

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

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

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FILER

**NORSTAN INC**

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Mailing Address  
NORSTAN INC  
6900 WEDGEWOOD ROAD  
MAPLE GROVE MN 55311

Business Address  
6900 WEDGEWOOD RD STE  
150  
P O BOX 9003  
MAPLE GROVE MN 55311  
6124201100

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended April 30, 1995

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

Commission file number 0-8141

NORSTAN, INC.

-----  
(Exact name of registrant as specified in its charter)

Minnesota 41-0835746

-----  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) identification No.)

605 North Highway 169, Twelfth Floor, Plymouth, Minnesota 55441

-----  
(Address of principal executive offices) (Zip Code)

The Company's telephone number, including area code: 612-420-1100

Securities registered pursuant to Section 12(b) of the Act: None.  
Securities registered pursuant to Section 12(g) of the Act:

Shares of Common Stock (par value \$.10 per share)  
Common Stock Purchase Rights

-----  
(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. Yes X No

As of June 26, 1995, the aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the average high and low prices on such date as reported by the NASDAQ National Market System was \$59,674,338.

As of June 26, 1995, there were outstanding 4,220,541 shares of the registrant's common stock, par value \$.10 per share, its only class of equity securities.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed within 120 days after the end of the fiscal year covered by this report are incorporated by reference into Part III hereof.

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PART I

Item 1. BUSINESS.

Norstan is a full service communications systems integrator providing voice, video, data and image communications solutions to customers primarily in 18 states and throughout Canada. The Company was incorporated in 1960 as a Minnesota corporation. Norstan Communications, Inc. (NCI) (formerly Norstan Communications Systems, Inc.) was incorporated in 1974. Norstan Financial Services, Inc. (NFS) (formerly Norstan Financial Corporation) was incorporated in 1979. Norstan/Electronic Engineering Company was incorporated in 1985 and merged into NCI in December 1988. Norstan/Communication Consultants, Inc. (N/CCI) was incorporated in 1988 and merged into NCI in May of 1990. Norstan Network Services, Inc. (NNS) was incorporated in 1991. Norstan Network Services, Inc. of New Hampshire and Norstan Canada Inc. (NCDA) were incorporated in 1992.

Norstan entered the communications business in 1973, has been a distributor of Siemens ROLM Communications, Inc. (ROLM) communications equipment since 1976 and has historically derived a substantial majority of its revenues from the sale of telephone systems, communications maintenance services and moves, adds and changes, which are modifications to customers' communications systems. In recent years, the Company has expanded the array of products and services it provides to include those of Aspect Telecommunications Corporation ("Aspect"), Compression Labs, Incorporated ("Compression Labs"), Sprint Communications Company L.P. ("Sprint"), Octel Communications Corporation ("Octel") and others.

In addition to providing the equipment and related support required for a specific installation, Norstan offers a variety of services, including communications maintenance services, moves, adds and changes, leasing, long distance service, management of customers' communications needs through outsourcing agreements and data communications integration. These services, which provide the Company with an important source of recurring revenue, were approximately 43% of the Company's total revenues for fiscal 1995.

Norstan's marketing strategy is to increase sales to its existing customer

base by capturing a larger portion of each customer's communications requirements. Generally, the first product sold to a customer is a telephone system. Upon selling a system, Norstan's sales representatives typically sign the customer to a service contract. Norstan believes the high quality of its customer service supports ongoing marketing efforts, as satisfied customers are more likely to choose Norstan to supply additional communications products and services. In order to focus marketing efforts effectively, Norstan's sales representatives strive to understand each customer's business, enabling them to recommend communications solutions that improve the flow of information and productivity. For example, a sales representative may recommend voice messaging and videoconferencing equipment to expand communications channels, reduce dependence on support personnel and reduce the need for costly travel. For customers with a high volume of calls, Norstan may recommend interactive voice response products, which allow customers to access information via a touch tone telephone, or sophisticated call centers which interface with the customer's computer system and direct calls automatically to available personnel. For those customers who wish to avoid the complexity and training required to operate and maintain their own communications system and the technology risk associated with owning communications equipment, Norstan provides complete communications outsourcing services.

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The Company focuses its sales efforts on customer locations with 100 or more users and those customers with complex communications requirements. The Company's wide array of products and services enables it to offer single source solutions to customers' communications needs. Current customers of the Company include BP America Inc., Best Buy Co., Inc., Blue Cross/Blue Shield of Minnesota, Iowa, New Mexico and Arizona, First Bank System, Inc., Manulife Financial, 3M Company, Harley-Davidson, Inc., as well as various hospitals and a number of government agencies in Minnesota, Iowa, Wisconsin, Ohio, Arizona and other states and provinces.

#### MARKET TRENDS

Norstan believes that as markets become more global, information driven and competitive, businesses are placing an increasing emphasis on rapid and comprehensive communications technology to improve employee productivity and customer service. As a result, businesses are looking to a variety of new technologies to enhance the performance of their communications systems and to increase the speed, accuracy and availability of information. Norstan believes that several trends contribute to a favorable market outlook for communications systems integrators offering a broad range of products and services such as those offered by the Company:

- REBOUNDED MARKET FOR PBX TELEPHONE SYSTEMS. According to Northern Business Information, an industry research firm, the United States market for private branch exchange ("PBX") telephone systems declined from \$3.1 billion to less than \$1.8 billion between 1988 and 1991. Over this same period, the average price per telephone line fell from an estimated \$524 to \$381, while the number of lines shipped declined from 5.9 million to 4.6 million. These declines resulted primarily from improvements in digital technology and corresponding price reductions, economic weakness and increased competition for a declining number of lines installed. In contrast, the United States PBX market rebounded between 1991 and 1994 to over \$2.2 billion, representing an increase in the number of lines shipped from 4.6 million to over 5.3 million and an increase in the average price per line to \$411. This growth resulted from improved economic conditions and new communications technologies which required the support of new PBX systems. Northern Business Information projects the market for PBX telephone systems will grow at a compound annual rate of 5.9% to approximately \$2.6 billion in 1997, representing an increase in the number of lines installed to over 6.2 million and an increase in the average price per line to \$419.
- GROWTH OF NEW COMMUNICATIONS PRODUCTS AND MARKETS. Over the past several years, a variety of new communications technologies has emerged which enhance the capabilities of traditional telephone systems. Manufacturers, such as Aspect, Computer Communications Systems, Compression Labs and Octel have introduced products, including call centers, voice response units, videoconferencing systems and voice messaging products, that improve the performance and efficiency of communications systems. Industry sources expect the number of communications technologies to continue to grow. The United States market for call processing equipment, including call centers, voice messaging and interactive voice response products, was estimated at \$4.8 billion in 1995 and is projected to grow at a compound annual rate of 12.5% between 1995 and 1997. Further, the North American Telecommunications Association estimates that the market for videoconferencing products in which the Company competes was approximately \$2.2 billion in 1995 and is projected to grow at a compound annual rate of

- CONVERGENCE OF VOICE, VIDEO, DATA AND IMAGE MARKETS. Since the introduction of local and wide area computer networks, the market for data communications has grown rapidly and comprises a growing portion of the overall communications market. The data communications market was estimated at \$23.1 billion in 1995 and is projected to grow at a compound annual rate of 14.8% between 1995 and 1997. As the prevalence of computer networks continues to increase and voice, video, data and image are increasingly transmitted in a digital format using the same networks, Norstan believes that demand for services related to the integration of data and voice networks will increase.
- INCREASING COMPLEXITY OF MANAGING COMMUNICATIONS SYSTEMS. Management believes businesses are increasingly turning to communications systems integrators who are capable of providing a single point of contact for communications needs. As the number and complexity of communications technologies grow, United States businesses have increasingly sought to narrow their vendor base to those who offer a broad range of communications products and services, which has led to consolidation among such vendors.

#### COMPETITIVE STRENGTHS

The Company believes it possesses and is developing a number of competitive strengths that will help it achieve its goal of becoming one of the premier providers of integrated communications systems solutions in the United States and Canada. These strengths include:

- ACCESS TO LEADING VOICE, VIDEO, DATA AND IMAGE PRODUCTS AND SERVICES. Norstan maintains relationships with leading communications technology manufacturers and service providers, including ROLM, Aspect, Compression Labs, Sprint and Octel. In addition, through its data communications business, the Company has access to products and services offered by Novell, Inc. ("Novell"), Newbridge Networks, Inc. ("Newbridge"), Bay Networks, Inc. ("Bay Networks"), Compaq Computer Corporation ("Compaq") and Lotus Development Corporation ("Lotus"). Norstan's knowledge of these technologies and ability to remarket, support and integrate them into communications solutions meeting diverse customer requirements, enable the Company to provide its customers with integrated approaches to solving communications issues. Further, Norstan's strong distribution network enhances its access to leading technologies by offering a low cost distribution alternative for established manufacturers, as well as for manufacturers that lack the critical mass necessary to establish a direct sales force in specific markets.
- INDEPENDENT SINGLE SOURCE SUPPLIER. Unlike companies that manufacture communications equipment, Norstan's independence permits it to select products on the basis of merit and to distribute a wide range of products from a number of manufacturers. This independence also enables Norstan to respond quickly to changing customer needs by taking advantage of new technologies as they become available, without incurring product development risk.
- CUSTOMER SERVICE. Norstan is committed to providing a high level of customer service by exceeding its customers' expectations. Customer satisfaction surveys, conducted by an outside firm contracted by Norstan, indicate that 94% of Norstan's customers are satisfied with the overall service and support they receive. This level of satisfaction has steadily increased, rising from 86% in 1988 to the current level.

The Company coordinates its customer service response through three remote diagnostic and dispatch centers which handle over 200,000 service calls per year.

- DISTRIBUTION AND INTEGRATION EXPERTISE. Norstan believes it has access to an array of leading communications products and is continuing to develop the internal expertise necessary to provide communications products and services on an integrated basis. The availability of distribution rights for many communications products, such as PBX systems and call centers, is limited, making it difficult for many communications systems integration companies to offer the range of products and services that Norstan offers. In addition, the capital and training requirements necessary to offer such products and services on an integrated basis are substantial. Norstan believes that its access to leading products, established distribution

network and large customer base, together with its continuing development of communications systems integration expertise, have positioned the Company to expand the portion of its revenues derived from the integration of communications products and services.

#### GROWTH STRATEGY

Norstan has formulated a growth strategy intended to capitalize on its competitive strengths. This growth strategy is focused on the following elements:

- INCREASE SALES TO EXISTING CUSTOMERS. Norstan has a large installed customer base, including approximately six thousand customer locations covered by service contracts. This base provides Norstan with the opportunity to capture an increasing portion of each customer's communications requirements. Most customers currently purchase only a portion of the products and services offered by the Company. The cost of selling to existing customers is generally lower than selling to new customers because Norstan already understands the customer's business and communications requirements. Additionally, Norstan's reputation is already established with the customer, thereby enabling Norstan to leverage its high level of customer service and more easily sell new products and services.
- EXPANSION OF THE INSTALLED BASE BY ATTRACTING NEW CUSTOMERS. Norstan continually works to attract new customers and employs a specialized sales team focused on selling to non-Norstan customers. Norstan believes its portfolio of products and services, expertise in providing turnkey solutions to customers' communications systems requirements and reputation for high quality service enhance the Company's ability to attract new customers.
- STRATEGIC PARTNERSHIPS. Norstan continues to establish strategic partnerships with both hardware and software manufacturers. These partnerships enable Norstan to expand its range of products and services and help to ensure continued access to new products and technologies. In certain instances, strategic partnerships also enhance Norstan's ability to expand geographically by providing access to customers outside of the markets historically served by Norstan.
- ACQUISITION STRATEGY. Norstan is actively seeking to acquire complementary businesses that will contribute to the success of Norstan's communications systems integration strategy. Norstan targets

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communications companies that will provide new skills, products and services and permit expansion of the geographic areas which Norstan serves. These acquisitions will also expand Norstan's customer base, providing additional points of entry for Norstan's communications products and services. See "Acquisitions."

#### PRODUCTS AND SERVICES

The Company's core business has historically been the sale of telephone systems, communications maintenance services and moves, adds and changes. From this core business, the Company has expanded its operations and shifted its product mix to incorporate new products and services, including call processing products, long distance services, videoconferencing products, refurbished equipment, cabling, leasing, outsourcing and data integration products and services. This array of products and services allows the Company to provide single source solutions to customers' communications needs.

TELEPHONE SYSTEMS. Norstan offers a wide variety of private telephone systems. These systems are typically comprised of a telephone switch and individual telephones located at the customer site. A telephone switch is a device that provides the connection between the customer's internal telephone lines and the outside telephone network. The telephone switch, typically owned by the customer, is available in three primary types: PBX, key system and hybrid key system. PBX switches are generally used for installations of more than 100 lines and can accommodate up to several thousand telephone lines. A PBX condenses the number of internal phone lines to a significantly smaller number of outside trunk lines which connect to the telephone network. When an incoming call is received, the PBX switches the call to the appropriate internal telephone extension. When a call is made from within the business, the PBX determines whether the call is an internal call, in which case the PBX switches the call to the appropriate internal telephone extension, or an outgoing call, in which case the PBX directs the call to an open outside line. The PBX also provides a base platform from which the customer's telephone system can be upgraded with features such as voice messaging and caller identification. In contrast to PBX systems, key systems are relatively inexpensive and appropriate

for small installations which generally require fewer than 50 lines. Each telephone in a key system displays all outside lines allowing the user to directly select which telephone line to use when making a call. Hybrid key systems share attributes of both PBX systems and key systems and are typically appropriate for installations requiring approximately 50 to 100 lines. Norstan markets approximately 20 models of PBX systems, key systems and hybrid key systems. The Company also offers a number of different telephone models with a variety of features. Telephone systems range in price from approximately \$15,000 for a key system with relatively few lines and features to over \$1.0 million for the largest, most complex PBX systems. Telephone systems contributed approximately 31% and 35% of total revenues in fiscal 1995 and 1994, respectively.

COMMUNICATIONS MAINTENANCE SERVICES. Norstan provides service on products it sells in the form of preventative maintenance and service calls. Telephone systems generally require a higher level of ongoing communications maintenance than other products sold by the Company and generate the majority of communications maintenance revenue. The Company coordinates service through three remote diagnostic and dispatch centers located in Cleveland, Minneapolis and Toronto. The Company offers a variety of service contracts intended to meet the differing needs of customers. List prices for Norstan's communications maintenance services range from approximately \$25 to \$65 per line annually and are based primarily on the capacity and features of the customer's communications system. Communications maintenance services contributed approximately 21% and 25% of total revenues in fiscal 1995 and 1994, respectively.

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MOVES, ADDS AND CHANGES. Norstan performs moves, adds and changes related to its customers' telephone systems. Moves, adds and changes consist of moving telephones to new user locations, adding telephones or expansion cards in a telephone system and changing system and user features. Moves, adds and changes are typically scheduled in advance by customers as compared to communications maintenance service calls which require prompt response. Moves, adds and changes contributed approximately 11% and 10% of total revenues in fiscal 1995 and 1994, respectively.

CALL PROCESSING. Call processing is comprised of three primary areas: call centers, voice messaging and interactive voice response products. Call centers are complex systems that can process a large number of incoming calls per hour and are used by businesses in applications such as reservation centers, customer support centers and catalog order centers. Call centers utilize a variety of call processing technologies such as interactive voice response products, voice messaging and computer interaction, to maximize the efficiency of a large call-receiving operation. A call center utilizing an interactive voice response product can obtain information from a caller via a touch tone telephone, permitting more detailed information on the caller to be retrieved from a computer database and be available to an agent when answering the call. Norstan offers a variety of call center products manufactured by Aspect, ROLM and Executone which can service from two call-receiving agents to over eight hundred call-receiving agents. Call centers range in price from less than \$40,000 to over \$1.0 million. Call centers contributed approximately 6% and 5% of total revenues in fiscal 1995 and 1994, respectively.

Voice messaging enables verbal communications to be sent, stored and retrieved at a later time and from a remote location or forwarded to other parties by using a touch tone telephone. Norstan offers integrated voice messaging products from ROLM and stand alone voice messaging products that are compatible with all major PBX systems from Octel and Applied Voice Technology. Voice messaging products range in price from approximately \$20,000 to \$60,000. Voice messaging products contributed approximately 6% and 5% of total revenues in fiscal 1995 and 1994, respectively.

Interactive voice response products allow a caller to access a computer data base to retrieve or input data by using a touch tone telephone. Interactive voice response products can be utilized in a stand alone application, such as when a caller uses a touch tone telephone to obtain account information from a bank or flight schedules from an airline's automated retrieval system. Interactive voice response products can also be utilized in a call center application to route calls and provide data on the caller based on information input by the caller via a touch tone telephone. Norstan began marketing interactive voice response products in 1991 and currently markets models manufactured by Computer Communication Systems and Intervoice which range in price from approximately \$20,000 to \$150,000. Interactive voice response products contributed less than 1% of total revenues in both fiscal 1995 and 1994.

LONG DISTANCE SERVICE. Norstan has provided long distance service since May 1990. Long distance service complements Norstan's other products and contributes to Norstan's ability to provide single source communications systems

solutions. The Company entered into a three-year direct resale agreement with Sprint in May 1993, whereby Norstan offers customers a full range of long distance and network services under the Company's private label. In August 1994, the Company and Sprint negotiated a new agreement which runs through July 1997. Long distance service contributed approximately 5% and 6% of total revenues in fiscal 1995 and 1994, respectively.

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**VIDEOCONFERENCING.** Videoconferencing allows persons at separate locations to communicate using cameras, video screens, microphones and speakers linked over digital networks. Norstan has distributed videoconferencing equipment manufactured by Compression Labs since July 1991. In addition to distributing Compression Labs' products within a defined geographic region, the Company provides installation and service support nationally for those products. Videoconferencing products range in price from approximately \$18,000 to over \$100,000. Videoconferencing equipment contributed approximately 4% of total revenues in both fiscal 1995 and 1994.

**REFURBISHED EQUIPMENT.** Since 1988, Norstan has engaged in the refurbishment and resale of previously owned ROLM products. In July 1990, the Company and ROLM entered into an agreement to refurbish and resell previously owned ROLM equipment in the United States. This agreement was renewed for an additional three-year period in October 1993. Under the agreement, ROLM pays the Company a fee for refurbishing the equipment and remarketing separate ROLM components, and the Company shares in the profit generated by this program, which includes the profit on sales of refurbished systems by ROLM direct sales offices. All refurbished equipment is certified by ROLM and covered by warranty for up to one year, depending on the type and quantity of equipment purchased. In April 1993, Norstan expanded its refurbished equipment operations to include the purchase, refurbishment and resale of previously owned Northern Telecom equipment. Refurbished equipment operations contributed approximately 4% of total revenues in both fiscal 1995 and 1994.

**CABLING.** Cabling is the infrastructure that provides the pathway for telephone systems, local area networks, wide area networks and other communications systems to function. Cabling can be provided on a stand alone basis or in conjunction with other products and services offered by the Company. During fiscal years 1994 and 1995, Norstan expanded its cabling business and, as of April 30, 1995, the Company had eight cabling offices in cities located outside of the traditional geographic areas served by the Company. Additionally, the Company has entered into cable installation contracts with ROLM to provide cabling services to ROLM customers in seven of these eight cities. Cabling operations contributed approximately 6% and 3% of total revenues in fiscal 1995 and 1994, respectively.

**LEASING.** Norstan provides leasing services to enable its customers to finance purchases of communications systems. Lease financing supports the sales process by permitting customized lease structures to meet the needs of customers and eliminating the need for third party financing. By acting as lessor, the Company can typically provide lease terms with greater flexibility than third party financing sources. Norstan also generally provides communications maintenance services for leased equipment. The Company currently has approximately 1,200 leases. At the time of inception, the average lease transaction is approximately \$40,000 and has a term of approximately 48 months. The Company financed over \$16 million in customer equipment purchases for fiscal 1995. Leasing contributed approximately 2% to the Company's total revenues in both fiscal 1995 and 1994.

**OUTSOURCING.** The Company believes that many businesses do not want to dedicate internal resources to manage their communications systems and are therefore contracting with companies who will manage their communications systems through outsourcing agreements. Norstan provides communications equipment and trained personnel to act as a customer's communications systems department, thereby permitting the customer to focus on its primary business. Outsourcing contributed less than 1% of total revenues in both fiscal 1995 and 1994.

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**DATA COMMUNICATIONS.** In November 1993, Norstan formed a strategic business unit to provide data communications services to customers. Data communications services consist of consulting, design, integration and implementation of local area networks, wide area networks, client/server environments and other data and image communications applications. To support these efforts, Norstan provides products and services offered by Novell, Newbridge, Bay Networks, Compaq and Lotus. In October 1994, Norstan expanded its data communications efforts to include computer telephony integration, which consists of integrating a database



or other data system with a telephone system. For example, a call center could be integrated with a database so that when a customer calls a catalog merchant to place an order, that customer's name, address and order history would automatically be retrieved from the database and displayed on the call-receiving agent's computer screen. In November 1994, the Company further expanded its data communication services into Canada. See "Acquisitions" below. Norstan has approximately 50 employees focusing on data communications and is actively recruiting additional employees to continue its expansion into this area. Data communications contributed less than 2% and 1% of total revenues in fiscal 1995 and 1994, respectively.

#### ACQUISITIONS

Norstan is actively seeking to acquire complementary businesses that will contribute to the success of Norstan's communications systems integration strategy. On November 30, 1994, the Company acquired substantially all of the assets of Renaissance Investments, Ltd., a technology planning and integration services company based in Toronto, Ontario, specializing in local area networks, wide area networks and graphical user interfaces. The purchase price of this acquisition was approximately \$726,000 plus certain incentive payments contingent upon the future performance of the acquired business.

#### MARKETING AND SALES

Norstan has approximately 446 sales and marketing personnel within the United States and Canada including 175 sales representatives who focus on either new prospects or selling additional products and services to Norstan's customer base. Included in the sales force are specialists in the areas of videoconferencing, call centers, leasing, long distance service and training. These specialists partner with the sales representatives to provide integrated communications systems solutions for Norstan's customers.

Norstan's sales representatives and specialists use a comprehensive approach to evaluating each customer's communications needs and implementing solutions. The sales representative begins with a detailed needs analysis of the customer's current and future communications requirements. After determining the customer's needs, Norstan proposes solutions to satisfy current and anticipated requirements. Norstan's operations teams then work with the customer to plan the installation of purchased technologies and identify required training. By planning the precise requirements of each installation, Norstan's specialists are able to install, test and bring new equipment on-line with minimal service interruption. Finally, Norstan provides an ongoing support program tailored to meet the customer's specific application requirements incorporating remote diagnostics, in-field service and support, additional training and help desk support from Norstan's customer support representatives.

