereon, this being a joint and several warrant of attorney to confess judgment.

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Borrower;  
Pages Book Fairs, Inc.

Borrower;  
Pages Library Services, Inc.

By: /s/ illegible

By: /s/ illegible

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Its: Chairman

Its: Chairman

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WARNING--BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY

OTHER CAUSE.

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Borrower:

PAGES, INC.

By: /s/ illegible

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Its: Chairman

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LEASE EXTENSION AND MODIFICATION AGREEMENT  
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AGREEMENT, made between THE MINISTER, ELDERS AND DEACONS OF THE REFORMED PROTESTANT DUTCH CHURCH OF THE CITY OF NEW YORK, a corporation organized under the Royal Charter of 1696 and existing by virtue of the Laws of the State of New York with its principal office at 45 John Street in the Borough of Manhattan, City, Country and State of New York, hereinafter designated as the Landlord, and PAGES, INC., a corporation organized under the Laws of the State of Delaware and having its principal offices at 29 John Street in the Borough of Manhattan, City, County, and State of New York, hereinafter designated as the Tenant.

WITNESSETH:

For and in consideration of the sum of TEN (\$10.00) DOLLARS each to the other in hand paid, it is mutually understood and agreed by and between the parties hereto that the lease dated August 29, 1994, and extended on March 6, 1995 between THE MINISTER, ELDERS AND DEACONS OF THE REFORMED PROTESTANT DUTCH CHURCH OF THE CITY OF NEW YORK as Landlord, and PAGES INC., as Tenant, for the space known as ROOM 1602 in the building known as 29 JOHN STREET in the Borough of Manhattan, City of New York, is hereby modified to the following extent:

EFFECTIVE AS OF JULY 1, 1996:  
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1. The demised premises known as Room 1602 shall be extended to include additional space known as Room 1601.
2. Landlord and Tenant hereby covenant and agree to extend the term of the aforesaid lease to May 31, 1999.
3. The new base rent shall become One Thousand Seven Hundred Fifty-Three (\$1,753.00) Dollars per month, \$21,036.00 per year.
4. The security deposit of Two Thousand Two Hundred Seventy (\$2,270.00) Dollars shall be increased by Four Hundred Sixty-Four (\$464.00) Dollars for a total of Two Thousand Seven Hundred Thirty-Four (\$2,734.00) Dollars. Tenant will pay Landlord an additional security deposit of \$464.00.
5. The electric charge has been increased to \$294.75 per month.
6. The "Base Year" to calculate the "Real Estate Tax Adjustment" will become the tax year July 1, 1996- June 30, 1997. The percentage of the

Real Estate Taxes shall become 1.9%, effective as of each July but in no event sooner than July 1, 1997 there shall be made a real estate tax adjustment of the annual rental rate payable hereunder.

- 7. The "Base Year" to calculate the "Cost of Living Adjustment" will become 1996. Effective as of each January but not before January 1, 1997, there shall be made a Cost of Living adjustment of the annual rental rate payable hereunder.
- 8. Landlord agrees to do the following work in Room 1601.
  - 1. Install interior door similar to existing doors currently in Room 1602.
  - 2. Build closet to be used for storage and coats.
  - 3. Paint the premises.
  - 4. Install carpet in the premises.
  - 5. Replace damaged and missing ceiling tiles.
  - 6. Install radiator with cover.
  - 7. Repair existing A/C to be in proper working condition. Move A/C to top of window with plexiglass panel.

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This agreement shall be attached to and form a part of the above mentioned lease and, except as herein above modified, said lease and the provisions thereof shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have signed and sealed this agreement this 27 DAY OF JUNE 1996.

Witness:

THE MINISTER, ELDERS AND DEACONS  
OF THE REFORMED PROTESTANT DUTCH  
CHURCH OF THE CITY OF NEW YORK

/s/ illegible  
-----

BY: /s/ Kenneth L. Schaffer  
-----  
Kenneth L. Schaffer, Treasurer

PAGES, INC.

/s/ illegible  
-----

BY: /s/ Randall J. Asmo Vice President  
-----  
Randall J. Asmo

[SEAL]

## NOTE PURCHASE AGREEMENT

This Note Purchase Agreement is made as of the 20th day of June, 1996, by and between Pages, Inc., a Delaware corporation (the "Company") and the person or persons who execute the signature page hereto (the "Buyer").