Norstan uses a variety of methods to communicate with customers and prospect for new customers. The Company publishes quarterly newsletters describing available products and services, organizational changes and other company news. Customers also receive product and service updates from Norstan's

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sales representatives, field technicians and customer support representatives. The Company pursues new customer opportunities through in-person sales calls, telemarketing and advertising. Norstan also regularly receives referrals from equipment manufacturers and customers, as well as unsolicited requests for proposals for products and services.

#### CUSTOMERS AND CUSTOMER SERVICE

Norstan focuses its marketing initiatives on customers with 100 or more users and those customers with complex communications requirements. The Company believes that providing service exceeding customers' expectations, or "legendary" customer service, is an important element of its ability to compete effectively in the communications market. Norstan maintains a highly trained force of service technicians, design engineers and customer support representatives who provide on-site and remote service and support. Customer satisfaction surveys, conducted by an outside firm contracted by Norstan, indicate that 94% of Norstan's customers are satisfied with the overall service and support they receive. This level of satisfaction has steadily increased, rising from 86% in 1988 to the current level. Norstan coordinates its customer service response through three remote diagnostics and dispatch centers located in Cleveland, Minneapolis and Toronto. These centers handle over 200,000 service calls per year, approximately 25% of which are addressed remotely. For calls requiring immediate on-site and remote service and support, Norstan promptly dispatches a service technician. Overall, Norstan has approximately 135 employees devoted primarily to providing customer service out of the service centers.

The Company sells products and services across many industry segments, including banking, government, insurance, health care, manufacturing, publishing, public utilities, transportation and retail. Current customers of the Company include BP America Inc., Best Buy Co., Inc., Blue Cross/Blue Shield of Minnesota, Iowa, New Mexico and Arizona, First Bank System, Inc., Manulife Financial, 3M Company, Harley-Davidson, Inc., as well as various hospitals and a number of government agencies in Minnesota, Iowa, Wisconsin, Ohio, Arizona and other states and provinces. In addition, through an agreement entered into in August 1993 with the Midwest Higher Education Consortium, the Company has agreed to provide certain videoconferencing equipment at specified terms to all state agencies of the states of Illinois, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio and Wisconsin. This agreement designates Norstan as a recommended vendor, but does not require any purchases by state agencies. No single customer accounted for more than 5% of the Company's total revenue for fiscal years 1995 and 1994.

#### SUPPLIERS; RELATIONSHIP WITH ROLM

Norstan's principal suppliers include ROLM, Aspect, Compression Labs, Sprint and Octel. In addition, the Company distributes complementary communications products that fit specific segments in the marketplace such as hybrid key systems and personal computer-based voice processing and videoconferencing systems, as well as data communications products from Novell, Newbridge, Bay Networks, Compaq, Lotus and others. In addition, the Company has distribution arrangements with several manufacturers of other products and services, as well as business partnerships that provide technical support to complement Norstan's expertise.

Norstan has been a distributor of ROLM communications equipment since 1976 and is ROLM's largest independent distributor. ROLM is the third largest manufacturer of PBX systems in the United States, accounting for an estimated 14% of United States sales of PBX systems in 1994, behind AT&T and Northern Telecom, which accounted for an estimated 30% and 26%, respectively. In July 1993, the

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Company executed a new distributor agreement with ROLM, which has a term extending through July 1998 and automatically renews for additional one-year periods, unless terminated upon 90 days' notice prior to each renewal date. Pursuant to this agreement, Norstan is the exclusive distributor of ROLM communications equipment in Minnesota, Wisconsin, Iowa, North Dakota, South Dakota, Ohio, Kentucky, Arizona, New Mexico, Oklahoma, Louisiana, Nevada and parts of Nebraska, Texas, Arkansas, Mississippi, Florida and Alabama, as well as all of Canada. In the event this agreement expires without renewal, Norstan is entitled to receive parts, certain software upgrades and technical support for ten years to enable Norstan to continue providing service to its customers with ROLM products. In addition, Norstan and ROLM have an agreement under which Norstan is an authorized agent for the refurbishment and sale of previously owned ROLM equipment in the United States. This agreement runs through September 1996 and may be terminated upon six months' notice. The Company believes that any interruption of its business relationship with ROLM would have a material adverse effect on its business.

#### BACKLOG

As of April 30, 1995, the Company had signed contracts for products and services aggregating approximately \$36.1 million, substantially all of which are expected to be fulfilled by the end of fiscal 1996. As of April 30, 1994, the Company had signed contracts aggregating approximately \$34.0 million, substantially all of which were fulfilled by the end of fiscal 1995. The usual time period between the execution of a contract and the completion of the installation is one to six months, depending on the size and complexity of the system.

#### COMPETITION

The communications industry is intensely competitive and rapidly changing. In general, the Company competes on the basis of breadth of product offering, system capability and reliability, service, support and price. Many of the Company's competitors, including AT&T, the seven Regional Bell Holding Companies ("RHC's") and Northern Telecom, have longer operating histories and significantly greater financial, technical, sales, marketing and other resources, as well as greater name recognition and larger distribution networks, than the Company. The RHC's are currently subject to a variety of government regulations limiting the manufacture, marketing and sale of certain products and services in the communications market. Legislation currently pending would, if enacted, eliminate or lessen these limitations and could potentially affect the Company's ability to compete successfully.

The Company also competes with a number of companies offering data systems

integration services, many of which have greater financial and other resources than the Company. These companies could also attempt to increase their presence in other segments of the communications market in which the Company competes by introducing additional products or services targeted for these market segments. There can be no assurance that the Company will be able to compete successfully or that competition will not have a material adverse effect on the Company's business, operating results and financial condition.

#### CANADIAN OPERATIONS

In April 1992, Norstan acquired substantially all of the assets of the ROLM communications business of IBM Canada Limited. In fiscal 1995, Norstan's Canadian operations were profitable after incurring significant losses in fiscal years 1994 and 1993. Approximately 10% and 9% of the Company's revenues were

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generated by its Canadian operations for fiscal 1995 and 1994, respectively. On November 30, 1994, the Company acquired substantially all of the assets of Renaissance Investments, Ltd. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Canadian Operations" and Note 11 of Notes to Consolidated Financial Statements.

#### GOVERNMENT REGULATION

Except for the sale of long distance service, the Company is not subject to any government regulations which have a material impact on its operations. Effective May 1, 1992, the Company became a direct reseller of long distance network services and accordingly became subject to certain state tariff regulations throughout the United States. The Company is currently registered and certified to provide interstate services in all 50 states and intrastate services in 45 states, and is currently pursuing certification for intrastate services in one additional state. The Company is also subject to FCC regulations which require the filing of federal tariffs.

#### EMPLOYEES

The Company's U.S. operations had a total of 1,769 employees as of April 30, 1995, consisting of 397 sales and marketing personnel, 1,090 operations, service and installation employees, and 282 administrative employees. Of these employees, approximately 157 are covered by collective bargaining agreements which expire beginning in November 1995. The Company considers relations with its employees to be good and has not experienced any work stoppages.

The Company's Canadian operations had a total of 206 employees as of April 30, 1995, consisting of 49 sales and marketing personnel, 124 operations, service and installation employees, and 33 administrative personnel. The Company considers relations with the Canadian employees to be good and has not experienced any work stoppages.

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#### GENERAL

##### RAW MATERIALS

The Company purchases all the equipment that it markets and installs and does not engage in any manufacturing operations. The most important components utilized by the Company are the telecommunication systems and electronic telephone sets supplied by ROLM. Purchases of such equipment from ROLM account for the major portion of total equipment purchases. The other parts and components utilized, such as telephones, electrical components, wire and speakers, substantially all of which are purchased in conjunction with ROLM telecommunications systems, are purchased from a number of suppliers. It is anticipated that such other parts and components, which are purchased pursuant to purchase orders rather than long term contracts, will be readily available from present suppliers or, if necessary, from alternate qualified manufacturers.

NFS is a financial service organization and uses no raw materials.

##### PATENTS

The Company and its subsidiaries have no patents, trademarks, licenses, franchises or concessions that are of material importance to their business with the exception of distributor agreements between the Company and ROLM, and between the Company and other suppliers.

## SEASONAL NATURE OF BUSINESS

Historically, operating results indicate that both revenues and earnings generally increase in each quarter as each fiscal year progresses. This results from seasonal performance of the Company and its employees as well as from seasonal demands of the Company's customers.

## WORKING CAPITAL PRACTICES

The Company and its subsidiaries have no special practices relating to working capital items.

## RESEARCH AND DEVELOPMENT

The Company and its subsidiaries do not engage in any material research or development activities.

## EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL PROTECTION REGULATION

Not applicable.

## EFFECTS OF INFLATION

Market conditions have generally permitted the Company to adjust its pricing to reflect increases in labor and product costs due to inflation. Inflation has not had a significant impact on operating results during the past three years.

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## Item 2. PROPERTIES.

The executive offices of the Company and its subsidiaries are located in Maple Grove and Plymouth, Minnesota, where the Company leases approximately 64,000 and 53,400 square feet of office space, respectively. The Company also has executive offices in Brecksville, Ohio, where the Company leases approximately 61,250 square feet of office space, and in Phoenix, Arizona, where the Company leases approximately 34,400 square feet of office space. In addition to the space above, the Company leases sales and service offices in 38 other cities within the United States. In Canada, the Company leases approximately 30,400 square feet of office space in North York, Ontario, which serves as its Canadian headquarters. In addition, the Company also leases sales and service offices in eight other cities within the Canadian provinces of Alberta, Ontario, Quebec and British Columbia. The Company believes that the above mentioned facilities are adequate and suitable for its current needs.

## Item 3. LEGAL PROCEEDINGS.

The Company is involved in legal actions in the ordinary course of its business. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management there is no legal proceeding pending against or involving the Company for which the outcome is likely to have a material adverse effect upon the business, operating results and financial condition of the Company.

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

The Company did not submit any matters to a vote of security holders during the last quarter of the fiscal year covered by this report.

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## PART II

## Item 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

### PRICE RANGE OF COMMON STOCK

The Company's common stock is traded on the National Over-the-Counter market and is listed on the national market system of the National Association of Securities Dealers' Automated Quotations System ("NASDAQ") under the symbol "NRRD". The following table sets forth the high and low quotations for the Company's common stock as reported by NASDAQ for each quarterly period during the two most recent fiscal years:

<TABLE>  
<CAPTION>

	HIGH	LOW
<S>	<C>	<C>
FISCAL YEAR ENDED APRIL 30, 1995:		
First Quarter	19	15-3/4
Second Quarter	20-1/2	17-1/4
Third Quarter	20	17
Fourth Quarter	24-1/2	18-1/2

</TABLE>

<TABLE>  
<CAPTION>

	HIGH	LOW
<S>	<C>	<C>
FISCAL YEAR ENDED APRIL 30, 1994:		
First Quarter	16-1/2	12 1/2
Second Quarter	17	12 3/4
Third Quarter	19	15-1/4
Fourth Quarter	19	14-1/4

</TABLE>

The quotations reflect prices between dealers and do not include retail mark-ups, mark-downs or commissions, and do not necessarily represent actual transactions.

As of June 26, 1995, there were approximately 1,300 holders of record of the Company's common stock.

#### RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

The Company has not recently declared or paid any cash dividends on the common stock and does not intend to pay cash dividends on the common stock in the foreseeable future. The Company currently expects to retain earnings to finance expansion of its business. In addition, the Company's current revolving long-term credit agreement prohibits the payment of cash dividends without the prior written consent of the lenders thereunder.

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#### Item 6. SELECTED CONSOLIDATED FINANCIAL DATA.

The selected consolidated financial data set forth below as of and for each of the fiscal years in the five-year period ended April 30, 1995 have been derived from the Company's consolidated financial statements, which have been audited by Arthur Andersen LLP, independent public accountants. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere in this Report.

<TABLE>  
<CAPTION>

	FISCAL YEARS ENDED APRIL 30,				
	1995	1994	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENTS OF OPERATIONS DATA:					
Revenues	\$290,245	\$231,899	\$195,856	\$142,426	\$134,591
Cost of sales	202,107	155,676	128,228	90,823	86,110
Gross margin	88,138	76,223	67,628	51,603	48,481
Selling, general and administrative expenses	74,725	65,137	58,609	44,790	41,233
Operating income	13,413	11,086	9,019	6,813	7,248
Interest expense	(1,587)	(832)	(841)	(1,050)	(1,634)
Interest and other income (expense), net	(54)	(106)	323	130	216
Recovery on note receivable and preferred stock (1)	-	-	-	-	500
Income before cumulative effect of accounting change and provision for income taxes	11,772	10,148	8,501	5,893	6,330
Provision for income taxes	4,709	4,161	3,401	2,298	2,469
Income before cumulative effect of accounting change	7,063	5,987	5,100	3,595	3,861

Cumulative effect of change in accounting for income taxes (2)	-	(375)	-	-	-
Net income	\$7,063	\$5,612	\$5,100	\$3,595	\$3,861
Net income per common and common equivalent share:					
Income before cumulative effect of accounting change.	\$1.61	\$1.41	\$1.25	\$ .94	\$1.10
Cumulative effect of change in accounting for income taxes (2)	-	(.09)	-	-	-
Net income per share	\$1.61	\$1.32	\$1.25	\$ .94	\$1.10
Weighted average number of common and common equivalent shares outstanding.	4,375	4,252	4,083	3,843	3,523

</TABLE>

<TABLE>  
<CAPTION>

	AS OF APRIL 30,				
	1995	1994	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	
BALANCE SHEET DATA:					
Working capital	\$ 32,183	\$ 32,961	\$ 19,160	\$ 18,333	\$19,703
Total assets	161,709	149,662	120,731	108,079	81,865
Long-term debt, net of current maturities.	16,465	18,218	11,555	12,873	10,524
Discounted lease rentals, net of current maturities.	16,313	18,845	12,785	9,438	10,731
Shareholders' equity	56,984	47,658	40,594	33,163	27,284
Cash dividends declared and paid	-	-	-	-	-

(1) In 1987, Norstan sold the assets of its wholly owned subsidiary, Summit Gear, Inc. to New Summit, Inc. ("New Summit"), a third party, for a combination of cash, notes receivable and preferred stock. In fiscal 1990, upon being notified that New Summit was in default of certain loan covenants with its principal lender, Norstan recorded a provision for loss of \$5,850,000 related to its notes receivable and preferred stock of New Summit. In fiscal 1991, Norstan received a \$500,000 note secured by an irrevocable letter of credit in consideration for its investment in New Summit and, accordingly, recognized this amount as a recovery.

(2) On May 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." As a result, the Company recorded a one-time charge of \$375,000, or \$.09 per share, in fiscal 1994 for the cumulative effect of the change in method of accounting for income taxes.

</TABLE>

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

##### GENERAL

Norstan is a full service communications systems integrator providing voice, video, data and image communications solutions to customers primarily in 18 states and throughout Canada. Norstan entered the communications business in 1973 and has historically derived a substantial majority of its revenues from the sale of telephone systems, communications maintenance services and moves, adds and changes. Norstan's growth has resulted from acquisitions and geographic expansion as well as from offering a broadening range of products and services.

Norstan commenced distribution of ROLM communications products in Minnesota and the Milwaukee metropolitan area in 1976 and by 1985 had expanded its sales activity into the remainder of Wisconsin, as well as Iowa, Nebraska, North Dakota and South Dakota. In 1985, the Company expanded its ROLM distribution business into Ohio and portions of Kentucky by acquiring the assets of Solsound Industries, Inc. In 1988, Norstan expanded its ROLM distribution business into Arizona and New Mexico by acquiring the assets of Communications Consultants, Inc. In July 1991, ROLM awarded the Company the right to sell and service ROLM products in all or portions of Oklahoma, Louisiana, Nevada, Texas, Arkansas, Mississippi, Florida and Alabama.

In July 1990, the Company and ROLM entered into an agreement to refurbish

and resell previously owned ROLM equipment in the United States. Under this agreement, ROLM pays the Company a fee for refurbishing the equipment and remarketing separate ROLM components, and the Company shares in the profit generated by this program, which includes the profit on sales of refurbished systems by ROLM direct sales offices. The agreement was renewed in October 1993 for an additional three-year period.

In April 1992, the Company acquired substantially all of the assets of the ROLM communications business owned by IBM Canada Limited, for a purchase price of approximately \$4.4 million. This acquisition, which represented annual revenues of approximately \$18 million, formed the basis of the Company's Canadian operations. The Company's Canadian operations generated net after-tax income of \$446,000 in fiscal 1995 after having incurred net after-tax losses of \$651,000 and \$541,000 in fiscal 1994 and 1993, respectively. See "Canadian Operations."

Over the past several years, Norstan has expanded its offering of products and services to include refurbished equipment, call processing products, videoconferencing equipment, long distance service and cabling. Recently, the Company has further expanded its products and services to include data communications applications and complete management of customers' communications systems through outsourcing agreements.

Norstan offers leasing services to its customers through a wholly owned subsidiary. Norstan believes its ability to provide lease financing to customers supports the sales process by permitting customized lease structures to meet the needs of customers and by eliminating the need for third party financing.

Approximately 43% of fiscal 1995 revenues were derived from the sale of services, including communications maintenance services, moves, adds and changes, long distance service and leasing. Management believes that services provide the Company with an important source of recurring revenue.

#### RESULTS OF OPERATIONS

The Company's revenues consist of the sales of products and systems, telecommunications services and financial services. Products and systems revenues result from the sale of new products and upgrades, as well as refurbished equipment. Revenues from telecommunications services result primarily from communications maintenance services, moves, adds and changes, and long distance service. Financial services revenues result primarily from leasing activities.

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The following table sets forth, for the periods indicated, certain items from the Company's consolidated statements of operations expressed as a percentage of total revenues.

<TABLE>  
<CAPTION>

#### FISCAL YEARS ENDED APRIL 30,

	1995	1994	1993
<S>	<C>	<C>	<C>
Revenues:			
Sales of products and systems. . .	57.4%	55.0%	52.6%
Telecommunications services. . . .	40.9	43.2	45.7
Financial services. . . . .	1.7	1.8	1.7
Total revenues. . . . .	100.0	100.0	100.0
Cost of sales. . . . .	69.6	67.1	65.5
Gross margin. . . . .	30.4	32.9	34.5
Selling, general and administrative expenses. . . . .	25.8	28.1	29.9
Operating income. . . . .	4.6%	4.8%	4.6%

</TABLE>

The following table sets forth, for the periods indicated, the gross margin percentages for sales of products and systems, telecommunications services and financial services.

<TABLE>  
<CAPTION>

FISCAL YEARS ENDED APRIL 30,

	1995	1994	1993
<S>	<C>	<C>	<C>
Gross margin percentage:			
Sales of products and systems. . .	26.1%	27.4%	28.5%
Telecommunications services. . . .	35.4	38.8	40.7
Financial services. . . . .	53.8	59.0	53.5

</TABLE>

FISCAL YEARS ENDED APRIL 30, 1995, 1994 AND 1993

REVENUES. Total revenues were \$290.2 million, \$231.9 million and \$195.9 million for the fiscal years ended April 30, 1995, 1994 and 1993, respectively, representing an increase of 25.2% for fiscal 1995 as compared to fiscal 1994 and an increase of 18.4% for fiscal 1994 as compared to fiscal 1993.

Sales of products and systems increased \$39.2 million, or 30.7%, for fiscal 1995 as compared to fiscal 1994, and \$24.5 million, or 23.8%, for fiscal 1994 as compared to fiscal 1993. The increases for fiscal 1995 and 1994 as compared to prior years, result primarily from increased sales volume in each of the Company's largest product categories - telephone systems, call processing products, cabling and videoconferencing products. In addition, of the \$24.5 million increase in sales of products and systems for fiscal 1994 as compared to fiscal 1993, \$7.8 million, or 31.8%, of the increase was attributable to increased sales by the Company's southern United States operations, which began in July 1991, and the Company's Canadian operations, which were acquired in April 1992.

Revenues from telecommunications services increased \$18.5 million, or 18.5% for fiscal 1995 as compared to fiscal 1994, and \$10.7 million, or 11.9%, for fiscal 1994 as compared to fiscal 1993. The increases in fiscal 1995 and 1994 as compared to prior years result primarily from the growth in the Company's installed base of customers and expanded array of products and services. This growth in customer base has led to increased communication maintenance services, moves, adds, and changes activity, and long distance services.

Revenues from financial services increased \$696,000, or 16.2%, for fiscal 1995 as compared to fiscal 1994, and \$862,000, or 25.0%, for fiscal 1994 as compared to fiscal 1993. The increase in revenues from financial services in both years is attributable to the increased size of the Company's leasing base and corresponding lease receivables over the past two years. Net lease receivables increased to \$40.5 million at April 30, 1995, as compared to \$31.2 million at April 30, 1993.

GROSS MARGIN. The Company's gross margin was \$88.1 million, \$76.2 million, and \$67.6 million for the fiscal years ended April 30, 1995, 1994 and 1993, respectively, representing an increase of 15.6% for fiscal 1995 as compared to fiscal 1994 and 12.7% for fiscal 1994 as compared to fiscal 1993. As a percent

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of total revenues, gross margin was 30.4% for fiscal 1995 compared to 32.9% for fiscal 1994 and 34.5% for fiscal 1993. Gross margin as a percent of revenues for the sale of products and systems was 26.1% for fiscal 1995 as compared to 27.4% for fiscal 1994 and 28.5% for fiscal 1993. These decreases in the gross margin percentages from the sale of products and systems resulted primarily from a shift in product mix and competitive market conditions.

Gross margin as a percent of revenues for telecommunications services was 35.4% for fiscal 1995 as compared to 38.8% for fiscal 1994 and 40.7% for fiscal 1993. The decrease in the gross margin percentage for telecommunications services for fiscal 1995 as compared to fiscal 1994 and for fiscal 1994 as compared to fiscal 1993 resulted from decreased margin percentages attributable to the resale of long distance network services, as well as from decreased margin percentages attributable to moves, adds and changes.