1. PURCHASE OF SECURITIES. Subject to the terms and conditions of this Agreement, the Buyer, intending to be legally bound, hereby irrevocably agrees to purchase from the Company that principal amount of 10% subordinated notes due December 31, 2005 (the "Notes") that is indicated on the signature page attached hereto. Unless otherwise provided for in Schedule 1 attached hereto, payment of the Notes is delivered to the Company simultaneously with the execution hereof by Buyer and is in the form of a check drawn on the account of Buyer or wire transfer to the Company. The Notes are accompanied by warrants ("Warrants") exercisable at any time up until 5:00 P.M., Eastern Time, on the date five years after the date hereof to purchase twenty Shares of Company common stock, \$.01 par value, ("Common Stock") for each \$1,000 in principal amount of Notes purchased, exercisable at \$2.75 per share and upon the exercise schedule described in the Company's Private Placement Memorandum dated April 23, 1996, as amended or supplemented (the "Memorandum").

2. ISSUANCE OF NOTES. The Company shall deliver to the Buyer an original Note and Warrant within a reasonable time after payment for the Notes is received by the Company.

3. INVESTOR NOTICES. The Buyer acknowledges that:

(a) Neither the Notes nor the Warrants have been approved or disapproved by the Securities and Exchange Commission or any state securities commissioner, and neither the Securities and Exchange Commission nor any state securities commissioner has passed upon the accuracy or adequacy of the Memorandum.

(b) No person other than the Chairman of the Board and the President of the Company is authorized to give any information or to make any representation regarding the Company and its future prospects, and any information or representation made by other than the Chairman of the Board or the President of the Company must not be relied upon.

(c) The offer of Notes and Warrants may be withdrawn by the Company at any time prior to the acceptance by the Company of this Note Purchase Agreement in writing. In connection with the offering and sale of the Notes and Warrants, the Company reserves the right, in its sole discretion, to reject any

subscription.

(d) This Note Purchase Agreement is submitted in connection with the private placement of the Notes and Warrants and does not constitute an offer or solicitation by or to anyone in any jurisdiction in which such an offer or solicitation is not authorized.

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(e) The Company has agreed to provide to the Buyer and any of the representatives of the Buyer the opportunity to inspect additional documents and to inquire of, and to receive answers from, it or any person acting on its behalf concerning the Company and the Notes. The Buyer may also obtain any additional information from the Company, to the extent it possesses such information or can acquire it without unreasonable effort or expense, necessary to verify the accuracy of the information provided to the Buyer with this Note Purchase Agreement. Any requests for information or to examine any documents should be directed to S. Robert Davis at Pages, Inc., 801 94th Avenue North, St. Petersburg, Florida, 33702, (813) 578-3300.

4. REPRESENTATIONS AND WARRANTIES. The Buyer hereby acknowledges, represents, and warrants to, and agrees with, the Company as follows:

(a) The Buyer has received and reviewed the Memorandum.

(b) No oral or written representations have been made or oral or written information furnished to the Buyer or his advisor(s) in connection with the offering of the Notes and Warrants which were in any way inconsistent with the information provided to the Buyer.

(c) The Buyer is not subscribing for the Notes and Warrants as a result of or subsequent to any advertisement, article, notice, or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio, or presented at any seminar or meeting to which the Buyer was invited by means of any advertisement, article, notice, or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio.

(d) The Buyer has adequate means of providing for the Buyer's current needs and contingencies, is able to bear the economic risks of an investment in the Notes and Warrants for an indefinite period of time and has no need for liquidity in such investment.

(e) The Buyer has such knowledge and experience in financial and business matters so as to enable the Buyer to utilize the information made available to the Buyer about the Company in order to evaluate the merits and risks of an investment in the Notes and Warrants and to make an informed investment decision with respect thereto.

(f) The Buyer is acquiring the Notes and Warrants solely for the

Buyer's own account as principal, for investment purposes only and not with a view to the resale or distribution thereof, in whole or in part, and no other person has a direct or indirect beneficial interest in such Notes and Warrants.