Gross margin as a percent of revenues for financial services was 53.9% for fiscal 1995 as compared to 59.0% for fiscal 1994 and 53.5% for fiscal 1993. The decrease in gross margin percentage for fiscal 1995 as compared to fiscal 1994 resulted primarily from increased borrowing costs in a rising interest rate environment. The increase in the gross margin percentage for fiscal 1994 as compared to fiscal 1993 resulted primarily from reduced borrowing costs in a declining interest rate environment.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses were \$74.7 million, \$65.1 million and \$58.6 million for the fiscal years ended April 30, 1995, 1994 and 1993, respectively, representing an increase of 14.7% for fiscal 1995 as compared to fiscal 1994 and 11.1% for



fiscal 1994 as compared to fiscal 1993. These increases resulted primarily from increased expenses necessary to support increased revenues. As a percent of revenues, selling, general and administrative expenses declined to 25.8% for fiscal 1995 as compared to 28.1% for fiscal 1994 and 29.9% for fiscal 1993. These decreases as a percentage of revenues resulted from volume related efficiencies, as sales volume increased without proportional increases in expenses.

**OPERATING INCOME.** Operating income was \$13.4 million, \$11.1 million and \$9.0 million for the fiscal years ended April 30, 1995, 1994 and 1993, respectively, representing increases of 21.0% for fiscal 1995 as compared to fiscal 1994 and 22.9% for fiscal 1994 as compared to fiscal 1993. The decrease in operating income as a percentage of revenues for fiscal 1995 as compared to fiscal 1994 resulted from a decline in the Company's gross margin as a percent of revenue, which was partially offset by selling, general and administrative expense efficiencies. The increase for fiscal 1994 as compared to fiscal 1993 resulted primarily from increased sales volume and an improvement in overall market and business conditions.

**OTHER COSTS AND EXPENSES.** Interest expense was \$1,587,000 for fiscal 1995 as compared to \$832,000 for fiscal 1994 and \$841,000 for fiscal 1993. Weighted average interest rates under the Company's revolving long-term credit agreements were 7.8% for fiscal 1995 as compared to 5.7% for fiscal 1994 and 6.2% for fiscal 1993. Average month end borrowings outstanding under the Company's revolving long-term credit agreements (excluding amounts borrowed to finance leasing activities) were \$20.9 million for fiscal 1995, \$15.2 million for fiscal 1994 and \$12.6 million for fiscal 1993.

Interest and other income (expense), net, was an expense of \$54,000 for fiscal 1995 as compared to expense of \$106,000 for fiscal 1994 and income of \$323,000 for fiscal 1993. Included in the fiscal 1993 results is a pretax gain of \$225,000, or \$.03 per share of net income, related to the sale of the Omaha, Nebraska area ROLM business.

The Company's effective income tax rate was 40% for fiscal 1995, 41% for fiscal 1994 and 40% for fiscal 1993. The Company's effective tax rate differs from the federal statutory rate primarily due to state income taxes.

**INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE.** Income before cumulative effect of the change in accounting for income taxes was \$7,063,000, or \$1.61 per share in 1995, \$5,987,000 or \$1.41 per share in 1994, and \$5,100,000 or \$1.25 per share in 1993.

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#### ACCOUNTING CHANGE

In the first quarter of fiscal 1994, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." As a result, the Company recorded a one-time charge of \$375,000, or \$.09 per share, in fiscal 1994 for the cumulative effect of the change in method of accounting for income taxes.

#### CANADIAN OPERATIONS

In April 1992, the Company acquired substantially all of the assets of the ROLM communications business owned by IBM Canada Limited. The Company experienced difficulties in the first two years of operations in Canada as aggressive price competition and the loss of service customers resulted in reduced service revenues. The Company's Canadian operations incurred net after-tax losses of \$651,000 and \$541,000 in fiscal 1994 and 1993, respectively. Operations in Canada improved in fiscal 1995, resulting in an after-tax profit of \$446,000. In fiscal 1995, the Company acquired substantially all of the assets of Renaissance Investments, Ltd., a technology planning and integration services company. Results of the Canadian operations in future periods continue to be dependent on the Company's ability to better position itself in the Canadian marketplace as a full service communications systems integrator as well as its ability to expand the installed customer base. In addition, the results of the Canadian operations will be impacted by the success of the integration and growth of the business operations acquired in the Renaissance acquisition. Furthermore, the Company's Canadian operations' long-term profitability is dependent on the economic viability of the Canadian economy.

#### LIQUIDITY AND CAPITAL RESOURCES

Working capital decreased to \$32.2 million at April 30, 1995 from \$33.0 million at April 30, 1994. Net cash provided by operating activities was \$20.2 million for the fiscal year ended April 30, 1995 as compared to \$1.6 million for fiscal year 1994. For the fiscal year ended April 30, 1995, net income of \$7.1 million, depreciation and amortization of \$10.8 million, increased accounts payable and accrued liabilities of \$6.0 million and decreased

costs and estimated earnings in excess of billings of \$4.2 million were only partially offset by increased accounts receivable of \$7.8 million. For fiscal 1994, net income of \$5.6 million, depreciation and amortization of \$8.7 million and increased accounts payable and accrued liabilities of \$4.7 million were offset by increased accounts receivable of \$8.3 million, increased costs and estimated earnings in excess of billings of \$7.7 million and increased inventories of \$3.6 million. For fiscal 1995 and 1994, the general increase in balance sheet items resulted from the increased business activity and revenues over these periods.

Capital expenditures for fiscal 1995 were \$17.3 million as compared to \$9.1 million in fiscal 1994 and \$8.6 million in fiscal 1993. These expenditures were primarily for telecommunications equipment used as spare parts, computer equipment and facility expansion. The Company expects capital expenditures in fiscal 1996 to be approximately \$12 to \$15 million.

The Company has also made a significant investment in lease contracts with its customers. The additional investment made in lease contracts in fiscal 1995 totalled \$16.2 million. Net lease receivables decreased to \$40.5 million at April 30, 1995 from \$41.9 million at April 30, 1994. The Company expects to make an additional investment in lease contracts in fiscal 1996 of approximately \$20 million. The Company utilizes its lease receivables and corresponding underlying equipment to borrow funds from financial institutions on a nonrecourse or recourse basis by discounting the stream of future lease payments. Proceeds from discounting are presented on the consolidated balance sheet as discounted lease rentals. Discounted lease rentals, including recourse borrowings of \$3.0 million, totalled \$27.8 million at April 30, 1995. Interest rates on these credit agreements at April 30, 1995 ranged from 6.0% to 10.0%, while payments are due in varying monthly installments through October 2000. Payments due to financial institutions are made from monthly collections of lease receivables from customers.

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In October 1994, the Company entered into a \$35.0 million unsecured revolving long-term credit agreement with certain banks, replacing the prior \$28.0 million credit agreement entered into in April 1993. Up to \$15.0 million of borrowings under this agreement may be in the form of commercial paper and up to \$8.0 million may be used to support the Company's domestic leasing activities. Under this agreement, the total credit facility of \$35.0 million will be reduced by \$750,000 per fiscal quarter effective January 31, 1995. As of April 30, 1995, the total capacity of the credit facility was \$33,500,000. Borrowings under this agreement are due May 2, 1998 and bear interest at a bank's reference rate (9.00% and 6.75% at April 30, 1995 and April 30, 1994, respectively), except for LIBOR, CD and commercial paper based options which generally bear interest at a rate lower than the bank's reference rate. Total consolidated borrowings under this agreement were \$16,465,000 and \$18,125,000 at April 30, 1995 and April 30, 1994, respectively (of which \$322,000 and \$431,000 were borrowed on the account of NFS at April 30, 1995 and 1994, respectively). As of April 30, 1995, the Company's weighted average interest rate on borrowings outstanding under the revolving long-term credit agreement was 8.2%.

Management of the Company believes that a combination of cash generated from operations, existing bank facilities and additional borrowing capacity, in aggregate, are adequate to meet the anticipated liquidity and capital resource requirements of its business. Sources of additional financing, if needed, may include further debt financing or the sale of equity or other securities.

#### RECENTLY ISSUED ACCOUNTING STANDARD

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("Statement 121"), issued in March 1995 and effective for fiscal years beginning after December 15, 1995, establishes accounting standards for the recognition and measurement of impairment of long-lived assets, certain identifiable intangibles, and goodwill either to be held or disposed of. Management believes the adoption of Statement 121 will not have a material impact on the Company's financial position or results of operations.

#### FACTORS THAT MAY AFFECT FUTURE RESULTS

There are a number of factors that could affect the Company's future operating results, including national and regional economic conditions; pending and future legislation affecting the telecommunications industry; the Company's operations in Canada; market acceptance of the Company's products and services; the Company's continued ability to provide integrated communications solutions for customers in a dynamic industry, as well as other competitive factors.

Because these and other factors could affect the Company's operating results, past financial performance should not necessarily be considered as a reliable indicator of future performance, and investors should not use historical trends to anticipate future period results.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

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Report of Independent Public Accountants . . . . .	22
Consolidated Statements of Operations for the years ended April 30, 1995, 1994 and 1993. . . . .	23
Consolidated Balance Sheets as of April 30, 1995 and 1994 . . . . .	24
Consolidated Statements of Shareholders' Equity for the years ended April 30, 1995, 1994 and 1993. . . . .	26
Consolidated Statements of Cash Flows for the years ended April 30, 1995, 1994 and 1993 . . . . .	27
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Selected Quarterly Financial Data (unaudited) . . . . .	39

FINANCIAL STATEMENT SCHEDULES:

All schedules have been omitted as not required, not applicable or because the information to be presented is included in the consolidated financial statements and related notes.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Norstan, Inc.:

We have audited the accompanying consolidated balance sheets of Norstan, Inc. (a Minnesota corporation) and Subsidiaries as of April 30, 1995 and 1994, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended April 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We 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, the financial statements referred to above present fairly, in all material respects, the financial position of Norstan, Inc. and Subsidiaries as of April 30, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 1995 in conformity with generally accepted accounting principles.

As explained in Note 7 to the financial statements, effective May 1, 1993, the Company changed its method of accounting for income taxes.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,  
June 14, 1995

NORSTAN, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED APRIL 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
REVENUES:			
Sale of products and systems . . . . .	\$166,675	\$127,514	\$102,997
Telecommunications services . . . . .	118,569	100,080	89,416
Financial services . . . . .	5,001	4,305	3,443
Total revenues . . . . .	290,245	231,899	195,856
COST OF SALES:			
Products and systems . . . . .	123,158	92,621	73,621
Telecommunications services . . . . .	76,641	61,289	53,006
Financial services . . . . .	2,308	1,766	1,601
Total cost of sales . . . . .	202,107	155,676	128,228
GROSS MARGIN	88,138	76,223	67,628
Selling, general and administrative expenses . . . . .	74,725	65,137	58,609
OPERATING INCOME . . . . .	13,413	11,086	9,019
Interest expense . . . . .	(1,587)	(832)	(841)
Interest and other income (expense), net . . . . .	(54)	(106)	323
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PROVISION FOR INCOME TAXES . . . . .	11,772	10,148	8,501
Provision for income taxes . . . . .	4,709	4,161	3,401
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE . . . . .	7,063	5,987	5,100
Cumulative effect of change in accounting for income taxes . . . . .	-	(375)	-
NET INCOME . . . . .	\$ 7,063	\$ 5,612	\$ 5,100
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE:			
Income before cumulative effect of accounting change . . . . .	\$ 1.61	\$ 1.41	\$ 1.25
Cumulative effect of change in accounting for income taxes . . . . .	-	(.09)	-
NET INCOME PER SHARE . . . . .	\$ 1.61	\$ 1.32	\$ 1.25
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING . . . . .	4,375	4,252	4,083

</TABLE>

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

NORSTAN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS

<TABLE>  
<CAPTION>

	APRIL 30,	
	1995	1994
<S>	<C>	<C>
CURRENT ASSETS:		
Cash . . . . .	\$ 1,308	\$ 755
Accounts receivable, net of allowances for doubtful accounts of \$804 and \$685. . . . .	51,779	43,255
Current lease receivables (Note 4) . . . . .	14,122	14,245
Inventories. . . . .	11,137	11,766
Costs and estimated earnings in excess of billings of \$16,691 and \$14,731 . . . . .	10,926	15,040
Deferred income tax benefits (Note 7). . . . .	3,634	2,835
Prepaid expenses, deposits and other . . . . .	2,331	1,777
Total current assets . . . . .	95,237	89,673
PROPERTY AND EQUIPMENT:		
Machinery and equipment. . . . .	64,652	50,768
Less-accumulated depreciation and amortization . . . . .	(32,885)	(26,573)
Net property and equipment . . . . .	31,767	24,195
OTHER ASSETS:		
Lease receivables, net (Note 4). . . . .	26,381	27,697
Franchise rights and other intangible assets, net of amortization of \$3,435 and \$2,893 (Note 2). . . . .	7,904	7,658
Other . . . . .	420	439
Total other assets . . . . .	34,705	35,794
	\$161,709	\$149,662

</TABLE>

The accompanying notes to consolidated financial statements  
are an integral part of these balance sheets.

NORSTAN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

LIABILITIES AND SHAREHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	APRIL 30,	
	1995	1994
<S>	<C>	<C>
CURRENT LIABILITIES:		
Current maturities of long-term debt . . . . .	\$ 93	\$ 229
Current maturities of discounted lease rentals . . . . .	11,449	11,470

Accounts payable . . . . .	16,467	13,951
Accrued --		
Salaries and wages . . . . .	10,841	9,081
Deferred revenue . . . . .	15,045	13,582
Warranty costs . . . . .	1,756	1,501
Other liabilities . . . . .	5,118	3,907
Income taxes payable . . . . .	158	-
Billings in excess of costs and estimated earnings of \$10,121 and \$6,092. . . . .	2,127	2,991
	-----	-----
Total current liabilities . . . . .	63,054	56,712
	-----	-----
LONG-TERM DEBT,		
NET OF CURRENT MATURITIES (Note 5) . . . . .	16,465	18,218
DISCOUNTED LEASE RENTALS,		
NET OF CURRENT MATURITIES (Note 6) . . . . .	16,313	18,845
DEFERRED INCOME TAXES (Note 7) . . . . .	8,893	8,229
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 10)		
SHAREHOLDERS' EQUITY (Notes 8 and 10):		
Common stock - \$.10 par value; 20,000,000 authorized shares; 4,215,441 and 4,070,792 shares issued and outstanding . . . . .	422	407
Capital in excess of par value . . . . .	26,031	24,132
Retained earnings . . . . .	31,486	24,423
Unamortized cost of stock . . . . .	(149)	(291)
Foreign currency translation adjustments . . . . .	(806)	(1,013)
	-----	-----
Total shareholders' equity . . . . .	56,984	47,658
	-----	-----
	\$161,709	\$149,662
	-----	-----
	-----	-----

</TABLE>

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

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NORSTAN, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
YEARS ENDED APRIL 30  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	COMMON STOCK		FOREIGN			
	OUTSTANDING SHARES	AMOUNT	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	UNAMORTIZED COST OF STOCK	CURRENCY TRANSLATION ADJUSTMENTS
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE - APRIL 30, 1992 . . . . .	3,755	\$376	\$19,930	\$13,711	\$(854)	\$ -
Stock issued for employee benefit plans . . . . .	243	24	2,902	-	(51)	-
Purchase and retirement of stock . . . . .	(16)	(2)	(190)	-	-	-
Foreign currency translation adjustments . . . . .	-	-	-	-	-	(352)
Net income . . . . .	-	-	-	5,100	-	-
	-----	-----	-----	-----	-----	-----
BALANCE - APRIL 30, 1993 . . . . .	3,982	398	22,642	18,811	(905)	(352)
Stock issued for employee benefit plans . . . . .	92	9	1,530	-	614	-
Purchase and retirement of stock . . . . .	(3)	-	(40)	-	-	-
Foreign currency translation adjustments . . . . .	-	-	-	-	-	(661)
Net income . . . . .	-	-	-	5,612	-	-
	-----	-----	-----	-----	-----	-----
BALANCE - APRIL 30, 1994 . . . . .	4,071	407	24,132	24,423	(291)	(1,013)
Stock issued for employee						

benefit plans . . . . .	144	15	1,899	-	142	-
Foreign currency translation adjustments . . . . .	-	-	-	-	-	207
Net income . . . . .	-	-	-	7,063	-	-
	-----	-----	-----	-----	-----	-----
BALANCE - APRIL 30, 1995 . . . . .	4,215	\$422	\$26,031	\$31,486	\$(149)	\$(806)
	-----	-----	-----	-----	-----	-----

</TABLE>

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

NORSTAN, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	YEARS ENDED APRIL 30,		
	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
<b>OPERATING ACTIVITIES:</b>			
Net income . . . . .	\$7,063	\$5,612	\$5,100
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization . . . . .	10,830	8,717	7,299
Deferred income taxes . . . . .	(132)	1,386	1,319
Cumulative effect of change in accounting for income taxes . . . . .	-	375	-
Gain on sale of Omaha ROLM base . . . . .	-	-	(225)
Changes in operating items, net of effects from acquisitions and disposals:			
Accounts receivable . . . . .	(7,807)	(8,281)	(5,512)
Inventories . . . . .	1,034	(3,640)	(300)
Costs and estimated earnings in excess of billings . . . . .	4,150	(7,685)	1,193
Prepaid expenses, deposits and other . . . . .	(503)	122	(665)
Accounts payable and accrued liabilities . . . . .	5,972	4,688	3,351
Billings in excess of costs and estimated earnings . . . . .	(866)	346	1,337
Income taxes payable . . . . .	448	-	(541)
Net cash provided by operating activities . . . . .	20,189	1,640	12,356
	-----	-----	-----
<b>INVESTING ACTIVITIES:</b>			
Additions to property and equipment, net . . . . .	(17,313)	(9,093)	(8,616)
Cash paid for Acquisitions (Note 3) . . . . .	(726)	-	(288)
Investment in lease contracts . . . . .	(16,246)	(25,149)	(16,232)
Collections from lease contracts . . . . .	17,746	14,263	10,353
Net proceeds from sale of Omaha ROLM base . . . . .	-	-	367
Other, net . . . . .	13	6	(163)
Net cash used for investing activities . . . . .	(16,526)	(19,973)	(14,579)
	-----	-----	-----
<b>FINANCING ACTIVITIES:</b>			
Repayment of short-term debt . . . . .	(423)	-	-
Borrowings under revolving credit agreements . . . . .	122,950	122,180	154,415
Repayments under revolving credit agreements . . . . .	(124,610)	(115,288)	(155,516)
Short-term acquisition payments . . . . .	-	-	(4,551)
Borrowings on discounted lease rentals . . . . .	9,056	18,901	21,919
Repayments of discounted lease rentals . . . . .	(11,631)	(9,167)	(15,900)
Repayments of other long-term debt . . . . .	(229)	(276)	(206)
Repurchase of common stock . . . . .	-	(40)	(192)
Proceeds from sale of common stock . . . . .	1,353	1,362	1,900

Tax benefits from shares issued to employees . . . . .	412	227	341
Net cash provided by (used for) financing activities . . . . .	(3,122)	17,899	2,210
EFFECT OF EXCHANGE RATE CHANGES ON CASH . . . . .	12	(30)	(18)
NET INCREASE (DECREASE) IN CASH . . . . .	553	(464)	(31)
CASH, BEGINNING OF PERIOD . . . . .	755	1,219	1,250
CASH, END OF PERIOD . . . . .	\$1,308	\$ 755	\$1,219

</TABLE>

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

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NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BUSINESS DESCRIPTION:

Norstan, Inc. (Norstan or the Company) manages the operations of its subsidiaries, Norstan Communications, Inc. (NCI), Norstan Canada Inc. (NCDA), Norstan Network Services, Inc. (NNS) and Norstan Financial Services, Inc. (NFS).

Norstan is a full service communications systems integrator providing voice, video, data and image communications solutions to customers primarily in 18 states and throughout Canada. Norstan is the largest independent distributor of private communications systems and application products manufactured by Siemens ROLM Communications Inc. (ROLM) and has historically derived a substantial majority of its revenues from the sale of telephone systems, communications maintenance services and moves, adds and changes. The Company's products and services also include call processing products, long distance services, videoconferencing products, refurbished equipment, cabling, leasing, outsourcing and data integration products and services. NFS provides financing for the Company's customers. The Company sells its products and services to a wide variety of customers and industries. A substantial portion of the Company's operations are located in the Mideast, Midwest and Southwestern regions of the United States.

Under the agreement with ROLM, the Company purchases communications equipment and products for field application and installation. The current distributor agreement with ROLM extends through July 1998. The Company believes that any interruption of its business relationship with ROLM would have a material adverse effect on its business.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION:

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

REVENUE RECOGNITION:

Revenues from the sale of products and systems result from the sale of new products and upgrades, as well as revenues generated from the secondary equipment market. Revenues from the sale of products and systems are recognized upon performance of contractual obligations, which is generally upon installation or shipment. Revenues for certain installation contracts are recognized under the percentage of completion method of accounting for long-term contracts. Revenues from telecommunications services include maintenance/service revenues, moves, adds, and changes (MAC) revenues, and revenues from the resale of long distance services. Revenues from telecommunications services are recognized as the services are provided. Financial services revenues are recognized over the life of the related lease receivables using the interest method. In addition, the Company grants credit to customers and generally does not require collateral or any other security to support amounts due.

INVENTORIES:

Inventories include purchased parts and equipment and are stated at the



lower of cost, determined on a first-in, first-out basis, or realizable market value.

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NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost and include expenditures which increase the useful lives of existing property and equipment.

Maintenance, repairs and minor renewals are charged to operations as incurred. Generally, when property and equipment is disposed of, the related cost and accumulated depreciation is removed from the respective accounts and any gain or loss is reflected in the results of operations. For capitalized telecommunications equipment used as spare parts, the composite depreciation method is used whereby the cost of property retired less any salvage is charged against accumulated depreciation and no gain or loss is recognized. The net book value of capitalized telecommunications equipment was \$13,984,000 and \$11,017,000 as of April 30, 1995 and 1994, respectively. Machinery and equipment is depreciated over the estimated useful lives of two to ten years under the straight-line method for financial reporting purposes. Accelerated methods are used for income tax reporting.

FRANCHISE RIGHTS AND OTHER INTANGIBLE ASSETS:

Franchise rights and other intangible assets are being amortized on a straight-line basis over 20 years. The Company continually evaluates whether events or circumstances have occurred which may indicate that the remaining estimated useful lives may warrant revision or that the remaining intangible asset balance may not be recoverable. In the event that factors indicate that the intangible assets in question should be evaluated for possible impairment, a determination of the overall recoverability of such intangible assets would be made.

FOREIGN CURRENCY:

For the Company's foreign operations, assets and liabilities are translated at year-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments are recorded as a separate component of shareholders' equity.

INCOME TAXES:

The Company and its subsidiaries file a consolidated federal income tax return and separate state returns. Deferred income taxes are provided for differences between the financial reporting basis and tax basis of the Company's assets and liabilities at currently enacted tax rates.

SHARE DATA:

Net income per common and common equivalent share is based on the weighted average number of shares of common stock outstanding during the year, adjusted for the dilutive effect of common stock equivalents.

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NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

SUPPLEMENTAL CASH FLOWS INFORMATION:

Supplemental disclosure of cash flows information is as follows (in thousands):

<TABLE>  
<CAPTION>

YEARS ENDED APRIL 30,		
1995	1994	1993
-----	-----	-----

<S>	<C>	<C>	<C>
Cash paid during each period for:			
Interest	\$3,650	\$2,537	\$2,484
Income taxes	3,911	2,543	2,663
	-----	-----	-----
	-----	-----	-----

</TABLE>

RECENTLY ISSUED ACCOUNTING STANDARD:

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" ("Statement 121"), issued in March 1995 and effective for fiscal years beginning after December 15, 1995, establishes accounting standards for the recognition and measurement of impairment of long-lived assets, certain identifiable intangibles, and goodwill either to be held or disposed of. Management believes the adoption of Statement 121 will not have a material impact on the Company's financial position or results of operations.

NOTE 3 - ACQUISITION:

In November 1994, the Company acquired certain assets and assumed certain liabilities of Toronto-based Renaissance Investments Ltd. (Renaissance). Renaissance, a technology planning and integration services company, specializes in local and wide area networks and graphical user interfaces, and has been operating under the name of Renaissance Connects since 1990. The purchase price of the assets was approximately \$726,000, plus certain incentive payments contingent upon the future operating performance of the acquired business. In addition, the Company repaid approximately \$423,000 of short-term bank obligations assumed in the acquisition.

Proforma information in the year of acquisition for this acquisition has not been disclosed as such information was not materially different from the Company's results of operations.

NOTE 4 - SUMMARIZED FINANCIAL INFORMATION OF NFS:

NATURE OF BUSINESS:

NFS provides financing for the Company's customers and has financed customer equipment purchases from the Company in the amounts of \$14,415,000, \$20,643,000 and \$14,601,000 during fiscal years ended April 30, 1995, 1994 and 1993, respectively. Leases are accounted for as sales-type leases for financial reporting purposes.

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NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - SUMMARIZED FINANCIAL INFORMATION OF NFS (CONTINUED):

Summarized financial information of NFS is as follows (in thousands):

BALANCE SHEETS  
ASSETS

<TABLE>

<CAPTION>

AS OF APRIL 30,

	1995	1994
	-----	-----
<S>	<C>	<C>
Cash and other . . . . .	\$ 1,740	\$ 1,062
Lease receivables, net . . . . .	34,879	37,049
Due from affiliated companies . . . . .	168	737
	-----	-----
	\$36,787	\$38,848
	-----	-----
	-----	-----

</TABLE>

LIABILITIES AND SHAREHOLDER'S EQUITY

<TABLE>

<S>	<C>	<C>
Discounted lease rentals . . . . .	\$26,597	\$30,315
Other liabilities . . . . .	6,638	5,954

Shareholder's equity . . . . .	3,552	2,579
	\$36,787	\$38,848

</TABLE>

STATEMENTS OF OPERATIONS

<TABLE>  
<CAPTION>

	FOR THE YEARS ENDED APRIL 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Interest and other income . . .	\$ 4,656	\$ 4,181	\$ 3,425
Interest expense . . . . .	(2,017)	(1,673)	(1,583)
Other expenses . . . . .	(1,037)	(1,536)	(1,225)
Income before provision for income taxes . . . . .	1,602	972	617
Provision for income taxes . .	629	123	230
Net income . . . . .	\$ 973	\$ 849	\$ 387

</TABLE>

NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - SUMMARIZED FINANCIAL INFORMATION OF NFS (CONTINUED):

The components of lease receivables outstanding are summarized as follows (in thousands):

<TABLE>  
<CAPTION>

	AS OF APRIL 30,	
	1995	1994
<S>	<C>	<C>
Gross lease receivables . . . . .	\$ 37,164	\$ 39,440
Residual values . . . . .	7,613	7,279
Less:		
Unearned income . . . . .	(8,398)	(8,120)
Allowance for financing losses . . . . .	(1,500)	(1,550)
Total lease receivables - net . . . . .	34,879	37,049
Less - current maturities . . . . .	(12,902)	(13,363)
Long-term lease receivables . . . . .	\$ 21,977	\$ 23,686

</TABLE>

The aggregate amount of gross lease receivables maturing in each of the five years following April 30, 1995 is as follows (in thousands):

<TABLE>  
<CAPTION>

YEAR	AMOUNT
<S>	<C>
1996 . . . . .	\$14,634
1997 . . . . .	11,169
1998 . . . . .	6,837
1999 . . . . .	3,502
2000 and thereafter . . . . .	1,022
	\$37,164

</TABLE>

The consolidated balance sheets as of April 30, 1995 and 1994 also include \$5,624,000 and \$4,893,000, respectively, of net lease receivables from customers of NCD and NCI.

NOTE 5 - DEBT OBLIGATIONS:

LONG-TERM DEBT:

Long-term debt consists of the following (in thousands):

<TABLE>  
<CAPTION>

	AS OF APRIL 30,	
	1995	1994
<S>	<C>	<C>
Bank financing:		
Revolving credit agreement . . . . .	\$ 4,465	\$ 5,125
Commercial paper . . . . .	12,000	13,000
Capital lease obligation, due through December 1995, interest at 10% . . . . .	93	222
Other notes payable, paid in 1995 . . . . .	-	100
Total long-term debt . . . . .	16,558	18,447
Less - current maturities . . . . .	(93)	(229)
	\$16,465	\$18,218

</TABLE>

BANK FINANCING:

In October 1994, the Company entered into a \$35,000,000 unsecured revolving long-term credit agreement with certain banks, replacing the prior \$28,000,000 credit agreement entered into in April 1993. Under this agreement, the total credit facility of \$35,000,000 is reduced by \$750,000 per fiscal quarter effective January 1995. As of April 30, 1995, the total capacity of the credit facility was \$33,500,000. Borrowings under this agreement are due May 2, 1998 and bear interest at a bank's reference rate (9.00% and 6.75% at April 30, 1995

NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - DEBT OBLIGATIONS (CONTINUED):

and April 30, 1994, respectively), except for LIBOR, CD and commercial paper based options which generally bear interest at a rate lower than the bank's reference rate. The Company is able to borrow up to \$15,000,000 of this credit facility in the form of commercial paper. In addition, NFS is able to borrow up to \$8,000,000 of this facility from Norstan, Inc. Annual commitment fees on the unused portion of the credit facility are 3/8 of one percent. Under the agreement, the Company is required to maintain minimum levels of tangible net worth and certain other financial ratios. The Company has complied with or has obtained the appropriate waivers for such requirements as of and for the year ended April 30, 1995. Total consolidated borrowings under this agreement were \$16,465,000 and \$18,125,000 at April 30, 1995 and 1994, respectively (of which \$322,000 and \$431,000 were borrowed on the account of NFS at April 30, 1995 and 1994, respectively).

Aggregate maturities of long-term debt and capital lease obligations are \$93,000 in fiscal 1996 and \$16,465,000 in fiscal 1999.

SHORT-TERM BORROWINGS:

In addition to the Company borrowing funds under its revolving credit agreement, the Company periodically borrows funds from banks on a short-term basis for working capital purposes. There were no short-term borrowings outstanding as of April 30, 1995 or 1994. Short-term borrowing amounts during fiscal year 1995 and 1993 were as follows (there were no short-term borrowings in fiscal 1994) (in thousands):

<TABLE>  
<CAPTION>

	1995	1993
	-----	-----
<S>	<C>	<C>
Maximum amount outstanding during the year	\$5,000	\$5,340
Average borrowings during the year	465	3,016
Weighted average short-term interest rates	7.6%	6.1%

</TABLE>

NOTE 6 - DISCOUNTED LEASE RENTALS:

NFS and NCDA utilize their lease receivables and corresponding underlying equipment to borrow funds from financial institutions at fixed rates on a nonrecourse or recourse basis by discounting the stream of future lease payments. Proceeds from discounting are recorded on the consolidated balance sheet as discounted lease rentals. Interest rates on these credit agreements range from 6% to 10% and payments are generally due in varying monthly installments through October 2000.

Discounted lease rentals of NFS and NCDA consisted of the following (in thousands):

<TABLE>  
<CAPTION>

AS OF APRIL 30,

	1995	1994
	-----	-----
<S>	<C>	<C>
Nonrecourse borrowings . . . . .	\$ 24,712	\$ 25,918
Recourse borrowings . . . . .	3,050	4,397
	-----	-----
Total discounted lease rentals . . . . .	27,762	30,315
Less - current maturities . . . . .	(11,449)	(11,470)
	-----	-----
	\$ 16,313	\$ 18,845
	-----	-----

</TABLE>

In addition to the recourse to NFS and/or NCDA as described above, recourse to Norstan, Inc. relative to discounted lease rentals was limited to \$986,000 as of April 30, 1995 and \$782,000 as of April 30, 1994.

NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - DISCOUNTED LEASE RENTALS (CONTINUED):

Aggregate maturities of discounted lease rentals as of April 30, 1995 are as follows (in thousands):

<TABLE>  
<CAPTION>

YEAR	AMOUNT
-----	-----
<S>	<C>
1995 . . . . .	\$11,449
1996 . . . . .	8,093
1997 . . . . .	4,910
1998 . . . . .	2,699
1999 and thereafter . . . . .	611
	-----
	\$27,762
	-----

</TABLE>

NOTE 7 - INCOME TAXES:

The Company adopted SFAS No. 109, "Accounting for Income Taxes" as of May 1, 1993 and recorded a \$375,000 charge to consolidated net income for the cumulative effect of the change in method of accounting for income taxes.

The Company has recorded the following net deferred income taxes as of April 30 (in thousands):

<TABLE>  
<CAPTION>

	1995	1994
	-----	-----
<S>	<C>	<C>
Current deferred income tax benefits . . . . .	\$ 3,959	\$ 3,233
Current deferred income taxes . . . . .	(325)	(398)
	-----	-----
Net current deferred income tax benefits . . . . .	3,634	2,835
	-----	-----
Noncurrent deferred income tax benefits . . . . .	13,260	9,454
Noncurrent deferred income taxes . . . . .	(21,929)	(17,453)
Valuation allowance . . . . .	(224)	(230)
	-----	-----
Net noncurrent deferred income taxes . . . . .	(8,893)	(8,229)
	-----	-----
Net deferred income taxes . . . . .	\$ (5,259)	\$ (5,394)
	-----	-----

</TABLE>

The tax effects of significant temporary differences representing deferred tax assets and liabilities are as follows as of April 30 (in thousands):

<TABLE>  
<CAPTION>

	1995	1994
	-----	-----
<S>	<C>	<C>
Accelerated depreciation . . . . .	\$ (19,669)	\$ (14,830)
Amortization of intangible assets . . . . .	(923)	(1,185)
Capital leases . . . . .	(546)	(507)
Operating leases . . . . .	11,142	7,182
Long-term contract costs . . . . .	606	359
Inventory reserves . . . . .	676	590
Deferred revenue . . . . .	-	(230)
Allowance for doubtful accounts . . . . .	901	895
Vacation reserves . . . . .	958	568
Warranty reserves . . . . .	489	395
Tax credits and carryforwards . . . . .	220	584
Self insurance reserve . . . . .	245	202
Other, net . . . . .	866	813
Valuation allowance . . . . .	(224)	(230)
	-----	-----
Net deferred tax liabilities . . . . .	\$ (5,259)	\$ (5,394)
	-----	-----

</TABLE>

NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - INCOME TAXES (CONTINUED):

The domestic and foreign components of income (loss) before the cumulative effect of accounting change and provision for income taxes are as follows (in thousands):

<TABLE>  
<CAPTION>

	YEARS ENDED APRIL 30,		
	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Domestic . . . . .	\$11,363	\$11,164	\$9,230
Foreign . . . . .	409	(1,016)	(729)
	-----	-----	-----
	\$11,772	\$10,148	\$8,501
	-----	-----	-----

</TABLE>

The provision (benefit) for income taxes consisted of the following (in thousands):

<TABLE>  
<CAPTION>

	YEARS ENDED APRIL 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Current			
Domestic . . . . .	\$4,325	\$3,144	\$2,077
Foreign . . . . .	516	(369)	5
	4,841	2,775	2,082
Deferred			
Domestic . . . . .	179	1,382	1,512
Foreign . . . . .	(311)	4	(193)
	(132)	1,386	1,319
Provision for income taxes . . . .	\$4,709	\$4,161	\$3,401

</TABLE>

The differences between the effective tax rate and income taxes computed using the federal statutory rate were as follows:

<TABLE>  
<CAPTION>

	YEARS ENDED APRIL 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Federal statutory rate . . . . .	35%	34%	34%
State income taxes, net of federal tax benefit . . . . .	4	4	4
Other, net . . . . .	1	3	2
	40%	41%	40%

</TABLE>

NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - STOCK OPTIONS AND STOCK PLAN:

The Company has adopted the 1986 Long-Term Incentive Plan of Norstan, Inc. (1986 Plan), a stock plan which provides for the granting of non-qualified stock options, incentive stock options, and restricted stock. The following is a summary of activity of the 1986 Plan:

<TABLE>  
<CAPTION>

	YEARS ENDED APRIL 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Options outstanding, beginning of year . . . . .	340,212	337,212	357,200
Granted . . . . .	55,000	3,000	10,000
Exercised - at prices from \$5.25 to \$8.44 per share . . . . .	(64,426)	-	(29,988)
Forfeited . . . . .	(8,586)	-	-
Options outstanding, end of			

year. . . . .	322,200	340,212	337,212
	-----	-----	-----
	-----	-----	-----

</TABLE>

The 1986 Plan, as amended in fiscal 1994, provides for a maximum of 800,000 shares to be granted to key employees in the form of stock options or restricted stock. At April 30, 1995, options outstanding under the 1986 Plan were exercisable to fiscal year 2005 at prices from \$5.25 to \$19.50 per share and approximately 213,000 shares were available for future grant. There were 322,200 options outstanding under the 1986 Plan at April 30, 1995, of which options for approximately 236,000 shares were exercisable at that date.

In 1987, the Company adopted the Directors' Stock Option Plan (1986 Directors' Plan). The 1986 Directors' Plan provides for the granting of options for 10,000 shares to each outside director of the Company upon election as a director at a price equal to the market price on the date of grant, exercisable at 20% per year and expiring after ten years. At April 30, 1995, options for 70,000 shares were outstanding and exercisable at prices ranging from \$6.13 to \$15.25 per share. At April 30, 1995, 26,000 shares were available for future grant under the 1986 Directors' Plan.

The Company has maintained an Employee Stock Purchase and Bonus Plan (the Plan) since 1980 which allows employees to set aside up to 10% of their earnings for the purchase of shares of the Company's common stock. Shares are purchased annually under the Plan at a price equal to 85% of the market price on the last day of the calendar year. During fiscal 1995, 90,596 shares were issued under the Plan and, at April 30, 1995, approximately 427,000 shares were available for future issuance.

The tax benefits associated with the exercise of stock options or issuance of shares under the Plan, not related to expenses recognized for financial reporting purposes, have been credited to capital in excess of par value in the accompanying consolidated balance sheets.

NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - STOCK OPTIONS AND STOCK PLAN (CONTINUED):

The Company has adopted a Restricted Stock Award Plan which provided for the awarding of 150,000 shares of Company stock to selected employees. In addition, restricted stock can be granted under the 1986 Plan. Recipients of restricted stock awards under these plans are not required to make any payments for the stock or provide consideration other than the rendering of services. Shares of stock awarded under the plans are subject to certain restrictions on transfer and all or part of the shares awarded to an employee may be subject to forfeiture upon the occurrence of certain events, including termination of employment. In fiscal 1995, 5,000 shares were awarded under the 1986 Plan. Through April 30, 1995, 141,750 shares have been awarded under the Restricted Stock Award Plan and 66,853 shares have been awarded under the 1986 Plan. The fair market value of the shares granted under these plans are generally amortized over a four year period. Amortization of \$74,000, \$146,000 and \$147,000 has been charged to operations in 1995, 1994 and 1993, respectively.

NOTE 9 - OTHER TRANSACTION:

In May 1992, the Company sold its Omaha, Nebraska area ROLM customer base to LinTel Systems. Included in the results of fiscal year 1993 is a pre-tax gain of \$225,000, or \$.03 per share of net income, related to the sale of the Omaha ROLM customer base.

NOTE 10 - COMMITMENTS AND CONTINGENCIES:

LEGAL PROCEEDINGS:

The Company is involved in legal actions in the ordinary course of its business. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management there is no legal proceeding pending against or involving the Company for which the outcome is likely to have a material adverse effect upon the consolidated financial position or results of operations of the Company.

OPERATING LEASE COMMITMENTS:

The Company and its subsidiaries conduct a portion of their operations in leased facilities. Most of the leases require payment of maintenance, insurance,



taxes and other expenses in addition to the minimum annual rentals. Lease expense, as recorded in the accompanying consolidated statements of operations, was \$8,661,000 in 1995, \$8,319,000 in 1994 and \$7,442,000 in 1993.

Future minimum lease payments under noncancelable leases with initial or remaining terms of one year or more were as follows at April 30, 1995 (in thousands):

<TABLE>  
<CAPTION>

YEARS ENDING APRIL 30:	
<S>	<C>
1996. . . . .	\$ 5,964
1997. . . . .	4,544
1998. . . . .	3,432
1999. . . . .	2,116
2000. . . . .	1,746
Thereafter. . . . .	1,558
	-----
Net minimum lease payments. .	\$19,360
	-----
	-----

</TABLE>

CUSTOMER COMMITMENTS:

The Company has entered into sales contracts with certain customers containing future performance obligations. Although the financial impact of these performance obligations is not determinable, management believes they will not have a material effect on the future operating results of the Company.

NORSTAN, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 -- COMMITMENTS AND CONTINGENCIES (CONTINUED):

SHAREHOLDER RIGHTS PLAN:

In May 1988, the Board of Directors authorized a shareholder rights plan which provides for a dividend distribution of one right for each outstanding share of common stock to shareholders of record on June 13, 1988. The rights will become exercisable in the event, with certain exceptions, an acquiring party accumulates 20% or more of the voting power of the Company, or the commencement of a tender or exchange offer which would result in the party having beneficial ownership of 30% or more of the voting power of the Company. Each right entitles the holder to purchase from the Company one share of common stock at \$25 per share, subject to adjustment. In addition, upon the occurrence of certain events, holders of the rights will be entitled to purchase either the Company's common stock at one-fourth of its market value or stock in an acquiring party at one-half of its market value.

NOTE 11 -- OPERATIONS BY GEOGRAPHIC AREA:

The following table sets forth the Company's operations by geographic area as of and for the years ended April 30, 1995, 1994 and 1993 (in thousands):

<TABLE>  
<CAPTION>

	1995	1994	1993
<S>	<C>	<C>	<C>
Revenues:			
United States . . . . .	\$262,235	\$211,130	\$177,732
Canada. . . . .	28,010	20,769	18,124
	-----	-----	-----
	\$290,245	\$231,899	\$195,856
	-----	-----	-----
Net income (loss):			
United States . . . . .	\$ 6,617	\$ 6,263	\$ 5,641
Canada. . . . .	446	(651)	(541)
	-----	-----	-----
	\$ 7,063	\$ 5,612	\$ 5,100
	-----	-----	-----

Identifiable Assets:			
United States . . . . .	\$143,443	\$137,038	\$108,963
Canada . . . . .	18,266	12,624	11,768
	\$161,709	\$149,662	\$120,731

</TABLE>

NORSTAN, INC. AND SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(In Thousands, Except Per Share Data)

<TABLE>  
<CAPTION>

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1995				
<S>	<C>	<C>	<C>	<C>
Revenues	\$62,824	\$71,998	\$74,612	\$80,811
Gross margin	\$19,736	\$22,060	\$22,421	\$23,921
Operating income	\$ 2,332	\$ 3,449	\$ 3,524	\$ 4,108
Net income	\$ 1,203	\$ 1,869	\$ 1,871	\$ 2,120
Net income per common and common equivalent share	\$ .28	\$ .43	\$ .43	\$ .48
1994				
Revenues	\$48,670	\$57,442	\$56,218	\$69,569
Gross margin	\$16,928	\$19,503	\$18,650	\$21,142
Operating income	\$ 1,931	\$ 2,942	\$ 2,883	\$ 3,330
Net income	\$ 625	\$ 1,560	\$ 1,608	\$ 1,819
Net income per common and common equivalent share	\$ .15	\$ .37	\$ .38	\$ .42

</TABLE>

Throughout each year, the income tax provision is recorded based upon estimates of the overall expected tax rate for that year.

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

No changes in or disagreements with accountants have occurred within the two-year period ended April 30, 1995, which required reporting on Form 8-K.

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information with respect to the directors and executive officers of the Company, set forth under "Information Concerning Directors, Nominees and Executive Officers" and under "Compliance with Section 16 (a)" in the Company's definitive proxy statement for the annual meeting of shareholders to be held September 20, 1995, is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

Information with respect to Executive Compensation set forth under "Executive Compensation" in the Company's definitive proxy statement for the annual meeting of shareholders to be held September 20, 1995, other than the subsections captioned "Report of the Compensation and Stock Option Committee" and "Performance Graph", is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information with respect to security ownership of certain beneficial owners and management, set forth under "Beneficial Ownership of Principal Shareholders and Management" in the Company's definitive proxy statement for the annual meeting of shareholders to be held September 20, 1995, is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information with respect to certain relationships and related transactions, set forth under "Information Concerning Directors, Nominees and Executive Officers" and under "Certain Transactions" in the Company's definitive proxy statement for the annual meeting of shareholders to be held September 20, 1995, is incorporated herein by reference.

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PART IV

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

(a) FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND EXHIBITS.

1. Financial Statements

See Index to Financial Statements and Financial Statement Schedules on page 21 of this report.

2. Financial Statement Schedules

All schedules to the Consolidated Financial Statements normally required by the applicable accounting regulations are omitted since the required information is included in the Consolidated Financial Statements or the Notes thereto or is not applicable.

3. Exhibits

See Index to Exhibits on page 44 of this report.

(b) REPORTS ON FORMS 8-K.

No reports on Form 8-K were filed by the Company during the last quarter of the fiscal year covered by this report.