(g) The Buyer will not sell or otherwise transfer the Notes and Warrants without Registration under the Securities Act of 1933, as amended (the "Act"), and applicable state securities laws or an exemption therefrom, and fully understands and agrees that the Buyer must bear the economic risk of his purchase for an indefinite period of time because the Notes and Warrants have not been Registered under the Act or under the securities laws of any state and, therefore, cannot be resold unless they are subsequently Registered under the Act and under the

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applicable securities laws of such states or unless an exemption from such Registration is available or, as to the Warrants, the Warrants and the Shares of Common Stock underlying the Warrants are Registered. The Company will affix a legend in substantially the following form to the Notes, the Warrants and the Certificates evidencing the Shares of Common Stock issued pursuant to the exercise of Warrants (except to the extent Registered under the Act):

The securities represented by this Certificate have not been Registered under the Securities Act of 1933, as amended, and may not be sold, pledged, apothecated, donated, or otherwise transferred, whether or not for consideration, unless either the securities have been Registered under such Act or an exemption from such Registration requirement is available. If the securities are to be sold or transferred pursuant to an exemption from the Registration requirement, the Company may require a written opinion of counsel, in form and content satisfactory to the Company, to the effect that Registration is not required or that such transfer will not violate such Act or applicable state securities laws.

(h) The Buyer understands that, except as provided for herein, the Company will be under no obligation to Register the Notes and Warrants (or the Shares of Common Stock underlying the Warrants) on behalf of the Buyer or to assist the Buyer in complying with any exemption from Registration under the Act or under the securities laws of any state for resales of the Notes, Warrants, and shares of Common Stock underlying the Warrants. The Buyer understands that except with respect to securities Registered as provided for herein, the Company will issue stock transfer instructions to its transfer agent with respect to such securities.

(i) The Buyer understand(s) that no federal or state agency has passed upon the Notes and Warrants or made any finding or determination as to the fairness of this investment

(j) The Buyer is a bona fide resident of or, if an entity, maintains its principal place of business in the State of Ohio and no contact with the Buyer with respect to the offer or sale of the Notes and Warrants was made except in the State(s) of Ohio.

(k) The Buyer is an "accredited investor" under Regulation D of the Securities and Exchange Commission because (check the applicable box(es)):

The undersigned is a bank (as defined in Section 3(a)(2) of the Act) or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Act, whether acting in its individual or fiduciary capacity; a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934; an insurance company (as defined in Section 2(13) of the Act); an investment company registered under the Investment Company Act of 1940 or a business development company as defined in Section 2(a)(48) of that Act; a Small Business Investment Company licensed by the

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U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958; a plan established and maintained by a state, its political subdivisions, or an agency or instrumentality of a state or its political subdivisions for the benefit of its employees with total assets in excess of \$5,000,000; an employee benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or an employee benefit plan with total assets in excess of \$5,000,000, or a self-directed plan with investment decisions made solely by persons that are accredited investors.

The undersigned is a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940.

The undersigned is an organization described in Section 501(c)(3) of the Internal Revenue Code, a corporation, a Massachusetts or similar business trust, or a partnership, not formed for the specific purpose of acquiring the Notes and Warrants, with total assets in excess of \$5,000,000.

The undersigned is a natural person whose individual net worth, or joint net worth with my spouse, at the time of purchase

exceeds \$1,000,000.

The undersigned is a natural person with an individual income (1) in excess of \$200,000 or joint income with my spouse in excess of \$300,000 in each of calendar years 1994 and 1995 and has a reasonable expectation of reaching the same income level in calendar year 1996.

The undersigned is a trust, not formed for the specific purpose of acquiring the Notes and Warrants, with total assets in excess of

-----

(1) For purposes of this Note Purchase Agreement, "individual income" means "adjusted gross income" as reported for federal income tax purposes, less any income attributable to a spouse or to property owned by a spouse, increased by the following amounts (but not including any amounts attributable to a spouse or to property owned by a spouse): (i) the amount of any interest income received which is tax-exempt under Section 103 of the Internal Revenue Code of 1986 as amended (the "Code"); (ii) the amount of losses claimed as a limited partner in a limited partnership (as reported on Schedule E of Form 1040); (iii) any deduction claimed for depletion under Section 611 et seq. of the Code; and (iv) any amount by which income from long-term capital gains has been reduced in arriving at adjusted gross income pursuant to the provisions of Section 1202 of the Internal Revenue Code of 1986, as amended.