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SIGNATURES

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

Dated: July 27, 1995.

NORSTAN, INC.  
Registrant

By /s/ Paul Baszucki

-----  
Paul Baszucki, Co-Chairman  
of the Board and Chief  
Executive Officer

By /s/ Richard Cohen

-----  
Richard Cohen, Vice-Chairman  
of the Board and Chief  
Financial Officer (Principal  
Financial and Accounting  
Officer)

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

Signature -----	Date ----
/s/ Sidney R. Cohen ----- Sidney R. Cohen, Co-Chairman of the Board and Director	July 27, 1995
/s/ Paul Baszucki ----- Paul Baszucki, Co-Chairman of the Board, Chief Executive Officer and Director	July 27, 1995
/s/ Richard Cohen ----- Richard Cohen, Vice-Chairman of the Board, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	July 27, 1995
/s/ Max A. Mayer ----- Max A. Mayer, President, Chief Operating Officer and Director	July 27, 1995
/s/ Winston E. Munson ----- Winston E. Munson, Secretary and Director	July 27, 1995
/s/ Robert K. Dahl ----- Robert K. Dahl, Director	July 27, 1995
/s/ Arnold Lehrman ----- Arnold Lehrman, Director	July 27, 1995
/s/ Connie M. Levi ----- Connie M. Levi, Director	July 27, 1995
/s/ Gerald D. Pint ----- Gerald D. Pint, Director	July 27, 1995

/s/ Stanley Schweitzer

July 27, 1995

-----  
Stanley Schweitzer, Director

/s/ Herbert F. Trader

July 27, 1995

-----  
Herbert F. Trader, Director

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EXHIBIT INDEX

Exhibit No.	Description	Page
-----	-----	----
3(a)	Restated Articles of Incorporation of the Company, as amended [filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended April 30, 1988 (File No. 0-8141) and incorporated herein by reference].	
3(b)	Bylaws of the Company [filed as Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended April 30, 1993 (File No. 0-8141) and incorporated herein by reference].	
3(c)	Rights Agreement dated May 17, 1988 between Norstan, Inc. and Norwest Bank Minnesota, N.A. [filed as Exhibit 1 to the Company's Registration Statement on Form 8-A (File No. 0-8141) and incorporated herein by reference].	
10(a)	Agreement for ROLM Authorized Distributors, effective July 27, 1993, between Norstan Communications, Inc. and ROLM Company [filed as Exhibit 10(a) to the Company's Annual Report on Form 10-K for the year ended April 30, 1993 (File No. 0-8141) and incorporated herein by reference].	
10(b)	Credit Agreement dated as of October 28, 1994, among Norstan, Inc., First Bank National Association, and Harris Trust and Savings Bank.	
10(c)	Loan and Security Agreement dated April 29, 1993, between Norstan Financial Services, Inc. and Sanwa Business Credit Corporation [filed as Exhibit 10(b) to the Company's Current Report on Form 8-K, dated April 29, 1993 (File No. 0-8141) and incorporated herein by reference]; First Amendment dated December 30, 1993.	
(1)10(d)	1990 Employee Stock Purchase and Bonus Plan of Norstan, Inc., as amended [filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the year ended April 30, 1993 (File No. 0-8141) and incorporated herein by reference].	
(1)10(e)	Norstan, Inc. 1986 Long-Term Incentive Plan, as amended [filed as Exhibit 10(e) to the Company's Annual Report on Form 10-K for the year ended April 30, 1993 (File No. 0-8141) and incorporated herein by reference].	
(1)10(f)	Norstan, Inc. Directors Stock Option Plan [filed as Exhibit 10(i) to the Company's Annual Report on Form 10-K for the year ended April 30, 1987 (File No. 0-8141) and incorporated herein by reference].	

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Exhibit No.	Description	Page
-----	-----	----
(1)10(g)	Consulting Agreement dated March 4, 1995 between Sidney Cohen and Norstan, Inc.	

(1)10(h)	Employment Agreement dated April 7, 1995 between Paul Baszucki and the Company.	
(1)10(i)	Employment Agreement dated April 7, 1995 between Richard Cohen and the Company.	
(1)10(j)	Employment Agreement dated April 7, 1995 between Max Mayer and the Company.	
11	Statement Regarding Computation of Earnings Per Share	46
22	Subsidiaries of Norstan, Inc.	47
24	Consent of Independent Public Accountants	48
27	Financial Data Schedule	

A copy of any of the exhibits listed or referred to above will be furnished at a reasonable cost to any shareholder of the Company, upon receipt of a written request from such person for any such exhibit. Such request should be sent to Norstan, Inc., 605 North Highway 169, Twelfth Floor, Plymouth, Minnesota 55441, Attention: Investor Relations.

(1) Items that are management contracts or compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 14(c) of this Form 10-K.

## CREDIT AGREEMENT

THIS CREDIT AGREEMENT, dated as of October 28, 1994, is by and among NORSTAN, INC., a Minnesota corporation (the "Borrower"), FIRST BANK NATIONAL ASSOCIATION, a national banking association ("First Bank"), HARRIS TRUST AND SAVINGS BANK, an Illinois banking corporation ("Harris"), and FIRST BANK NATIONAL ASSOCIATION, a national banking association, one of the Banks, as agent for the Banks (together with any successor thereto in such capacity, the "Agent").

### RECITALS

A. The Borrower, First Bank National Association ("First Bank"), Norwest Bank Minnesota, National Association ("Norwest") and The Daiwa Bank, Limited ("Daiwa"), as "Banks," and the Agent are parties to a Credit Agreement dated as of April 29, 1993, as amended by a First Amendment dated as of October 26, 1993, a Second Amendment dated as of March 1, 1994 and a Third Amendment to Credit Agreement, First Amendment to Pledge and Security Agreement and Waiver dated as of April 29, 1994 (as so amended, the "Existing Credit Agreement"), pursuant to which said Banks made certain revolving credit facilities available to the Borrower, said revolving credit facilities being further evidenced by separate Revolving Notes of the Borrower in favor of each such Bank, each dated April 29, 1993 (collectively, the "Existing Revolving Notes").

B. The Borrower's obligations under the Existing Credit Agreement and the Existing Revolving Notes are secured by a Pledge and Security Agreement dated as of April 29, 1993, as amended by said Third Amendment to Credit Agreement, First Amendment to Pledge and Security Agreement and Waiver dated as of April 29, 1994 (as so amended, the "Existing Security Agreement") given by the Borrower in favor of the Agent for the benefit of the Agent and said Banks.

C. The Borrower's obligations under the Existing Credit Agreement and the Existing Notes are guarantied by Norstan Financial Services, Inc., a Minnesota corporation ("NFS"), Norstan Communications, Inc., a Minnesota corporation, Norstan Network Services, Inc., a Minnesota corporation, and Norstan Canada Inc. ("Norstan Canada"), a Minnesota corporation (collectively, the "Guarantors") pursuant to separate Guaranties executed by each Guarantor in favor of the Agent for benefit of said Banks, each dated as of April 29, 1993 (collectively, the "Existing Guaranties").

D. Norwest and Daiwa are, concurrently herewith, ceasing to be "Banks" under the Existing Credit Agreement, and Harris desires to provide a revolving credit facility to the Borrower upon the terms and conditions set forth herein.

E. The parties hereto desire to amend and restate the Existing Credit

Agreement and the Existing Revolving Note of First Bank, to terminate the Existing Security Agreement and the security interest granted to the Agent thereunder, and to cause the Existing Guaranties to be amended and restated in their entireties.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration the receipt and adequacy of which is hereby acknowledged, the parties hereto hereby agree that the Existing Credit Agreement be, and it hereby is, amended and restated to read in full as follows:

## ARTICLE I

### DEFINITIONS AND ACCOUNTING TERMS

Section 1.1 DEFINED TERMS. As used in this Agreement the following terms shall have the following respective meanings (and such meanings shall be equally applicable to both the singular and plural form of the terms defined, as the context may require):

"ACCOUNTS": With respect to any Person, the aggregate unpaid obligations of customers and other account debtors to such Person arising out of the sale or lease of goods or rendition of services by such Person on an open account or deferred payment basis.

"ADJUSTED CD RATE": With respect to each Interest Period applicable to a CD Rate Advance, the sum (rounded upward, if necessary, to the next one hundredth of one percent) of (a) the rate per annum obtained by dividing (i) the CD Rate as of the first day of the Interest Period, by (ii) 1.00 minus the Domestic Reserve Percentage, PLUS (b) the annual rate most recently estimated by the Agent as the then current net annual assessment rate payable by the Agent to the Federal Deposit Insurance Corporation (or any successor) for insuring time deposits made in Dollars at the Agent's domestic offices, PLUS (c) the cost (converted to an equivalent rate per annum) of customary brokerage fees incurred by the Agent in obtaining funds by the sale of its negotiable certificates of deposit.

"ADJUSTED EURODOLLAR RATE": With respect to each Interest Period applicable to a Eurodollar Rate Advance, the rate (rounded upward, if necessary, to the next one hundredth of one percent) determined by dividing the Eurodollar Rate for such Interest Period by 1.00 minus the Eurodollar Reserve Percentage.

"ADJUSTED LEVERAGE RATIO": At the time of any determination, the ratio of (a) Total Indebtedness less Indebtedness of NFS to (b) Tangible Net Worth.

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"ADVANCE": Any portion of the outstanding Revolving Loans by a Bank as to which the Borrower elected one of the available interest rate options and,



if applicable, an Interest Period. An Advance may be a CD Rate Advance, a Eurodollar Rate Advance or a Reference Rate Advance.

"AFFILIATE": When used with reference to any Person, (a) each Person that, directly or indirectly, controls, is controlled by or is under common control with, the Person referred to, (b) each Person which beneficially owns or holds, directly or indirectly, five percent or more of any class of voting stock of the Person referred to (or if the Person referred to is not a corporation, five percent or more of the equity interest), (c) each Person, five percent or more of the voting stock (or if such Person is not a corporation, five percent or more of the equity interest) of which is beneficially owned or held, directly or indirectly, by the Person referred to, and (d) each of such Person's officers, directors, joint venturers and partners. The term control (including the terms "controlled by" and "under common control with") means the possession, directly, of the power to direct or cause the direction of the management and policies of the Person in question.

"AGENT": As defined in the opening paragraph hereof.

"AGENT FEE": As defined in Section 2.16 (a).

"AGGREGATE COMMERCIAL PAPER SUBLIMITS": As of any date, the sum of the Commercial Paper Sublimits of all the Banks.

"AGGREGATE REVOLVING COMMITMENT AMOUNTS": As of any date, the sum of the Revolving Commitment Amounts of all the Banks on such date.

"AGGREGATE REVOLVING OUTSTANDINGS": As of any date, the sum of the Revolving Outstandings of all Banks on such date.

"AGGREGATE STANDBY LETTER OF CREDIT SUBLIMITS": As of any date, the sum of the Standby Letter of Credit Sublimits of all the Banks on such date.

"AGREEMENT TO ADD ADDITIONAL COMPANY": The Agreement to Add Additional Company dated as of April 29, 1993 between the Borrower, First Bank, Mitsubishi Bank and Trust Company of New York, as Depositary, and FBS Capital Markets Group, a division of First Bank, as Placement Agent, as the same may be amended, supplemented or restated from time to time.

"APPLICABLE LENDING OFFICE": For each Bank and for each type of Advance, the office of such Bank identified pursuant to Section 9.4 or such other domestic or foreign office of such Bank (or of an Affiliate of such Bank) as such Bank may specify from time to time to the Agent and the Borrower as the office by which its Advances of such type are to be made and maintained.

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"APPLICABLE MARGIN": With respect to:

(a) Reference Rate Advances -- 0%.

(b) CD Rate Advances -- 1.3125%.

(c) Eurodollar Rate Advances -- 1.3125%

"AVAILABLE CASH FLOW": With respect to any Person for any period, the pre-tax income of that Person during that period, PLUS (a) the sum of (i) any depreciation or amortization claimed by that Person with respect to that period, (ii) any interest expense paid by that Person during such period, (iii) any increase in that Person's accounts payable and accrued expenses during such period, (iv) any decrease in that Person's Accounts and Inventory during such period, (v) any extraordinary or non-cash expenses paid by that Person during that period, (vi) any decrease in that Person's costs and estimated earnings in excess of billings during that period, and (vii) any increase in that Person's billings in excess of costs and estimated earnings during that period, LESS (b) the sum of (i) any decrease in that Person's accounts payable and accrued expenses during such period, (ii) any increase in that Person's Accounts and Inventory during such period, (iii) any extraordinary or non-cash income claimed by that Person during that period, (iv) any increase in that Person's costs and estimated earnings in excess of billings during that period, and (v) any decrease in that Person's billings in excess of costs and estimated earnings during that period, all determined on a consolidated basis in accordance with GAAP. For purposes of the foregoing, Inventory shall be valued on the basis of the cost or current market value, whichever is lower.

"BANK": First Bank, Harris and any Transferee which becomes a "Bank" hereunder by assignment in accordance with Section 9.6.

"BORROWER": As defined in the opening paragraph hereof.

"BORROWER LOAN DOCUMENTS": This Agreement and the Revolving Notes.

"BOARD": The Board of Governors of the Federal Reserve System or any successor thereto.

"BUSINESS DAY": Any day (other than a Saturday, Sunday or legal holiday in the State of Minnesota) on which national banks are permitted to be open in Minneapolis, Minnesota, and Chicago, Illinois.

"CAPITAL EXPENDITURES": For any period, the sum of all amounts that would, in accordance with GAAP, be included as additions to property, plant and

equipment on a consolidated statement of cash flows for the Borrower during such period, in respect of (a) the acquisition, construction, improvement, replacement or betterment of land, buildings, machinery, equipment or of any other fixed assets or leaseholds, (b) to the extent related to and not included

in (a) above, materials, contract labor (excluding expenditures properly chargeable to repairs or maintenance in accordance with GAAP), and (c) other capital expenditures and other uses recorded as capital expenditures or similar terms having substantially the same effect (including expenditures for nonrecurrent tangible assets such as software).

"CAPITALIZED LEASE": A lease of (or other agreement conveying the right to use) real or personal property with respect to which at least a portion of the rent or other amounts thereon constitute Capitalized Lease Obligations.

"CAPITALIZED LEASE OBLIGATIONS": As to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real or personal property which obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board) and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP (including such Statement No. 13).

"CD RATE": With respect to any CD Rate Advance for any Interest Period applicable thereto (a) the rate per annum for negotiable certificates of deposit having a maturity comparable to the Interest Period for the related CD Rate Advance as such rate is released by the Board as reported on page 120 (or other applicable page) of the Telerate Systems, Inc. screen under the heading "Certs of Deposit" on the first day of such Interest Period; but if by 10:00 A..M. (Minneapolis time) on such day no such rate is reported, then (b) the arithmetic average per annum dealer bid rate (rounded upward, if necessary, to the next higher one hundredth of one percent) determined by the Agent without mark-up on the basis of quotations received by the Agent from three certificate-of-deposit dealers of recognized standing (or if such quotations are unavailable, then on the basis of other sources reasonably selected by the Agent) as of such day for the purchase at face value of negotiable certificates of deposit of the Agent denominated in U.S. dollars having a maturity comparable to such Interest Period and in an amount approximately equal to the Advance of the Agent to which such Interest Period is to apply.

"CD RATE ADVANCE": An Advance with respect to which the interest rate is determined by reference to the Adjusted CD Rate.

"CLOSING DATE": October 28, 1994

"CODE": The Internal Revenue Code of 1986, as amended.

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"COMMERCIAL PAPER LETTER OF CREDIT": The Commercial Paper Letter of Credit issued by First Bank for the accounts of the Borrower and other Companies pursuant to the Commercial Paper Program.

"COMMERCIAL PAPER NOTE": A promissory note of the Borrower issued pursuant to the Commercial Paper Program.

"COMMERCIAL PAPER PROGRAM": The Midwest Commercial Paper-SM- I program of First Bank, as amended, supplemented and in effect from time to time.

"COMMERCIAL PAPER PROGRAM DOCUMENTS": Collectively, the Agreement to Add Additional Company, the Covenant Rider, the Placement Agent Letter Agreement, the Depositary Agreement dated as of February 1, 1989, between First Bank, Mitsubishi Bank Trust Company of New York, as Depositary, and certain Companies parties thereto, including the Borrower, the Letter of Credit Agreement dated as of February 1, 1989 between First Bank and said Companies, the Placement Agreement dated as of February 1, 1989 between First Bank and FBS Capital Markets Group as Placement Agent, and the Commercial Paper Letter of Credit, as said documents may be amended, supplemented, restated, extended or renewed from time to time, and any other documents related thereto.

"COMMERCIAL PAPER SUBLIMIT": With respect to a Bank, initially the amount set opposite such Bank's name on Exhibit 1.1A hereto as its Commercial Paper Sublimit, but as the same may be from time to time reduced pursuant to Section 2.12.

"CONTINGENT OBLIGATION": With respect to any Person at the time of any determination, without duplication, any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "primary obligor") in any manner, whether directly or otherwise: (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any direct or indirect security therefor, (b) to purchase property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness, (c) to maintain working capital, equity capital or other financial statement condition of the primary obligor so as to enable the primary obligor to pay such Indebtedness or otherwise to protect the owner thereof against loss in respect thereof, or (d) entered into for the purpose of assuring in any manner the owner of such Indebtedness of the payment of such Indebtedness or to protect the owner against loss in respect thereof; PROVIDED, that the term "Contingent Obligation" shall not include endorsements for collection or deposit, in each case in the ordinary course of business.

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"CONTRACT DEBT": With respect to any Person, (a) Indebtedness of that Person for borrowed money, (b) any other Indebtedness of that Person evidenced by notes, bonds, debentures, guaranties or similar obligations (including Capitalized Leases, Commercial Paper Notes and reimbursement obligations hereunder with respect to Standby Letters of Credit), and (c) any other Indebtedness of that Person that by its terms was not required to be paid in full within 60 days after it was incurred.

"CONTRACT DEBT PAYMENTS": With respect to a period of four successive fiscal quarters, the sum of (a) all payments of principal and interest actually paid by that Person during that period on Contract Debt, and (b) all Letter of Credit Fees actually paid by that Person during that period; PROVIDED, HOWEVER, that payment of the principal balance of any Revolving Note or any Commercial Paper Note shall not constitute a Contract Debt Payment for purposes of this Agreement.

"COVENANT RIDER": The Covenant Rider dated as of April 29, 1993 between the Borrower and First Bank, as the same may be amended, supplemented or restated from time to time.

"CURRENT ASSETS": As of any date, the consolidated current assets of the Borrower, determined in accordance with GAAP.

"CURRENT LIABILITIES": As of any date, the consolidated current liabilities of the Borrower, determined in accordance with GAAP.

"CURRENT RATIO": As of any determination, the ratio of (a) Current Assets to (b) Current Liabilities.

"DEBT SERVICE RATIO": As of the end of any fiscal quarter of the Borrower, the ratio of the Available Cash Flow of the Borrower and its Subsidiaries other than NFS during the period of four successive fiscal quarters ending on that quarter-end to the Contract Debt Payments of the Borrower and its Subsidiaries other than NFS during that four-quarter period, all determined on a consolidated basis.

"DEFAULT": Any event which, with the giving of notice (whether such notice is required under Section 7.1, or under some other provision of this Agreement, or otherwise) or lapse of time, or both, would constitute an Event of Default.

"DOLLARS" and "\$": Lawful money of the United States of America.

"DOMESTIC RESERVE PERCENTAGE": As of any day, that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board for determining the maximum reserve requirement (including without limitation any

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basic, supplemental or emergency reserves) for a member bank of the Federal Reserve System, with deposits comparable in amount to those held by the Agent, in respect of new non-personal time deposits in dollars having a maturity comparable to the related Interest Period and in an amount of \$100,000 or more. The rate of interest applicable to any outstanding CD Rate Advance shall be adjusted automatically on and as of the effective date of any change in the Domestic Reserve Percentage.

"ERISA": The Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATE": Any trade or business (whether or not incorporated) that is a member of a group of which the Borrower is a member and which is treated as a single employer under Section 414 of the Code.

"EURODOLLAR BUSINESS DAY": A Business Day which is also a day for trading by and between banks in United States dollar deposits in the interbank Eurodollar market and a day on which banks are open for business in New York City.

"EURODOLLAR RATE": With respect to each Interest Period applicable to a Eurodollar Rate Advance, (a) the per annum Eurodollar rate (LIBOR) for United States dollars displayed on the Telerate Systems, Inc. screen, page 3750 (or other applicable page), two Eurodollar Business Days prior to the first day of such Interest Period; but if by 10:00 A.M. (Minneapolis time) on such day no such rate is reported, then (b) the interest rate per annum (rounded upward, if necessary, to the next one-sixteenth of one percent) at which United States dollar deposits are offered to the Agent in the interbank Eurodollar market two Eurodollar Business Days prior to the first day of such Interest Period for delivery in Immediately Available Funds on the first day of such Interest Period and in an amount approximately equal to the Advance by the Agent to which such Interest Period is to apply as determined by the Agent and for a maturity comparable to the Interest Period.

"EURODOLLAR RATE ADVANCE": An Advance with respect to which the interest rate is determined by reference to the Adjusted Eurodollar Rate.

"EURODOLLAR RESERVE PERCENTAGE": As of any day, that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board for determining the maximum reserve requirement (including any basic, supplemental or emergency reserves) for a member bank of the Federal Reserve System, with deposits comparable in amount to those held by the Agent, in respect of "Eurocurrency Liabilities" as such term is defined in Regulation D of the Board. The rate of interest applicable to any outstanding Eurodollar Rate Advances shall be adjusted automatically on and as of the effective date of any change in the Eurodollar Reserve Percentage.

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"EVENT OF DEFAULT": Any event described in Section 7.1.

"EXISTING CREDIT AGREEMENT": As such term is defined in Recital A of this Agreement.

"EXISTING GUARANTIES": As such term is defined in Recital C of this Agreement.

"EXISTING REVOLVING NOTES": As such term is defined in Recital A of this Agreement.

"EXISTING SECURITY AGREEMENT": As such term is defined in Recital B of this Agreement.

"FEDERAL FUNDS RATE": For any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, PROVIDED that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day and (b) if such rate is not so published for any Business Day, the Federal Funds Rate for such Business Day shall be the average rate quoted to First Bank on such Business Day on such transactions as determined by the Agent.

"FIRST BANK": As such term is defined in opening paragraph of this Agreement.

"FIRST BANK FEES": As defined in Section 2.16 (b).

"FIRST BANK/NFS LOAN DOCUMENTS": Collectively, the Credit Agreement dated as of June 30, 1992 between NFS and First Bank and all other "Loan Documents" as defined therein, as amended and as any of said documents may be further amended, modified or supplemented from time to time.

"GAAP": Generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of any date of determination.

"GUARANTORS": As such term is defined in Recital C of this Agreement.

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"GUARANTY": A guaranty in the form of Exhibit 1.1B hereto.

"HARRIS": As such term is defined in the opening paragraph hereof.

"HOLDING ACCOUNT": A deposit account belonging to the Agent for the benefit of the Banks into which the Borrower may be required to make deposits pursuant to the provisions of this Agreement, such account to be under the sole dominion and control of the Agent and not subject to withdrawal by the Borrower, with any amounts therein to be held for application toward the repayment to

First Bank of any drawings made under the Commercial Paper Letter of Credit for payment of any outstanding Commercial Paper Notes and any drawings made under any Standby Letter of Credit. The Holding Account shall be a money market savings account or substantial equivalent (or other appropriate investment medium as the Borrower may from time to time request and to which the Agent in its sole discretion shall have consented) and shall bear interest in accordance with the terms of similar accounts held by the Agent for its customers.

"IMMEDIATELY AVAILABLE FUNDS": Federal funds or other immediately available funds.

"INDEBTEDNESS": With respect to any Person at the time of any determination, without duplication, all obligations, contingent or otherwise, of such Person which in accordance with GAAP should be classified upon the balance sheet of such Person as liabilities, but in any event including: (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid or accrued, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, (f) all obligations of others secured by any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all Capitalized Lease Obligations of such Person, (h) all obligations of such Person in respect of interest rate protection agreements, (i) all obligations of such Person, actual or contingent, as an account party in respect of letters of credit or bankers' acceptances, (j) all obligations of any partnership or joint venture as to which such Person is or may become personally liable, and (k) all Contingent Obligations of such Person to the extent that such Contingent Obligations are or should be classified as liabilities on the balance sheet of such Person in accordance with GAAP.

"INTEREST PERIOD": (a) With respect to each Eurodollar Rate Advance, the period commencing on the date of such Advance or on the last day of the immediately preceding Interest Period, if any, applicable to an outstanding Advance

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and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable notice of borrowing, continuation or conversion; PROVIDED THAT:

(i) Any Interest Period that would otherwise end on a day which is not a Eurodollar Business Day shall be extended to the next succeeding Eurodollar Business Day unless such Eurodollar Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Eurodollar Business Day;



(ii) Any Interest Period that begins on the last Eurodollar Business Day of a calendar month (or a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Eurodollar Business Day of a calendar month; and

(iii) No Interest Period may be selected that would end after the Revolving Commitment Ending Date,

(b) With respect to each CD Rate Advance, the period commencing on the date of such Advance or on the last day of the immediately preceding Interest Period, if any, applicable to an outstanding Advance and ending 30, 60, 90 or 180 days thereafter, as the Borrower may elect in the applicable notice of borrowing, continuation or conversion; PROVIDED THAT:

(i) Any Interest Period that would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day; and

(ii) No Interest Period may be selected that would end after the Revolving Commitment Ending Date.

"INVENTORY": With respect to any Person, goods held for sale or lease or to be furnished under contracts of service by such entity, raw materials, and work in process or materials used or consumed in the business of such Person.

"INVESTMENT": The acquisition, purchase, making or holding of any stock or other security, any loan, advance, contribution to capital, extension of credit (except for trade and customer accounts receivable for inventory sold or services rendered in the ordinary course of business and payable in accordance with customary trade terms), any acquisitions of real or personal property (other than real and personal property acquired in the ordinary course of business) and any purchase or commitment or option to purchase stock or other debt or equity securities of or any interest in another Person or any integral part of any business or the assets comprising such business or part thereof. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without

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any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment.

"LETTER OF CREDIT FEE": As defined in Section 2.14.

"LEVERAGE RATIO": At the time of any determination, the ratio of (a) Total Indebtedness to (b) Tangible Net Worth.

"LIEN": With respect to any Person, any security interest, mortgage, pledge, lien, charge, encumbrance, title retention agreement or analogous

instrument or device (including the interest of each lessor under any Capitalized Lease), in, of or on any assets or properties of such Person, now owned or hereafter acquired, whether arising by agreement or operation of law.

"LOAN DOCUMENTS": This Agreement, the Revolving Notes and the Guaranties.

"MAJORITY BANKS": At any time, Banks holding at least 100% of the aggregate unpaid principal amount of the Revolving Notes or, if no Revolving Loans are at the time outstanding hereunder, Banks holding at least 100% of the Aggregate Revolving Commitment Amounts.

"MULTIEMPLOYER PLAN": A multiemployer plan, as such term is defined in Section 4001 (a) (3) of ERISA, which is maintained (on the Closing Date, within the five years preceding the Closing Date, or at any time after the Closing Date) for employees of the Borrower or any ERISA Affiliate.

"NFS": As such term is defined in Recital C of this Agreement.

"NFS LEASE ACCOUNT": An Account arising from a lease of Inventory by NFS.

"NFS TANGIBLE NET WORTH": As of any date of determination, the sum of the amounts set forth (or that, in accordance with GAAP, would be set forth) on the balance sheet of NFS as the sum of the common stock, preferred stock, additional paid-in capital and retained earnings of NFS (excluding treasury stock), LESS the book value of all assets of NFS that would be treated as intangibles under GAAP, including all such items as goodwill, trademarks, trade names, service marks, copyrights, patents, licenses, unamortized debt discount and expenses and the excess of the purchase price of the assets of any business acquired by NFS over the book value of such assets.

"NFS TOTAL GROSS INVESTMENT": As of any date of determination, NFS's total gross investment in Accounts, including those for which NFS has established a specific reserve.

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"NFS TOTAL RESERVE": As of any date of determination, the total amount reserved by NFS to cover unpaid Accounts, including amounts reserved to cover specific unpaid Accounts.

"NFS TOTAL SENIOR DEBT": As of any date of determination, all Indebtedness of NFS other than Subordinated Debt of NFS.

"NORSTAN CANADA": As such term is defined in Recital C of this Agreement.

"NORSTAN CANADA LEASE ACCOUNT": An Account arising from a lease of Inventory by Norstan Canada.

"OBLIGATIONS": The Borrower's obligations in respect of the due and punctual payment of principal and interest (including, without limitation and to the extent permitted by law, interest accruing after the commencement of a case by or against the Borrower under the Bankruptcy Code (Title 11 of the United States Code)) on the Revolving Notes and Unpaid Drawings when and as due, whether by acceleration or otherwise and all fees (including Unused Revolving Commitment Fees and Letter of Credit fees), expenses, indemnities, reimbursement and other obligations of the Borrower under this Agreement, any other Borrower Loan Document, the Commercial Paper Program Documents and any letter of credit application and reimbursement agreement executed and delivered by the Borrower to First Bank in connection with the issuance of a Standby Letter of Credit as provided in Section 2.9A, in all cases whether now existing or hereafter arising or incurred.

"OTHER REVOLVING LOAN": As defined in Section 2.1.

"PBGC": The Pension Benefit Guaranty Corporation, established pursuant to Subtitle A of Title IV of ERISA, and any successor thereto or to the functions thereof.

"PERSON": Any natural person, corporation, partnership, joint venture, firm, association, trust, unincorporated organization, government or governmental agency or political subdivision or any other entity, whether acting in an individual, fiduciary or other capacity.

"PLACEMENT AGENT FEES": As defined in Section 2.16 (c).

"PLACEMENT AGENT LETTER AGREEMENT": The letter agreement dated April 29, 1993 between the Borrower and the FBS Capital Markets Group, a division of First Bank, as Placement Agent, as the same may be amended, modified or restated from time to time.

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"PLAN": Each employee benefit plan (whether in existence on the Closing Date or thereafter instituted), as such term is defined in Section 3 of ERISA, maintained for the benefit of employees, officers or directors of the Borrower or of any ERISA Affiliate.

"PROHIBITED TRANSACTION": The respective meanings assigned to such term in Section 4975 of the Code and Section 406 of ERISA.

"PROPERTIES": Any right or interest in or to property of any kind, whether real, personal or mixed and whether tangible or intangible.

"REFERENCE RATE": The rate of interest from time to time publicly announced by the Agent as its "reference rate." The Agent may lend to its customers at rates that are at, above or below the Reference Rate. For purposes of determining any interest rate hereunder or under any other Loan Document

which is based on the Reference Rate, such interest rate shall change as and when the Reference Rate shall change.

"REFERENCE RATE ADVANCE": An Advance with respect to which the interest rate prior to maturity is determined by reference to the Reference Rate.

"REGULATORY CHANGE": Any change after the Closing Date in federal, state or foreign laws, regulations, guidelines or orders or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks including any Bank under any federal, state or foreign laws, regulations, guidelines or orders (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"REPORTABLE EVENT": A reportable event as defined in Section 4043 of ERISA and the regulations issued under such Section, with respect to a Plan, excluding, however, such events as to which the PBGC by regulation has waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, PROVIDED that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waivers in accordance with Section 412(d) of the Code.

"RESTRICTED PAYMENTS": With respect to the Borrower, collectively, all dividends or other distributions of any nature (cash, securities other than common stock of the Borrower, assets or otherwise), and all payments on any class of equity securities (including warrants, options or rights therefor) issued by the Borrower, whether such securities are authorized or outstanding on the Closing Date or at any

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time thereafter and any redemption or purchase of, or distribution in respect of, any of the foregoing, whether directly or indirectly.

"REVOLVING COMMITMENT": With respect to a Bank, the agreement of such Bank to make Revolving Loans to the Borrower in an aggregate principal amount outstanding at any time not to exceed such Bank's Revolving Commitment Amount upon the terms and subject to the conditions and limitations of this Agreement.

"REVOLVING COMMITMENT AMOUNT": With respect to a Bank, initially the amount set opposite such Bank's name on Exhibit 1.1A hereto as its Revolving Commitment Amount, but as the same may be from time to time reduced as provided in Exhibit 1.1A and in Section 2.12.

"REVOLVING COMMITMENT ENDING DATE": As defined in Section 2.18.

"REVOLVING COMMITMENT PERCENTAGE": With respect to any Bank, the percentage equivalent of a fraction, the numerator of which is the Revolving

Commitment Amount of such Bank and the denominator of which is the Aggregate Revolving Commitment Amounts.

"REVOLVING LOAN": As defined in Section 2.1.

"REVOLVING LOAN DATE": The date of the making of any Revolving Loans hereunder.

"REVOLVING NOTE": A promissory note of the Borrower in the form of Exhibit 1.1C hereto.

"REVOLVING OUTSTANDINGS": As of any date of determination with respect to any Bank, the sum of (a) the aggregate unpaid principal balance of Advances outstanding under such Bank's Note on such date, (b) an amount equal to the aggregate amount of Commercial Paper Notes outstanding on such date (including any Commercial Paper Notes issued prior to the Effective Date which are outstanding on such date) multiplied by such Bank's Revolving Commitment Percentage, (c) an amount equal to the aggregate stated amount of Standby Letters of Credit outstanding on such date (including any Standby Letters of Credit issued prior to the Effective Date which are outstanding on such date) multiplied by such Bank's Revolving Commitment Percentage, and (d) an amount equal to the aggregate amount of Unpaid Drawings on such date (after applying any funds held in the Holding Account to the payment thereof) multiplied by such Bank's Revolving Commitment Percentage.

"REVOLVING OUTSTANDINGS PERCENTAGE": As of any date of determination with respect to any Bank, the percentage equivalent of a fraction the numerator of

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which is the Revolving Outstandings of such Bank on such date and the denominator of which is the Aggregate Revolving Outstandings on such date.

"STANDBY LETTER OF CREDIT": A standby letter of credit issued by First Bank for the account of the Borrower pursuant to Sections 2.8A, 2.9A and 2.10A of this Agreement.

"STANDBY LETTER OF CREDIT SUBLIMIT": With respect to a Bank, initially the amount set opposite such Bank's name on Exhibit 1.1A hereto as its Standby Letter of Credit Sublimit, but as the same may be from time to time reduced pursuant to Section 2.12.

"SUBORDINATED DEBT": Any Indebtedness of the Borrower or any Subsidiary, now existing or hereafter created, incurred or arising, which is subordinated in right of payment to the payment of the Obligations in a manner and to an extent (a) that Majority Banks have approved in writing prior to the creation of such Indebtedness, or (b) as to any Indebtedness of the Borrower or any Subsidiary existing on the date of this Agreement, that Majority Banks have approved as Subordinated Debt in a writing delivered by Majority Banks to the Borrower on or prior to the Closing Date.

"SUBSIDIARY": Any corporation or other entity of which securities or other ownership interests having ordinary voting power for the election of a majority of the board of directors or other Persons performing similar functions are owned by the Borrower either directly or through one or more Subsidiaries.

"TANGIBLE NET WORTH": As of any date of determination, the sum of the amounts set forth on the consolidated balance sheet of the Borrower as the sum of the common stock, preferred stock, additional paid-in capital, retained earnings, unamortized cost of stock and foreign currency translation adjustments of the Borrower (excluding treasury stock), LESS the book value of all assets of the Borrower and its Subsidiaries that would be treated as intangibles under GAAP, including all such items as goodwill, trademarks, trade names, service marks, copyrights, patents, licenses, unamortized debt discount and expenses and the excess of the purchase price of the assets of any business acquired by the Borrower or any of its Subsidiaries over the book value of such assets.

"TERMINATION DATE": The earliest of (a) the Revolving Commitment Ending Date, (b) the date on which the Revolving Commitments are terminated pursuant to Section 7.2 hereof or (c) the date on which the Revolving Commitment Amounts are reduced to zero pursuant to Section 2.12 hereof.

"TOTAL INDEBTEDNESS": At the time of any determination, the amount, on a consolidated basis, of all Indebtedness of the Borrower and its Subsidiaries as determined in accordance with GAAP.

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"UNPAID DRAWING": As defined in Section 2.11.

"UNPAID DRAWING REPAYMENT LOAN": As defined in Section 2.1.

"UNUSED REVOLVING COMMITMENT": With respect to any Bank as of any date of determination, the amount by which such Bank's Revolving Commitment Amount exceeds such Bank's Revolving Outstandings on such date.

"UNUSED REVOLVING COMMITMENT FEES": As defined in Section 2.13.

Section 1.2 ACCOUNTING TERMS AND CALCULATIONS. Except as may be expressly provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with GAAP. To the extent any change in GAAP affects any computation or determination required to be made pursuant to this Agreement, such computation or determination shall be made as if such change in GAAP had not occurred unless the Borrower and Majority Banks agree in writing on an adjustment to such computation or determination to account for such change in GAAP.

Section 1.3 COMPUTATION OF TIME PERIODS. In this Agreement, in the computation of a period of time from a specified date to a later specified date,

unless otherwise stated the word "from" means "from and including" and the word "to" or "until" each means "to but excluding".

Section 1.4 OTHER DEFINITIONAL TERMS. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. References to Sections, Exhibits, schedules and like references are to this Agreement unless otherwise expressly provided. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". Unless the context in which used herein otherwise clearly requires, "or" has the inclusive meaning represented by the phrase "and/or".

## ARTICLE II

### TERMS OF THE CREDIT FACILITIES

#### PART A -- TERMS OF LENDING

Section 2.1 THE REVOLVING COMMITMENTS; PURPOSES. On the terms and subject to the conditions hereof, each Bank severally agrees to make loans (each, a "Revolving Loan" and, collectively, the "Revolving Loans") to the Borrower on a revolving basis at any time and from time to time from the Closing Date to the

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Termination Date, during which period the Borrower may borrow, repay and reborrow in accordance with the provisions hereof, PROVIDED, that no Revolving Loan will be made in any amount which, after giving effect thereto, would cause the Aggregate Revolving Outstandings to exceed the Aggregate Revolving Commitment Amounts. Revolving Loans hereunder shall be made by the several Banks ratably in the proportion of their respective Revolving Commitment Amounts. Revolving Loans may be obtained and maintained, at the election of the Borrower but subject to the limitations hereof, as Reference Rate Advances, Eurodollar Rate Advances or CD Rate Advances or any combination thereof. The proceeds of the Revolving Loans shall be used for (i) repayment to First Bank of Unpaid Drawings (any such Revolving Loan being also referred to herein as an "Unpaid Drawing Repayment Loan") and (ii) other general corporate purposes of the Borrower, including, without limitation, repayment of Indebtedness of the Borrower to First Bank described in Exhibit 6.11 hereto (any such Revolving Loan being also referred to herein as an "Other Revolving Loan").

#### Section 2.2 PROCEDURE FOR REVOLVING LOANS.

2.2 (a) Any request by the Borrower for Revolving Loans hereunder shall be in writing, or by telephone promptly confirmed in writing or by facsimile transmission, and must be given so as to be received by the Agent not later than 12:00 noon (Minneapolis time) three Eurodollar Business Days prior to the requested Revolving Loan Date (which shall be a Eurodollar Business

Day) if the Revolving Loans are requested as Eurodollar Rate Advances and not later than 12:00 noon (Minneapolis time) on the requested Revolving Loan Date (which shall be a Business Day) if the Revolving Loans are requested as CD Rate Advances or Reference Rate Advances. Each request for Revolving Loans hereunder shall be irrevocable and shall be deemed a representation by the Borrower that on the requested Revolving Loan Date and after giving effect to the requested Revolving Loans the applicable conditions specified in Article III have been and will be satisfied. Each request for Revolving Loans hereunder shall specify (i) the requested Revolving Loan Date, (ii) the aggregate amount of Revolving Loans to be made on such date, which shall be in a minimum amount of \$300,000 (\$200,000, in the case of a Revolving Loan which is to be funded as a Reference Rate Advance) or, if more, an integral multiple of \$100,000, (iii) whether such Revolving Loans are to be funded as Reference Rate Advances, Eurodollar Rate Advances or CD Rate Advances, (iv) in the case of CD Rate Advances and Eurodollar Rate Advances, the duration of the initial Interest Period applicable thereto, and (v) if such Revolving Loans are to be Unpaid Drawing Repayment Loans, the Unpaid Drawing or Unpaid Drawings which are to be repaid with the proceeds of such Unpaid Drawing Repayment Loans. Without in any way limiting the Borrower's obligation to confirm in writing any telephone request for Revolving Loans hereunder, the Agent may rely on any such request which it believes in good faith to be genuine; and the Borrower hereby waives the right to dispute the Agent's record of the terms of such telephone request, absent gross negligence or willful misconduct on the part

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of the Agent. The Agent shall promptly notify each other Bank of the receipt of such request, the matters specified therein, and of such Bank's ratable share (based on such Bank's Revolving Commitment Percentage) of the requested Revolving Loans. On the date of the requested Revolving Loans, each Bank shall provide its share of the requested Revolving Loans to the Agent in Immediately Available Funds not later than 4:00 P.M., Minneapolis time. Unless the Agent determines that any applicable condition specified in Article III has not been satisfied, the Agent will make available to the Borrower at the Agent's principal office in Minneapolis, Minnesota in Immediately Available Funds not later than 5:00 P.M. (Minneapolis time) on the requested Revolving Loan Date the amount of the requested Revolving Loans. If the Agent has made a Revolving Loan to the Borrower on behalf of a Bank but has not received the amount of such Revolving Loan from such Bank by the time herein required, such Bank shall pay interest to the Agent on the amount so advanced at the Federal Funds Rate from the date of such Revolving Loan to the date funds are received by the Agent from such Bank, such interest to be payable with such remittance from such Bank of the principal amount of such Revolving Loan (provided, however, that the Agent shall not make any Revolving Loan on behalf of a Bank if the Agent has received prior notice from such Bank that it will not make such Revolving Loan). If the Agent does not receive payment from such Bank by the next Business Day after the date of any Revolving Loan, the Agent shall be entitled to recover such Revolving Loan, with interest thereon at the rate then applicable to such Revolving Loan, on demand, from the Borrower, without prejudice to the Agent's and the Borrower's rights against such Bank. If such Bank pays the Agent the



amount herein required with interest at the overnight Federal Funds rate before the Agent has recovered from the Borrower, such Bank shall be entitled to the interest payable by the Borrower with respect to the Revolving Loan in question accruing from the date the Agent made such Revolving Loan. The Borrower shall provide to the Agent each Business Day, by not later than 4:00 P.M. (Minneapolis time) on such Business Day, a reconciliation in writing or by telecopier showing (i) the total amount of Revolving Loans on such day, (ii) whether such Revolving Loans constituted Unpaid Drawing Repayment Loans or the Other Revolving Loans and the amounts thereof, and (iii) in the case of Unpaid Drawing Repayment Loans, the Unpaid Drawing or Unpaid Drawings repaid with the proceeds of such Unpaid Drawing Repayment Loans. The Agent shall provide copies of such reconciliation to the Banks on a monthly basis.

2.2 (b) Whenever any Unpaid Drawing exists for which there are not then funds in the Holding Account to cover the same and with respect to which the Agent has not otherwise received a request from the Borrower for Unpaid Drawing Repayment Loans pursuant to Section 2.2(a), the Borrower shall nevertheless, be deemed to have requested the Banks to make Unpaid Drawing Repayment Loans to pay such Unpaid Drawing and the Agent shall give the other Banks notice to that effect, specifying the amount of such Unpaid Drawing and the amount of the Unpaid Drawing Repayment Loan to be made by such Bank with respect thereto, in which event each Bank is authorized (and the Borrower does

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here so authorize each Bank) to, and shall, make an Unpaid Drawing Repayment Loan (as a Reference Rate Advance) to the Borrower in an amount equal to such Bank's Revolving Commitment Percentage of the balance of the Unpaid Drawing which remains unpaid after applying any funds in the Holding Account to the payment thereof. The Agent shall notify each Bank by 1:00 P.M. (Minneapolis time) on the date such Unpaid Drawing occurs of the amount of the Unpaid Drawing Repayment Loan to be made by such Bank. Notices received after such time shall be deemed to have been received on the next Business Day. Each Bank shall then make such Unpaid Drawing Repayment Loan (regardless of noncompliance with the applicable conditions precedent specified in Article III hereof and regardless of whether an Event of Default then exists) and each Bank shall provide the Agent with the proceeds of such Unpaid Drawing Repayment Loan in Immediately Available Funds, at the office of the Agent, not later than 4:00 P.M.