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\$5,000,000 and whose purchase is directed by a person who either alone or with his purchaser representative(s) has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment.

undersigned is an entity in which all of the equity owners are accredited investors.

(1) The foregoing representations, warranties, and agreements shall be true and correct in all respects on and as of the date of the issuance of the Notes and Warrants to the Buyer as if made on and as of such date and shall survive such date.

(m) If the Buyer is a corporation, partnership, trust, or other entity, it is authorized and qualified to purchase the Notes and Warrants and

the person signing this Note Purchase Agreement on behalf of such entity has been duly authorized by such entity to do so.

(n) If the Buyer is purchasing Notes and Warrants subscribed for hereby in a representative or fiduciary capacity, the representations and warranties contained herein and in any other written statement or document delivered to the Company in connection herewith shall be deemed to have been made on behalf of the person or persons for whom such Notes and Warrants are being purchased.

5. INDEMNIFICATION. The Buyer agrees to indemnify and hold harmless the Company and its officers, directors, and affiliates against any and all loss, liability, claim, damage, and expense whatsoever (including, but not limited to, any and all expenses, including attorney's fees, reasonably incurred in investigating, preparing, or defending against any litigation commenced or threatened or any claim whatsoever) arising out of or based upon any false representations or warranty or breach or failure by the Buyer to comply with any covenant or agreement made by the Buyer herein.

6. IRREVOCABILITY; BINDING EFFECT. Subject to applicable state securities laws, the undersigned hereby acknowledges and agrees that the subscription hereunder is irrevocable, that the undersigned is not entitled to cancel, terminate, or revoke this Note Purchase Agreement or any agreements of the undersigned thereunder, and that this Note Purchase Agreement and such other agreements shall survive the death or disability of the undersigned and shall be binding upon and inure to the benefit of the parties and their heirs, executors, administrators, successors, legal representatives, and assigns.

7. REGISTRATION RIGHTS.

(a) For purposes of this paragraph 7:

(i) The term "Register," "Registered," and "Registration" refer to a Registration effected by preparing and filing with the Securities and Exchange Commission (the

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"Commission") a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement or document;

(ii) The term "Registrable Securities" means the Warrants and the shares of Common Stock underlying the Warrants and any Common Stock issued as a dividend or other distribution with respect to or in exchange for or in replacement of the Common Stock issued or issuable upon exercise of the Warrants.

(iii) The term "Majority Holders" means those persons who own Warrants which, if exercised, would entitle them to receive shares of Common Stock in an amount greater than 50% of the shares of Common Stock underlying all Warrants then outstanding. The shares of Common Stock owned by persons who have exercised Warrants shall, for purposes of this subparagraph, be treated as shares underlying Warrants.

(b) Whenever the Company proposes to Register any of its Common Stock under the Act for a public offering of Common Stock (but not convertible debt securities) for cash, the Company shall give the Buyer written notice of its intent to do so. Upon the written request of the Buyer delivered to the Company within 10 business days after receipt of such notice, the Company shall use its best efforts to cause to be included in such Registration all of the Registrable Securities owned by the Buyer which the Buyer requests to be Registered; provided (i) the Buyer agrees to sell the shares of Common Stock underlying the Buyer's Warrants in the same manner and on the same terms and conditions as the other Common Stock which the Company proposes to Register, (ii) the proposed managing underwriter (which shall be selected by the Company in its sole discretion) does not advise the Company that in its opinion the inclusion of the Buyer's shares (and the shares of Common Stock held by others ["Other Buyers"] who purchased their Notes pursuant to the offering described in the Memorandum, and who have given written request to have their Registrable Securities included in the registration statement) is likely to effect adversely the success of the offering by the Company or the price it would receive, in which case the rights of the Buyer shall be as provided in Paragraph 7(e), below, (iii) the Buyer shall be entitled to include in such Registration not more than one-half of its Registrable Securities if the Registration is reasonably expected to become effective after the expiration of the time period which, under Rule 144(d), would permit public resales of the Registrable Securities, (iv) the Buyer shall not be entitled to include in such Registration any Registrable Securities which are freely tradable under Rule 144(k), and (v) the registration right under this paragraph 7(b) expires as to all Registrable Securities December 31, 2000, after which the Buyer shall have no right to have any Registrable Securities Registered.