(Minneapolis time) on the day on which such Bank received such notice (or, in the case of notices received after 1:00 P.M., Minneapolis time, is deemed to have received such notice). The Agent shall apply the proceeds of such Unpaid Drawing Repayment Loans directly to reimburse itself for such Unpaid Drawing. If any portion of any such amount paid to the Agent is recovered by or on behalf of the Borrower from the Agent in bankruptcy, by assignment for the benefit of creditors or otherwise, the loss of the amount so recovered shall be ratably shared between and among the Banks in the manner contemplated by Section 8.11 hereof. If at the time the Banks make funds available to the Agent pursuant to the provisions of this Section, the applicable conditions precedent specified in Article III shall not have been satisfied, the Borrower shall pay to the Agent for the account of the Banks interest on the funds so advanced at a floating

rate per annum equal to the sum of the Reference Rate plus the Applicable Margin for Reference Rate Advances plus one percent (1.00%).

Section 2.3 REVOLVING NOTES. The Revolving Loans and Advances of each Bank shall be evidenced by a single Revolving Note payable to the order of such Bank in a principal amount equal to such Bank's Revolving Commitment Amount originally in effect. Upon receipt of each Bank's Revolving Note from the Borrower, the Agent shall mail such Revolving Note to such Bank. Each Bank shall enter in its ledgers and records the amount of each Revolving Loan, the various Advances made, converted or continued and the payments made thereon, and each Bank is authorized by the Borrower to enter on a schedule attached to its Revolving Note a record of such Revolving Loans, Advances and payments; provided, however that the failure by any Bank to make any such entry or any error in making such entry shall not limit or otherwise affect the obligation of the Borrower hereunder and on the Revolving Notes, and, in all events, the principal amounts owing by the Borrower in respect of the Revolving Notes shall be the aggregate amount of all Revolving Loans made by the Banks less all payments of principal thereof made by the Borrower.

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Section 2.4 CONVERSIONS AND CONTINUATIONS. On the terms and subject to the limitations hereof, the Borrower shall have the option at any time and from time to time to convert all or any portion of the Advances into Reference Rate Advances, Eurodollar Rate Advances or CD Rate Advances, or to continue a Eurodollar Rate Advance or CD Rate Advance as such; provided, however that a Eurodollar Rate Advance or a CD Rate Advance may be converted or continued only on the last day of the Interest Period applicable thereto and no Advance may be converted to or continued as a Eurodollar Rate Advance or a CD Rate Advance if a Default or an Event of Default has occurred and is continuing on the proposed date of continuation or conversion. Advances may be converted to, or continued as, Eurodollar Rate Advances or CD Rate Advances only in an amount, as to the aggregate amount of the Advances of all Banks so converted or continued, equal to \$300,000 or an integral multiple of \$100,000 in excess thereof. The Borrower shall give the Agent written notice of any continuation or conversion of any Advances and such notice must be given so as to be received by the Agent not later than 12:30 P.M. (Minneapolis time) three Eurodollar Business Days prior to the date of the requested date of conversion or continuation in the case of the continuation of, or conversion to, Eurodollar Rate Advances and not later than 12:30 p.m. (Minneapolis time) on the date of the requested continuation of CD Rate Advances or conversion to CD Rate Advances or Reference Rate Advances. Each such notice shall specify (a) the amount to be continued or converted, (b) the date for the continuation or conversion (which must be (i) the last day of the current Interest Period for any continuation or conversion of Eurodollar Rate Advances or CD Rate Advances, (ii) a Eurodollar Business Day in the case of conversions to or continuations as Eurodollar Rate Advances, and (iii) a Business Day in the case of continuations as CD Rate Advances or conversions to CD Rate Advances or Reference Rate Advances), and (c) in the case of conversions to or continuations as Eurodollar Rate Advances or CD Rate Advances, the Interest Period applicable thereto. Any notice given by the Borrower under this

Section shall be irrevocable. If the Borrower shall fail to notify the Agent of the continuation of any Eurodollar Rate Advance or CD Rate Advances within the time required by this Section, such Advances shall, on the last day of the Interest Period applicable thereto, automatically be converted into Reference Rate Advances of the same principal amount. All conversions and continuation of specific Advances must be made uniformly and ratably among the Banks. (E.G., when converting a 60-day CD Rate Advance of one Bank to a three-month Eurodollar Rate Advance, the Borrower must simultaneously convert all 60-day CD Rate Advances of all Banks having Interest Periods ending on the date of conversion into three-month Eurodollar Rate Advances.)

Section 2.5 INTEREST RATES, INTEREST PAYMENTS AND DEFAULT INTEREST.  
Interest shall accrue and be payable on the Advances as follows:

2.5 (a) Each Eurodollar Rate Advance shall bear interest on the unpaid principal amount thereof during the Interest Period applicable thereto at a

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rate per annum equal to the sum of (i) the Adjusted Eurodollar Rate for such Interest Period, plus (ii) the Applicable Margin

2.5 (b) Each CD Rate Advance shall bear interest on the unpaid principal amount thereof during the Interest Period applicable thereto at a rate per annum equal to the sum of (i) the Adjusted CD Rate for such Interest Period, plus (ii) the Applicable Margin.

2.5 (c) Each Reference Rate Advance shall bear interest on the unpaid principal amount thereof at a varying rate per annum equal to the sum of (i) the Reference Rate, plus (ii) the Applicable Margin.

2.5 (d) Any Advance not paid when due, whether at the date scheduled therefor or earlier upon acceleration, shall bear interest until paid in full (i) during the balance of any Interest Period applicable to such Advance, at a rate per annum equal to the sum of the rate applicable to such Advance during such Interest Period plus 1.0%, and (ii) otherwise, at a rate per annum equal to the sum of (A) the Reference Rate, plus (B) the Applicable Margin for Reference Rate Advances, plus (C) 1.0%.

2.5 (e) Interest shall be payable (i) with respect to each Eurodollar Rate Advance having an Interest Period of three months or less and any CD Rate Advance having an Interest Period of 90 days or less, on the last day of the Interest Period applicable thereto; (ii) with respect to any Eurodollar Rate Advance having an Interest Period greater than three months and any CD Rate Advance having an Interest Period greater than 90 days, on the last day of the Interest Period applicable thereto and on each day that would have been the last day of the Interest Period for such Advance if such Advance had successive Interest Periods of three months duration or 90 days duration, as the

case may be; (iii) with respect to any Reference Rate Advance, on the last day of each month; (iv) with respect to any Eurodollar Rate Advance or CD Rate Advance, upon any permitted prepayment (on the amount prepaid); and (v) with respect to all Advances, on the Termination Date; PROVIDED, that interest under Section 2.5 (d) shall be payable on demand.

Section 2.6 REPAYMENT. The unpaid principal amount of all Advances, together with all accrued and unpaid interest thereon, shall be due and payable on the Termination Date. In addition, if at any time the Aggregate Revolving Outstandings exceeds the Aggregate Revolving Commitment Amounts, the Borrower shall prepay the Revolving Notes in an aggregate amount equal to such excess, which prepayment shall be apportioned among the Bank's Revolving Notes in accordance with their respective Revolving Outstandings Percentages.

Section 2.7 OPTIONAL PREPAYMENTS. The Borrower may prepay Reference Rate Advances, in whole or in part, at any time, without premium or penalty. Except upon an acceleration following an Event of Default or upon

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termination of the Revolving Commitments in whole, the Borrower may pay Eurodollar Rate Advances and CD Rate Advances only on the last day of the Interest Period applicable thereto. Any such prepayment must, in the case of a Eurodollar Rate Advance or a CD Rate Advance, be accompanied by accrued and unpaid interest on the amount prepaid. Each prepayment shall be in an aggregate amount for all the Banks of \$300,000 (\$200,000, in the case of a Reference Rate Advance) or an integral multiple of \$100,000 in excess thereof. Amounts paid (unless following an acceleration or upon termination of the Revolving Commitments in whole) or prepaid on Advances under this Section 2.7 may be reborrowed upon the terms and subject to the conditions and limitations of this Agreement. Amounts paid or prepaid on the Advances under this Section 2.7 shall be for the account of each Bank in proportion to its share of outstanding Revolving Loans.

PART B -- TERMS OF THE COMMERCIAL PAPER FACILITY  
AND STANDBY LETTER OF CREDIT FACILITY

Section 2.8 BORROWER'S PARTICIPATION IN COMMERCIAL PAPER PROGRAM. The Borrower and First Bank will enter into such agreements and execute such other documents as are necessary for the Borrower to be included as a "Company" under the Commercial Paper Program Documents and to issue Commercial Paper Notes thereunder; PROVIDED, HOWEVER, that:

(a) No Commercial Paper Note shall be issued by the Company in any amount which, after giving effect thereto, would cause either (i) the Aggregate Revolving Outstandings to exceed the Aggregate Revolving Commitment Amounts or (ii) the sum of the Unpaid Drawings under the Commercial Paper Letter of Credit plus the aggregate face amount of all outstanding Commercial Paper Notes (including such Commercial Paper Note)

to exceed the Aggregate Commercial Paper Sublimits;

(b) No Commercial Paper Note shall have an original principal amount of less than \$300,000; and

(c) No Commercial Paper Note shall mature later than the earlier of (i) 270 days from the date of issuance thereof and (ii) the Business Day preceding the Revolving Commitment Ending Date.

Section 2.8A STANDBY LETTERS OF CREDIT. Upon the terms and subject to the conditions of this Agreement, the Agent agrees to issue Standby Letters of Credit for the account of the Borrower from time to time prior to the Termination Date in such amounts as the Borrower shall request up to an aggregate amount at any time outstanding not exceeding the Aggregate Revolving Commitment Amounts; PROVIDED, HOWEVER, that:

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(a) No Standby Letter of Credit will be issued in any amount which, after giving effect to such issuance, would cause either (i) the Aggregate Revolving Outstandings to exceed the Aggregate Revolving Commitment Amounts or (ii) the sum of the Unpaid Drawings under the Standby Letters of Credit plus the aggregate amount available to be drawn under the Standby Letters of Credit (including such Standby Letter of Credit) to exceed the Aggregate Standby Letter of Credit Sublimits;

(b) No Standby Letter of Credit shall have a stated available amount of less than \$50,000; and

(c) No Standby Letter of Credit shall expire later than the earlier of (i) 365 days after the date of issuance thereof and (b) the Business Day preceding the Revolving Commitment Ending Date.

Section 2.9 PROCEDURES FOR ISSUANCE OF COMMERCIAL PAPER NOTES. The procedures for the issuance of Commercial Paper Notes shall be as set forth in the Commercial Paper Program Documents.

Section 2.9A PROCEDURES FOR STANDBY LETTERS OF CREDIT. Each request for a Standby Letter of Credit shall be made by the Borrower in writing, by telex, facsimile transmission or electronic conveyance received by the Agent by 2:00 P.M., Minneapolis time, on a Business Day which is not less than one Business Day preceding the requested date of issuance (which shall also be a Business Day). Each request for a Standby Letter of Credit shall be deemed a representation by the Borrower that on the date of issuance of such Standby Letter of Credit and after giving effect thereto the applicable conditions specified in Article III have been and will be satisfied. The Agent may require that such request be made on such letter of credit application and reimbursement agreement form as the Agent may from time to time specify, along with satisfactory evidence of the authority and incumbency of the officers of the

Borrower making such request. The Agent shall promptly notify the other Banks of the receipt of the request and the matters specified therein. On the date of each issuance of a Standby Letter of Credit the Agent shall send notice to the other Banks of such issuance, accompanied by a copy of the Standby Letter or Letters of Credit so issued.

Section 2.10 TERMS OF COMMERCIAL PAPER NOTES. The terms of the Commercial Paper Notes shall be as set forth in the Commercial Paper Program Documents.

Section 2.10A TERMS OF STANDBY LETTERS OF CREDIT. Standby Letters of Credit shall be issued in support of obligations of the Borrower and the Subsidiaries.

Section 2.11 REPAYMENT OF COMMERCIAL PAPER LETTER OF CREDIT AND STANDBY LETTER OF CREDIT DRAWINGS; BANK PARTICIPATIONS.

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2.11 (a) REPAYMENT. In the event of a drawing under the Commercial Paper Letter of Credit to pay any amount due under any Commercial Paper Note, the Borrower shall be obligated to reimburse First Bank for such drawing in accordance with the Commercial Paper Program Documents, and in the event of any drawing on a Standby Letter of Credit, the Borrower shall reimburse First Bank for such drawing by 12:00 noon (Minneapolis time) on the day such drawing is honored by First Bank. Any amount by which the Borrower has failed to reimburse First Bank for the full amount of such drawing under the Commercial Paper Letter of Credit or any Standby Letter of Credit by 12:00 noon (Minneapolis time) on the date First Bank honored such drawing, until reimbursed from the proceeds of Unpaid Drawing Repayment Loans or out of funds available in the Holding Account, is an "Unpaid Drawing."

2.11 (b) PARTICIPATIONS. Each Bank hereby purchases, and First Bank hereby sells to each Bank, an undivided fractional risk participation interest, equal to such Bank's Revolving Percentage, in First Bank's obligations with respect to that portion of the Commercial Paper Letter of Credit which is available to be drawn in respect of Commercial Paper Notes, in each Standby Letter of Credit, in all drawings (including Unpaid Drawings) made and honored under the Commercial Paper Letter of Credit with respect to the Commercial Paper Notes issued by the Borrower under the Commercial Paper Program, in all drawings (including Unpaid Drawings) made and honored under any Standby Letters of Credit, in First Bank's reimbursement rights with respect to drawings (including Unpaid Drawings) made and honored under the Commercial Paper Letter of Credit (as set forth in the Commercial Paper Program Documents), and in First Bank's reimbursement rights with respect to drawings (including Unpaid Drawings) made and honored under any Standby Letter of Credit (as set forth herein and in any letter of credit application and reimbursement agreement form executed by the Borrower in favor of First Bank in connection with the issuance of such Standby Letter of Credit). Upon receipt of the notice given by the Agent pursuant to

Section 2.2(b) hereof, each Bank shall pay to First Bank its pro rata share, based on its Revolving Commitment Percentage, of any Unpaid Drawing, less the amount, if any, of the Unpaid Drawing Repayment Loan made by such Bank with respect to such Unpaid Drawing, by not later than 3:00 p.m. (Minneapolis time) on the day on which such Bank received such notice (or, in the case of notices received after 1:00 p.m., Minneapolis time, is deemed to have received such notice). If First Bank has not received such participation payment from such Bank by the time required in the preceding sentence such Bank shall pay interest to First Bank at the Federal Funds Rate on the amount of such participation payment from the date on which such notice was received or was deemed to have been received, as the case may be, to the date such participation payment is received by First Bank, such interest to be payable with the remittance of such participation payment by such Bank. If First Bank does not receive such participation payment from such Bank by the next Business Day after the date such notice was given (or was deemed given) by First Bank to such Bank, First Bank shall

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be entitled to receive interest on such participation payment at the Federal Funds Rate, without prejudice to First Bank's rights against such Bank. The obligations of each Bank to make payment to First Bank of such Bank's participation payments with respect to Unpaid Drawings pursuant to this Section 2.11(b), and First Bank's right to receive the same, shall be absolute and unconditional under any and all circumstances and irrespective of any rights of setoff, counterclaim, withholding, reduction or other defense to payment which any Bank may have or have had against First Bank, the Borrower or any other Person.

2.11 (c) INDEMNIFICATION OF FIRST BANK. To the extent that First Bank is not reimbursed or indemnified by the Borrower or to the extent that any amounts so received by First Bank are required to be returned to the Borrower or any statutory representative of the Borrower for any reason whatsoever, each other Bank will reimburse and indemnify First Bank on demand for and against its pro rata share, based on its Revolving Commitment Percentage, of the amount of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed upon, incurred by or asserted against First Bank in its capacity as such, acting pursuant hereto or in any way relating to or arising out of this Agreement, the Commercial Paper Letter of Credit, the Standby Letters of Credit, or any action taken or omitted to be taken by First Bank under this Agreement, the Commercial Paper Letter of Credit or the Standby Letters of Credit, including, without limitation, any amounts (herein called "DISGORGEMENT AMOUNTS") received by First Bank from or on behalf of the Borrower in reimbursement of an Unpaid Drawing which are rescinded in whole or in part or which First Bank may be otherwise required to pay or repay in whole or in part to the Borrower, any statutory representative of the Borrower or creditors of the Borrower acting as such statutory representative; PROVIDED, HOWEVER, that except with respect to Disgorgement Amounts, as to which

the liability of each Bank to reimbursement and indemnify First Bank in accordance with its Revolving Commitment Percentage shall be absolute and unconditional under all circumstances whatsoever, no other Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from First Bank's own gross negligence or willful misconduct. The obligations of the Banks to First Bank under this Section 2.11(c) shall survive the termination of this Agreement and the expiration of the Letter or Credit and the Standby Letters of Credit. Nothing in this Section 2.11(c) shall be deemed to prejudice the right of any Bank to recover from First Bank any amounts paid by such Bank to First Bank pursuant to this Section 2.11(c) in the event that it is determined by a court of competent jurisdiction that the payment with respect to the Commercial Paper Letter of Credit or any Standby Letter of Credit by First Bank, in respect of which payment was made by such Bank, constituted gross negligence or willful misconduct on the part of First Bank.

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#### PART C -- GENERAL

Section 2.12 OPTIONAL REDUCTION OF REVOLVING COMMITMENT AMOUNTS OR TERMINATION OF REVOLVING COMMITMENTS. The Borrower may, at any time, upon not less than three Business Days prior written notice to the Agent, reduce the Revolving Commitment Amounts, ratably, with any such reduction in a minimum aggregate amount for all the Banks of \$1,000,000, or, if more, in an integral multiple of \$500,000; PROVIDED, HOWEVER, that the Borrower may not at any time reduce the Aggregate Revolving Commitment Amounts below the Aggregate Revolving Outstandings. If the Revolving Commitment Amounts are reduced to amounts less than the Commercial Paper Sublimits and/or the Standby Letter of Credit Sublimits, then each such Sublimit of each Bank shall be reduced to such lesser Revolving Commitment Amount of such Bank. The Borrower may, at any time when there are no Commercial Paper Notes or Standby Letters of Credit outstanding, upon not less than three Business Days prior written notice to the Agent, terminate the Revolving Commitments in their entirety. Upon termination of the Revolving Commitments pursuant to this Section, the Borrower shall pay to the Agent for the account of the Banks the full amount of all outstanding Advances, all accrued and unpaid interest thereon, all unpaid Unused Revolving Commitment Fees accrued to the date of such termination, any indemnities payable with respect to Advances pursuant to Section 2.24 and all other unpaid obligations of the Borrower to the Agent and the Banks hereunder.

Section 2.13 UNUSED REVOLVING COMMITMENT FEES. The Borrower shall pay to the Agent for the account of each Bank fees (the "Unused Revolving Commitment Fees") in an amount determined by applying a rate of three-eighths of one percent (0.375%) per annum to the average daily Unused Revolving Commitment of such Bank for the period from the Closing Date to the Termination Date. Such Unused Revolving Commitment Fees are payable in arrears quarterly on each January 31, April 30, July 31 and October 31 and on the Termination Date.



Section 2.14 LETTER OF CREDIT FEES. The Borrower shall pay to the Agent, for the account of the Banks, fees (collectively, "Letter of Credit Fees") with respect to the Commercial Paper Program and the Standby Letters of Credit, determined as follows:

2.14 (a) The Company shall pay quarterly in arrears on the last day of each calendar quarter and on the Termination Date, a Letter of Credit Fee in an amount determined by applying a per annum rate of 1.3125% to the average daily aggregate principal amount of Commercial Paper Notes issued by the Borrower and outstanding under the Commercial Paper Program, all as more specifically set forth in the Commercial Paper Program Documents.

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2.14 (b) For each Standby Letter of Credit issued, the Company shall pay in advance, on the date of issuance thereof and on the date of any extension thereof, a Letter of Credit Fee in an amount determined by applying a rate per annum of 1.3125% to the face amount of the Standby Letter of Credit in effect as of such date of issuance or extension; PROVIDED, HOWEVER, that in the case of a Standby Letter of Credit issued for the benefit of Bank of Montreal, the Letter of Credit Fee shall be calculated at the rate of 1.3125% per annum on an amount equal to the face amount thereof multiplied by First Bank's Revolving Commitment Percentage (which shall be the amount payable to First Bank) and at the rate of 0.75% per annum on an amount equal to the face amount thereof multiplied by Harris' Revolving Commitment Percentage (which shall be the amount payable to Harris).

2.14 (c) In addition to the foregoing Letter of Credit Fees, the Company shall pay to First Bank on demand, all issuance, amendment, drawing and other fees regularly charged by First Bank to its letter of credit customers and all out-of-pocket expenses incurred by First Bank in connection with the issuance, amendment, administration or payment of any Standby Letter of Credit. Such fees and payments shall be retained by First Bank for its own account.

Section 2.15 COMPUTATION. Unused Revolving Commitment Fees and interest on Advances shall be computed on the basis of actual days elapsed and a year of 360 days.

Section 2.16 AGENT FEE, FIRST BANK FEES AND PLACEMENT AGENT FEES.

2.16 (a) The Borrower shall pay to the Agent, for its separate account, fees ("Agent Fees") as provided for in a separate letter agreement between the Borrower and the Agent.

2.16 (b) The Borrower shall pay to First Bank, for its separate account, fees ("First Bank Fees") as provided for in the Commercial Paper

2.16 (c) The Company shall pay to the Placement Agent under the Commercial Paper Program, for its separate account, fees ("Placement Agent Fees") as provided for in the Commercial Paper Program Documents.

Section 2.17 PAYMENTS. Payments and prepayments of principal of, and interest on, the Revolving Notes and all fees, expenses and other obligations under this Agreement payable to the Agent or the Banks shall be made without setoff or counterclaim in Immediately Available Funds not later than 1:00 P.M. (Minneapolis time) on the dates called for under this Agreement and the Notes to the Agent at its

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main office in Minneapolis, Minnesota. Funds received after such time shall be deemed to have been received on the next Business Day. The Agent will promptly distribute in like funds to each Bank its ratable share of each such payment of principal, interest, Unused Revolving Commitment Fees and Letter of Credit Fees received by the Agent for the account of the Banks. Whenever any payment to be made hereunder or on the Revolving Notes shall be stated to be due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time, in the case of a payment of principal, shall be included in the computation of any interest on such principal payment.