(c) In connection with any offering involving any underwriting of shares of Common Stock being issued by the Company, the Company shall not be required under Paragraph 7(b) to include any of the Buyer's Registrable Securities therein unless the Buyer accepts and agrees to the terms of the underwriting as agreed upon between the Company and the underwriters selected by it, and then only in such quantity as will not, in the opinion of the underwriters, jeopardize the success of the offering by the Company. If the total number of shares of Common Stock which the Buyer and all Other Buyers request to be included in any offering exceeds the number of such Notes which the underwriters believe compatible with the

success of the offering, the Company shall only be required to include in the offering so many of the shares of Common Stock of the Buyer and the Other Buyers as the underwriters believe will not jeopardize the success of the offering. The shares so included shall be apportioned pro rata among the Buyer and the Other Buyers according to the total number of shares requested to be included in such offering by the Buyer and the Other Buyers, or in such proportions as shall be mutually agreed to by the Buyer and the Other Buyers, provided that no such reduction shall be made with respect to any securities offered by the Company for its own account

(d) As long as the Company has given any notice required by Paragraph 7(b), the Buyer shall not have the right to take any action to restrain, enjoin, or otherwise delay any Registration as the result of any controversy which might arise with respect to the interpretation or implementation of this Paragraph 7.

(e) (i) Commencing on October 3, 1996, if the Company shall receive a written request (specifying that it is being made pursuant to this paragraph 7(e)) from the Majority Holders that the Company file a registration statement under the Act, covering the Registration of the Registrable Securities, then the Company shall, within ten (10) days after the receipt thereof, give written notice of such request to all Buyers and shall, subject to the limitations contained in subparagraphs (e) (ii) and (e) (iii) below, effect as soon as practicable, the Registration under the Act of all Registrable Securities which the Buyer and the Other Buyers request to be Registered within twenty (20) days after the mailing of such notice by the Company in accordance with subparagraph 8(h). Provided, however (A) in the event that Buyer does not request that its Registrable Securities be included in such Registration, the buyer shall be deemed to have waived all Registration rights under this paragraph 7, (B) the Buyer shall be entitled in such Registration not more than one-half of its Registrable Securities if the Registration is reasonably expected to become effective after the expiration of the time period which, under Rule 144(d), would permit public resales of the Registrable Securities, (C) the Buyer shall not be entitled to include in such Registration any Registrable Securities which are freely tradable under Rule 144(k), and (D) the Registration right under this paragraph 7(e) expires as to all Registrable Securities on December 31, 2000, after which the Buyer shall have no right to have any Registrable Securities registered.

(ii) Notwithstanding the foregoing, (A) the Company shall not be obligated to effect a Registration pursuant to this paragraph 7(e) during the period starting with the date sixty (60) days prior to the Company's estimated date of filing of, and ending three (3) months following the effective date, of a registration statement pertaining to an underwritten public offering of securities for the account of the Company, provided that the Company is actively employing in good faith all reasonable efforts to cause such registration statement to become effective and that the Company's estimate of the date of filing such registration statement is made in good faith; and (B) if the Company shall furnish to Buyer and the other buyers a certificate signed by the President of the Company stating that in the good faith judgment of the Board

of Directors it would be detrimental to the Company or its shareholders for a registration statement to be filed in the near future, then the Company's obligation to use its best efforts to file a registration statement shall be deferred for a period during which such filing would be detrimental, provided that this period will not exceed nine (9) months.

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(iii) The Company shall be obligated to effect no more than one Registration pursuant to this subparagraph 7(e).

(f) Whenever required under this paragraph 7 to effect the Registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(i) Prepare and file with the Commission a registration statement with respect to such Registrable Securities and use its reasonable best efforts to cause such registration statement to become effective, and, upon the request of the Majority Holders, keep such registration statement effective for not less than ninety (90) days or such earlier date as all securities offered are sold.

(ii) Prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement.

(iii) Furnish to the selling Buyers such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(iv) Use its best efforts to Register and qualify the securities covered by such registration statement under such selling Buyers securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the selling Buyers, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdiction.

(g) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this paragraph 7 that the selling Buyers shall furnish to the Company such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as shall be required to effect the Registration of their Registrable Securities.

(h) All expenses (other than underwriting discounts and commissions) incurred in connection with Registrations pursuant to subparagraph 7(e),

including (without limitation) all Registration, filing and qualification fees, printers' and accounting fees, and fees and disbursements of counsel for the Company, shall be borne by the company; provided, however, that the Company shall not be required to pay the cost of any special audits required for a Registration effected pursuant to subparagraph 7(e) hereof, or any expenses of any Registration proceeding begun pursuant to subparagraph 7(e) if the Registration request is subsequently withdrawn at the request of the Majority Holders, unless the Majority Holders agree to forfeit a right to demand Registration pursuant to subparagraph 7 (e) (in which event such right shall be deemed to be forfeited by all Buyers). In the absence of such an agreement to forfeit, the Buyers

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requesting withdrawal of the Registration request shall bear all such expenses pro rata on the basis of the Registrable Securities to have been Registered by such Buyers. Notwithstanding the foregoing, however, if at the time of such withdrawal, the Buyers have learned of a material adverse change in the condition, business, or prospects of the Company from that known to the Buyers at the time of their request, then the Buyers shall not be required to pay any of such expenses and shall retain their rights pursuant to subparagraph 7(e).

(i) The Company shall bear and pay all costs of and incidental to any Registration, filing or qualification of Registrable Securities with respect to the Registration pursuant to subparagraph 7(b) for each Buyer, including all Registration, filing, and qualification fees, printers' and accounting fees relating or apportionable thereof except that Buyers shall pay all legal fees and disbursements of their counsel, if any, and the Buyers will bear and pay their pro rata portion of any underwriting discounts and commissions.

(j) In connection with any Registration of the Registrable Securities, the Buyer shall provide to the Company such information as may be reasonably required by the Company to prepare and file such registration statement in accordance with applicable provisions of the Act and the Rules and Regulations thereunder. The Buyer shall furnish such information in writing within five business days after written request by the Company. The Company shall have sole control of the preparation, filing, amendment, and supplementation of any registration statement to be filed on behalf of the Buyer.

(k) In the event that any of the Warrants shall at any time be transferred of record by the Buyer, the rights herein conferred shall not extend to any such transferee.

(l) In the event of (i) the Registration of any Registrable Securities under the Act pursuant to the provisions of this Agreement and to the extent permitted by applicable law, the Company agrees to indemnify and hold harmless

the Buyer, and each other person, if any, who controls the Buyer within the meaning of the Act, from and against any and all losses, claims, damages, or liabilities (or actions in respect thereof) which arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such Registrable Securities were Registered under the Act or any prospectus contained therein, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Buyer, and each such controlling person, for any legal or any other expenses reasonably incurred by the Buyer, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, or action provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage, or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement or such prospectus in reliance upon, and in conformity with, information furnished to the Company by the Buyer or such controlling person, specifically for use in preparation thereof; (ii) the Registration of any Registrable Securities under the Act pursuant to the provisions of this Agreement and to the extent permitted by applicable law, the Buyer, and each other person, if any, who controls the Buyer within the meaning of the Act, agrees to indemnify and hold harmless the Company, each

person who controls the Company within the meaning of the Act, and each officer and director of the Company from and against any losses, claims, damages, or liabilities, joint or several, to which the Company, such controlling person, or any such officer or director may become subject under the Act or otherwise, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any registration statement under which such Registrable Securities were Registered under the Act or any prospectus contained therein, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, which untrue statement or alleged untrue statement or omission or alleged omission was made therein in reliance upon, and in conformity with, information furnished to the Company by the Buyer or such controlling person specifically for use in connection with the preparation thereof; and will reimburse the Company, each such controlling person and each such officer or director for any legal or any other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; (iii) the Registration of any Registrable Securities under the Act pursuant to the provisions of this Agreement, promptly after receipt by an indemnified party of notice of the commencement of any action or the assertion of a claim which may

be subject to indemnification hereunder, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to such indemnifying party of the commencement or assertion thereof, but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than pursuant to the provisions of this paragraph 7(1). In case any such action is brought or such assertion made against any indemnified party, and it notifies any indemnifying party of such commencement or assertion made against any indemnified party, the indemnifying party will be entitled to participate in and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, and to assume the defense thereof, with counsel satisfactory to such indemnified party, and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof, other than the reasonable cost of investigation.

#### 8. MISCELLANEOUS.

(a) Neither this Note Purchase Agreement nor any provisions hereof shall be waived, modified, discharged, or terminated except by an instrument in writing signed by the party against whom any such waiver, modification, discharge, or termination is sought.

(b) This Note Purchase Agreement contains the entire agreement of the parties with respect to the subject matter hereof and there are no representations, covenants, or other agreements except as stated or referred to herein or in contemporaneously signed written agreements.

(c) Each provision of this Note Purchase Agreement is intended to be severable from every other provision, and the invalidity or illegality of any portion hereof shall not affect the validity or legality of the remainder hereof.

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(d) This Note Purchase Agreement is not transferable or assignable by the undersigned.

(e) This Note Purchase Agreement shall be governed by and construed in accordance with the laws of the State of Florida as applied to residents of that state executing contracts wholly to be performed in that state.

(f) Each party hereto agrees to submit to the personal jurisdiction and venue of the state and federal courts in the State of Florida, in the judicial circuit including Pinellas County, for resolution of all disputes and causes of action arising out of this Agreement, and each party hereby waives all questions of personal jurisdiction and venue of such courts, including, without

limitation, the claim or defense therein that such courts constitute an inconvenient forum.

(g) If any legal proceeding is brought to enforce this Agreement or any provision of it or because of any default in any representation, warranty, covenant, indemnity, or provision of it, the successful or prevailing party shall be paid all costs and expenses, including reasonable attorneys' fees through all proceedings, trials, or appeals.

(h) All notices or other communications provided for herein to be given or sent to a party by the other party shall be deemed validly given or sent if in writing and mailed, postage prepaid, by Registered or certified United States mail, addressed to the parties at their addresses hereinbelow set forth. Either party may give notice to the other party at any time, by the method specified above, of a change in the address at which, or the person to whom, notice is to be addressed.

SIGNATURE PAGE TO NOTE PURCHASE AGREEMENT

Principal Amount of Notes Purchased: \$250,000

STANDARD PRINTING Company of Canton

By: Terry J. Nolan, President

-----  
Signature of Authorized Person

/s/ Terry J. Nolan, Pres.

-----  
Print Name and Title

Standard Printing  
PO Box 9276  
Canton, Ohio 44711  
Attn: Terry Nolan

ACCEPTED BY  
PAGES, INC.

By: /s/ illegible

-----  
As President

Address: Pages, Inc.  
5720 Avery Road

## SCHEDULE 1

TO

## NOTE PURCHASE AGREEMENT

Buyer is regularly engaged in the printing business and has, in the past, provided printing services and printed materials to the Company in the regular course of business. Instead of paying for the Notes in cash, Buyer shall pay for the Notes by allowing the Company a \$250,000 credit against the delivery to the Company certain printed goods upon purchase order of the Company (the "Goods"). The balance of the price of the Goods shall be paid by the Company in cash. Upon receipt and acceptance of the Goods, the Company shall issue and deliver to Buyer a Note in the principal amount of \$250,000, with interest on such Note to accrue from the date 10 days after the Company's receipt and acceptance of the Goods, and accompanied by a Warrant in accordance with paragraph 1 of the Note Purchase Agreement. All Goods shall be of good and merchantable quality and in accordance with the purchase order and specifications of the Company.

Description of Goods:

<TABLE>

<CAPTION>

TITLE	QUANTITY	AGGREGATE PRICE
-----	-----	-----
<S>	<C>	<C>
Baby Animals	36.5M	\$13,173
Cute Critters `97 Calendar	40M	\$21,430
Fantastic Fish `97 Calendar	40M	\$11,169
Large 15x20 Posters	400M	\$94,677
A Look Around Rain Forests	36.5M	\$19,463
Midi Books (4 Titles)	30M each of 4	\$24,240
Mommy, I Need Your Help	20M	\$ 8,320
Monster Wheels Fun with Stickers	35M	\$17,350
No Time Like Snowtime	30M	\$13,920
Patchez and the Soccer Surprise	30M	\$15,098
Patchez at the Circus	22M	\$12,878
Patchez Reads About Endangered Animals	33.5M	\$16,939
Stunt Flying with Paper Airplanes	40M	\$12,040
		-----
	TOTAL	\$280,697

</TABLE>

\$175,000

Columbus, Ohio  
November 6, 1995

## EXHIBIT "B"

COGNOVIT PROMISSORY NOTE  
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FOR VALUE RECEIVED, we, DANIEL M. WELSH, an individual residing in New York, and THURSDAY PRODUCTIONS, INC. (collectively hereinafter referred to as the "Undersigned"), jointly and severally promise to pay to SCHOOL BOOK FAIRS, INC. (hereinafter the "Holder"), the principal sum of One Hundred Seventy-Five and 00/100 Dollars (\$175,000.00), together with interest at the rate of eight percent (8%) per annum payable as follows:

Commencing on February 1, 1996 and on the first day of each May, August, November, and February thereafter until February 1, 1999, the Undersigned shall pay to Holder any and all accrued interest on the principal amount. Commencing on May 1, 1999 and on the first day of each May, August, November, and February thereafter until February 1, 2001, the Undersigned shall pay to the Holder Twenty Three Thousand Eight Hundred Eighty-Nine and 22/100 Dollars (\$23,889.22), of equal installments of principal and interest.

The Undersigned shall have the right to prepay all or any part of the principal at any time without penalty. Any such prepayment will be credited first against the next installment of principal due hereunder (unless a default has occurred, in which event prepayments shall first be credited against interest then due).

In the event of non-payment of any installment of principal or interest hereunder, when due, the entire balance of principal then remaining unpaid, with accrued interest thereon, shall at once become due and payable at the option of the holder hereof, without notice or demand. All outstanding principal and accrued interest then remaining unpaid shall bear interest at a rate of eighteen percent (18%) per annum.

The Undersigned and any sureties, endorsers or guarantors hereby irrevocably authorize any attorney at law to appear in any court of record in any county in the State of Ohio, or elsewhere, where any of the Undersigned reside, signed this Note, or can be found, after the obligation evidenced hereby, or any part thereof, becomes due and is unpaid, and waive the issuance and service of process and confess judgment against any or all of the Undersigned in favor of the Holder of this Note for the amount then appearing due, together with the costs of suit, and thereupon to release all errors and waive all right of appeal and stay of execution, but no judgment or judgments

against fewer than all of the Undersigned shall be a bar to any subsequent judgment against those of the Undersigned against whom judgment has not been taken.

The Undersigned and any sureties, endorsers or guarantors hereby waive presentment for payment, demand, protest, notice of nonpayment or dishonor and any and all other

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notices and demands whatsoever, and all defenses on the ground of an extension of time for payment which may be granted, even though the period of extension may be indefinite, and any inaction by, or failure to assert any legal right available to, the Holder of this Note.

IN WITNESS WHEREOF, the Undersigned have set their hand to this Note as of the 6th day of November, 1995.

WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE. [Sec. 2323.13 O.R.C.]

THURSDAY PRODUCTIONS, INC.

By: /s/ Daniel M Welsh  
-----

/s/ Daniel M. Welsh  
-----  
Daniel M. Welsh

Its: President  
-----

EXHIBIT 21  
SUBSIDIARIES OF  
MEDIA SOURCE, INC.

<TABLE>  
<CAPTION>

Name of Subsidiary -----	State of Incorporation -----	Percent of Stock Owned by Registrant -----
<S>	<C>	<C>
PAGES BOOK FAIRS, INC.	Florida	100%
MT LIBRARY SERVICES, INC.	Florida	100%

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5

<CIK> 0000354564

<NAME> MEDIA SOURCE

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-START>	JAN-01-1998
<PERIOD-END>	DEC-31-1998
<CASH>	998,432
<SECURITIES>	0
<RECEIVABLES>	961,333
<ALLOWANCES>	94,000
<INVENTORY>	1,271,336
<CURRENT-ASSETS>	3,304,586
<PP&E>	656,642
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<TOTAL-ASSETS>	6,479,644
<CURRENT-LIABILITIES>	3,197,039
<BONDS>	2,056,914
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<SALES>	1,482,950
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<CGS>	1,163,210
<TOTAL-COSTS>	1,989,422
<OTHER-EXPENSES>	(282,631)
<LOSS-PROVISION>	0
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<INCOME-PRETAX>	(532,919)
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<DISCONTINUED>	(2,866,344)
<EXTRAORDINARY>	(577,230)
<CHANGES>	0
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<EPS-PRIMARY>	(12.12)
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