Section 2.18 REVOLVING COMMITMENT ENDING DATE AND EXTENSION. The "Revolving Commitment Ending Date" is May 2, 1998; PROVIDED, HOWEVER, that if the Borrower by written notice given to the Agent at least 90 days but not more than 120 days prior to the Revolving Commitment Ending Date requests in writing an extension of the Revolving Commitment Ending Date for an additional period of 365 days and if each Bank, in its sole and absolute discretion and based on such review of the Borrower's financial performance and condition and such other factors as such Bank considers relevant (which may include, without limitation, future loan policies and other policies adopted by such Bank unrelated to the Borrower's financial condition), consents in writing to such extension, then the Revolving Commitment Ending Date shall be extended for such additional period of time, and in such extended 365-day period the Borrower may repeat its request within the same time limit and if each Bank consents the Revolving Commitment Ending Date shall be further extended for an additional period of 365 days. In the case of any such extension, the "Revolving Commitment Ending Date" shall be the last day of the 365-day period to which such extension has been granted. No Bank shall be under any obligation or commitment to extend the Revolving Commitment Ending Date, and no such obligation or commitment on the part of any Bank should be inferred from the provisions of this Section.

Section 2.19 USE OF LOAN PROCEEDS. The proceeds of the initial Revolving Loans shall be used first to pay the obligations of the Borrower outstanding under the Existing Loan Documents. Any remaining balance of the initial Revolving Loans and the proceeds of any subsequent Revolving Loans shall

be used for the Borrower's general business purposes in a manner not in conflict with any of the Borrower's covenants in this Agreement. No part of the proceeds of any Revolving Loans or Advances shall be used, directly or indirectly, to purchase or carry any margin stock (as defined in Regulation U of the Board) or to extend credit to others for the purpose of purchasing or carrying such margin stock.

Section 2.20 INTEREST RATE NOT ASCERTAINABLE, ETC. If, on or prior to the date for determining the Adjusted Eurodollar Rate or the Adjusted CD Rate in respect of the Interest Period for any Eurodollar Rate Advance or CD Rate Advance, any Bank determines (which determination shall be conclusive and binding, absent error) that:

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(a) deposits in dollars (in the applicable amount) are not being made available to such Bank in the relevant market for such Interest Period, or

(b) the Adjusted Eurodollar Rate or the Adjusted CD Rate, as the case may be, will not adequately and fairly reflect the cost to such Bank of funding or maintaining Eurodollar Rate Advances or CD Rate Advances for such Interest Period,

such Bank shall forthwith give notice to the Borrower and the other Banks of such determination, whereupon the obligation of such Bank to make or continue, or to convert any Advances to, Eurodollar Rate Advances or CD Rate Advances, as the case may be, shall be suspended until such Bank notifies the Borrower and the Agent that the circumstances giving rise to such suspension no longer exist. While any such suspension continues, all further Advances by such Bank shall be made as Reference Rate Advances. No such suspension shall affect the interest rate then in effect during the applicable Interest Period for any Eurodollar Rate Advance or CD Rate Advance outstanding at the time such suspension is imposed.

Section 2.21 INCREASED COST. If any Regulatory Change:

(a) shall subject any Bank (or its Applicable Lending Office) to any tax, duty or other charge with respect to its Eurodollar Rate Advances, its CD Rate Advances, its Revolving Note, its obligation to make Eurodollar Rate Advances or CD Rate Advances or shall change the basis of taxation of payment to any Bank (or its Applicable Lending Office) of the principal of or interest on its Eurodollar Rate Advances or CD Rate Advances or any other amounts due under this Agreement in respect of its Eurodollar Rate Advances, its CD Rate Advances or its obligation to make Eurodollar Rate Advances or CD Rate Advances (except for changes in the rate of tax on the overall net income of such Bank or its Applicable Lending Office imposed by the jurisdiction in which such Bank's principal office or Applicable Lending Office is located); or

(b) shall impose, modify or deem applicable any reserve, special deposit, capital requirement or similar requirement (including, without limitation, any such requirement imposed by the Board, but excluding with respect to any Eurodollar Rate Advances or CD Rate Advance any such requirement to the extent included in calculating the applicable Adjusted Eurodollar Rate or Adjusted CD Rate, as the case may be) against assets of, deposits with or for the account of, or credit extended by, any Bank's Applicable Lending Office or shall impose on any Bank (or its Applicable Lending Office) or on the United States market for certificates of deposit any other condition affecting its Eurodollar Rate Advances, its CD Rate Advances,

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its Revolving Note or its obligation to make Eurodollar Rate Advances or CD Rate Advances;

and the result of any of the foregoing is to increase the cost to such Bank (or its Applicable Lending Office) of making or maintaining any Eurodollar Rate Advance or CD Rate Advance, or to reduce the amount of any sum received or receivable by such Bank (or its Applicable Lending Office) under this Agreement or under its Revolving Note, then, within 60 days after demand by such Bank (with a copy to the Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction. Each Bank will promptly notify the Borrower and the Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section, setting forth the additional amount or amounts to be paid to it hereunder and stating in reasonable detail the basis for the charge and the method of computation, shall be conclusive in the absence of manifest error. In determining such amount, any Bank may use any reasonable averaging and attribution methods. Failure on the part of any Bank to demand compensation for any increased costs or reduction in amounts received or receivable with respect to any Interest Period shall not constitute a waiver of such Bank's rights to demand compensation for any increased costs or reduction in amounts received or receivable in any subsequent Interest Period.

Each Bank shall also be entitled to receive compensation, to the extent provided for in the Commercial Paper Program Documents, for its increased costs relating to its participation in the Commercial Paper Letter of Credit which may result from any Regulatory Change. The Borrower hereby agrees that First Bank shall be entitled to recover such costs on behalf of itself and each other Bank under the Commercial Paper Program Documents.

If any Regulatory Change shall either (a) impose, modify or make applicable any reserve, deposit, capital adequacy or similar requirement against

Standby Letters of Credit issued by First Bank or any Bank's obligations to make Unpaid Drawing Repayment Loans or purchase participations in Unpaid Drawings, or (b) shall impose on any Bank any other conditions affecting this Agreement or any Standby Letter of Credit; and the result of any of the foregoing is to increase the cost to First Bank or any other Bank of issuing or maintaining any Standby Letter of Credit or such Bank's obligations to make Unpaid Drawing Repayment Loans or purchase participations in Unpaid Drawings, or reduce the amount of any sum received or receivable by the Agent or any Bank hereunder, then, upon demand (which demand shall be given by a Bank affected by such increased cost or reduction promptly after it determines the amount of such increased cost or reduction) to the

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Borrower by such Bank, the Borrower shall pay to such Bank the additional amount or amounts as will compensate such Bank for such increased cost or reduction. A certificate submitted to the Borrower by such Bank setting forth the basis for the determination of such additional amount or amounts necessary to compensate such Bank as aforesaid shall be conclusive and binding on the Borrower absent error.

Section 2.22 ILLEGALITY. If any Regulatory Change shall make it unlawful or impossible for any Bank to make, maintain or fund any Eurodollar Rate Advances or CD Rate Advances, such Bank shall notify the Borrower and the Agent, whereupon the obligation of such Bank to make or continue, or to convert any Advances to, Eurodollar Rate Advances or CD Rate Advances shall be suspended until such Bank notifies the Borrower and the Agent that the circumstances giving rise to such suspension no longer exist. Before giving any such notice, such Bank shall designate a different Applicable Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. If such Bank determines that it may not lawfully continue to maintain any Eurodollar Rate Advances or CD Rate Advances to the end of the applicable Interest Periods, all of the affected Advances shall be automatically converted to Reference Rate Advances as of the date of such Bank's notice, and upon such conversion the Borrower shall indemnify such Bank in accordance with Section 2.24.

Section 2.23 CAPITAL ADEQUACY. In the event that any Regulatory Change reduces or shall have the effect of reducing the rate of return on any Bank's capital or the capital of its parent corporation (by an amount such Bank deems material) as a consequence of its Revolving Commitment and/or its Advances to a level below that which such Bank or its parent corporation could have achieved but for such Regulatory Change (taking into account such Bank's policies and the policies of its parent corporation with respect to capital adequacy), then the Borrower shall, within five days after written notice and demand from such Bank (with a copy to the Agent), pay to such Bank additional amounts sufficient to compensate such Bank or its parent corporation for such reduction. Any determination by such Bank under this Section and any certificate as to the amount of such reduction given to the Borrower by such

Bank shall be final, conclusive and binding for all purposes, absent manifest error.

Section 2.24 FUNDING LOSSES; EURODOLLAR RATE ADVANCES AND CD RATE ADVANCES. The Borrower shall compensate each Bank, upon its written request, for all losses, expenses and liabilities (including any interest paid by such Bank to lenders of funds borrowed by it to make or carry Eurodollar Rate Advances and CD Rate Advances to the extent not recovered by such Bank in connection with the re-employment of such funds and including loss of anticipated profits if and to the extent that such Bank has match-funded all or any portion of such Eurodollar Rate Advances or CD Rate Advance through the issuance of its certificates of deposit or otherwise, it being understood that a Bank may match-fund this credit facility either

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separately or in combination with other credit facilities) which such Bank may sustain: (a) if, at the request of the Borrower or on account of a Default or an Event of Default, a funding of a Eurodollar Rate Advance or CD Rate Advance does not occur on the date specified therefor in the Borrower's request or notice as to such Advance under Section 2.2 or 2.4, or (b) if, for whatever reason (including, but not limited to, acceleration of the maturity of Advances following an Event of Default), any repayment of a Eurodollar Rate Advance or CD Rate Advance, or a conversion pursuant to Section 2.22, occurs on any day other than the last day of the Interest Period applicable thereto. A Bank's request for compensation shall set forth the basis for the amount requested and shall be final, conclusive and binding, absent manifest error.

Section 2.25 DISCRETION OF BANKS AS TO MANNER OF FUNDING. Each Bank shall be entitled to fund and maintain its funding of Eurodollar Rate Advances and CD Rate Advances in any manner it may elect, it being understood, however, that for the purposes of this Agreement all determinations hereunder (including, but not limited to, determinations under Section 2.24, but excluding determinations that the Agent may elect to make from the Telerate System, Inc. screen) shall be made as if such Bank had actually funded and maintained each Eurodollar Rate Advance and CD Rate Advance during the Interest Period for such Advance through the issuance of its certificates of deposit having a maturity corresponding to the last day of the Interest Period and bearing an interest rate equal to the Eurodollar Rate, in the case of a Eurodollar Rate Advance, or the CD Rate, in the case of a CD Rate Advance, for such Interest Period.

### ARTICLE III

#### CONDITIONS PRECEDENT

Section 3.1 CONDITIONS OF INITIAL LOANS AND COMMERCIAL PAPER NOTE. The making of the initial Revolving Loans and the issuance of the initial Commercial Paper Note shall be subject to the prior or simultaneous fulfillment

of the following conditions:

3.1 (a) DOCUMENTS. The Agent shall have received the following in sufficient counterparts (except for the Revolving Notes) for each Bank:

(i) A Revolving Note in the form of Exhibit 1.1C hereto, drawn to the order of each Bank, executed by a duly authorized officer (or officers) of the Borrower and dated the Closing Date, which Revolving Note, in the case of First Bank, shall constitute an amendment and restatement of its Existing Revolving Note.

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(ii) A Guaranty in the form of Exhibit 1.1B hereto, prepared separately for each Guarantor and executed by a duly authorized officer of such Guarantor, which Guaranty shall constitute an amendment and restatement of the corresponding Existing Guaranty.

(iii) A copy of the corporate resolution of the Borrower authorizing the execution, delivery and performance of the Borrower Loan Documents, certified as of the Closing Date by the Secretary or an Assistant Secretary of the Borrower.

(iv) An incumbency certificate showing the names and titles and bearing the signatures of the officers of the Borrower authorized to execute the Borrower Loan Documents and to request Revolving Loans and conversions and continuations of Advances hereunder, certified as of the Closing Date by the Secretary or an Assistant Secretary of the Borrower.

(v) A copy of the Articles of Incorporation of the Borrower with all amendments thereto, certified by the appropriate governmental official of the jurisdiction of its incorporation as of a date not more than eight days prior to the Closing Date.

(vi) A certificate of good standing for the Borrower in the jurisdiction of its incorporation, certified by the appropriate governmental officials as of a date not more than eight days prior to the Closing Date.

(vii) A copy of the bylaws of the Borrower, certified as of the Closing Date by the Secretary or an Assistant Secretary of the Borrower.

(viii) A copy of the corporate resolution of each Guarantor authorizing the execution, delivery and performance of its respective Guaranty.

(ix) An incumbency certificate for each Guarantor showing the names and titles and bearing the signatures of the officers of such Guarantor authorized to execute the Guaranty of such Guarantor, certified

as of the Closing Date by the Secretary or an Assistant Secretary of such Guarantor.

(x) A copy of the Articles of Incorporation of each Guarantor with all amendments thereto, certified by the appropriate governmental official of the jurisdiction of its incorporation as of a date not more than eight days prior to the Closing Date.

(xi) A certificate of good standing for each Guarantor in the jurisdiction of its incorporation, certified by the appropriate governmental officials as of a date not more than eight days prior to the Closing Date.

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(xii) A copy of the bylaws of each Guarantor, certified as of the Closing Date by the Secretary or an Assistant Secretary of such Guarantor.

(xiii) A certificate dated the Closing Date of the chief executive officer or chief financial officer of the Borrower certifying as to the matters set forth in Sections 3.2 (a) and 3.2 (b) below.

3.1 (b) OPINION. The Borrower shall have requested Mackall, Crouse & Moore, its counsel, to prepare a written opinion, addressed to the Banks and dated the Closing Date, covering the matters set forth in Exhibit 3.1 hereto, and such opinion shall have been delivered to the Agent in sufficient counterparts for each Bank.

3.1 (c) COMPLIANCE. The Borrower shall have performed and complied with all agreements, terms and conditions contained in this Agreement required to be performed or complied with by the Borrower prior to or simultaneously with the Closing Date.

3.1 (d) OTHER MATTERS. All corporate and legal proceedings relating to the Borrower and the Guarantors and all instruments and agreements in connection with the transactions contemplated by this Agreement shall be satisfactory in scope, form and substance to the Agent, the Banks and their special counsel, and the Agent shall have received all information and copies of all documents, including records of corporate proceedings, as any Bank or such special counsel may reasonably have requested in connection therewith, such documents where appropriate to be certified by proper corporate or governmental authorities.

3.1 (e) FEES AND EXPENSES. The Agent shall have received for itself and for the account of the Banks all fees and other amounts due and payable by the Borrower on or prior to the Closing Date, including the fees and expenses of counsel to the Agent payable pursuant to Section 9.2.



Section 3.2 CONDITIONS PRECEDENT TO ALL LOANS, COMMERCIAL PAPER NOTES AND STANDBY LETTERS OF CREDIT. The making of any Revolving Loans hereunder (including the initial Revolving Loans), the issuance of each Commercial Paper Note (including the initial Commercial Paper Note) and the issuance of each Standby Letter of Credit (including the initial Standby Letter of Credit) shall be subject to the fulfillment of the following conditions:

3.2 (a) REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in Article IV shall be true and correct on and as of the Closing Date and on the date of each Revolving Loan or the date of issuance of each Commercial Paper Note and of each Standby Letter of Credit, with the same force and effect as if made on such date.

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3.2 (b) NO DEFAULT. No Default or Event of Default shall have occurred and be continuing on the Closing Date and on the date of each Revolving Loan or the date of issuance of each Commercial Paper Note or of each Standby Letter of Credit or will exist after giving effect to the Revolving Loans made on such date or the Commercial Paper Note or Standby Letter of Credit so issued.

3.2 (c) NOTICES AND REQUESTS. In the case of Revolving Loans the Agent shall have received the Borrower's request for such Revolving Loans as required under Section 2.2 (except as otherwise provided in Section 2.2 (b)), in the case of Commercial Paper Notes, the Borrower shall have complied with the conditions set forth in the Commercial Paper Program Documents for the issuance of Commercial Paper Notes; and in the case of Standby Letters of Credit, the Borrower shall have complied with the requirements of Sections 2.8A, 2.9A and 2.10A for the issuance of Standby Letters of Credit.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

To induce the Banks to enter into this Agreement, to grant the Revolving Commitments and to make Revolving Loans hereunder, to induce First Bank to permit the Borrower to participate in and issue Commercial Paper Notes under the Commercial Paper Program, and to induce First Bank to issue the Standby Letters of Credit, the Borrower represents and warrants to the Banks:

Section 4.1 ORGANIZATION, STANDING, ETC. The Borrower is a corporation duly incorporated and validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to carry on its business as now conducted, to enter into this Agreement and to issue the Revolving Notes and to perform its obligations under the Borrower Loan Documents. Each Subsidiary is a corporation duly incorporated and validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite corporate power and authority to carry on its business as now conducted. Each of the Borrower and

the Subsidiaries (a) holds all certificates of authority, licenses and permits necessary to carry on its business as presently conducted in each jurisdiction in which it is carrying on such business, except where the failure to hold such certificates, licenses or permits would not have a material adverse effect on the business, operations, property, assets or condition, financial or otherwise, of the Borrower and the Subsidiaries taken as a whole, and (b) is duly qualified and in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned, leased or operated by it or the business conducted by it makes such qualification necessary and the failure so to qualify would permanently preclude the Borrower or such Subsidiary from enforcing its rights with respect to any assets or expose the Borrower or such Subsidiary to any

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liability, which in either case would be material to the Borrower and the Subsidiaries taken as a whole.

Section 4.2 AUTHORIZATION AND VALIDITY. The execution, delivery and performance by the Borrower of the Borrower Loan Documents have been duly authorized by all necessary corporate action by the Borrower, and this Agreement constitutes, and the Revolving Notes and other Borrower Loan Documents when executed will constitute, the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies.

Section 4.3 NO CONFLICT; NO DEFAULT. The execution, delivery and performance by the Borrower of the Borrower Loan Documents will not (a) violate any provision of any law, statute, rule or regulation or any order, writ, judgment, injunction, decree, determination or award of any court, governmental agency or arbitrator presently in effect having applicability to the Borrower, (b) violate or contravene any provision of the Articles of Incorporation or bylaws of the Borrower, or (c) result in a breach of or constitute a default under any indenture, loan or credit agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or any of its properties may be bound or result in the creation of any Lien thereunder. Neither the Borrower nor any Subsidiary is in default under or in violation of any such law, statute, rule or regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, loan or credit agreement or other agreement, lease or instrument in any case in which the consequences of such default or violation could have a material adverse effect on the business, operations, properties, assets or condition (financial or otherwise) of the Borrower and its Subsidiaries taken as a whole.

Section 4.4 GOVERNMENT CONSENT. No order, consent, approval, license, authorization or validation of, or filing, recording or registration

with, or exemption by, any governmental or public body or authority is required on the part of the Borrower to authorize, or is required in connection with the execution, delivery and performance of, or the legality, validity, binding effect or enforceability of, the Borrower Loan Documents.

Section 4.5 FINANCIAL STATEMENTS AND CONDITION. The Borrower's audited consolidated financial statements as at April 30, 1994 and its unaudited financial statements as at July 30, 1994, as heretofore furnished to the Banks, have been prepared in accordance with GAAP on a consistent basis (except for year-end audit adjustments as to the interim statements) and fairly present the financial condition of the Borrower and its Subsidiaries as at such dates and the results of their operations and changes in financial position for the respective periods then ended. As of the dates of such financial statements, neither the Borrower nor any

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Subsidiary had any material obligation, contingent liability, liability for taxes or long-term lease obligation which is not reflected in such financial statements or in the notes thereto. Since July 30, 1994, there has been no material adverse change in the business, operations, property, assets or condition, financial or otherwise, of the Borrower and its Subsidiaries taken as a whole.

Section 4.6 LITIGATION. Except as disclosed in Exhibit 4.6 hereto, there are no actions, suits or proceedings pending or, to the knowledge of the Borrower, threatened against or affecting the Borrower or any Subsidiary or any of their properties before any court or arbitrator, or any governmental department, board, agency or other instrumentality which, if determined adversely to the Borrower or such Subsidiary, would have a material adverse effect on the business, operations, property or condition (financial or otherwise) of the Borrower and the Subsidiaries taken as a whole or on the ability of the Borrower or any Subsidiary to perform its obligations under the Loan Documents.

Section 4.7 ENVIRONMENTAL, HEALTH AND SAFETY LAWS. There does not exist any violation by the Borrower or any Subsidiary of any applicable federal, state or local law, rule or regulation or order of any government, governmental department, board, agency or other instrumentality relating to environmental, pollution, health or safety matters which will or threatens to impose a material liability on the Borrower or a Subsidiary or which would require a material expenditure by the Borrower or such Subsidiary to cure. Neither the Borrower nor any Subsidiary has received any notice to the effect that any part of its operations or properties is not in material compliance with any such law, rule, regulation or order or notice that it or its property is the subject of any governmental investigation evaluating whether any remedial action is needed to respond to any release of any toxic or hazardous waste or substance into the environment, which non-compliance or remedial action could reasonably be expected to have a material adverse effect on the business, operations,

properties, assets or condition (financial or otherwise) of the Borrower and its Subsidiaries taken as a whole.

Section 4.8 ERISA. Each Plan complies with all material applicable requirements of ERISA and the Code and with all material applicable rulings and regulations issued under the provisions of ERISA and the Code setting forth those requirements. No Reportable Event has occurred and is continuing with respect to any Plan. All of the minimum funding standards applicable to such Plans have been satisfied and there exists no event or condition which would permit the institution of proceedings to terminate any Plan under Section 4042 of ERISA. The current value of the Plans' benefits guaranteed under Title IV of ERISA does not exceed the current value of the Plans' assets allocable to such benefits.

Section 4.9 FEDERAL RESERVE REGULATIONS. Neither the Borrower nor any Subsidiary is engaged principally or as one of its important activities in the business of extending credit for the purpose of purchasing or carrying margin stock

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(as defined in Regulation U of the Board). The value of all margin stock owned by the Borrower does not constitute more than 25% of the value of the assets of the Borrower.

Section 4.10 TITLE TO PROPERTY; LEASES; LIENS; SUBORDINATION. Each of the Borrower and the Subsidiaries has (a) good and marketable title to its real properties and (b) good and sufficient title to, or valid, subsisting and enforceable leasehold interest in, its other material properties, including all real properties, other properties and assets, referred to as owned by the Borrower and its Subsidiaries in the most recent financial statement referred to in Section 4.5 (other than property disposed of since the date of such financial statements in the ordinary course of business). None of such properties owned by the Borrower or any Subsidiary is subject to a Lien, except as allowed under Section 6.12. The Borrower has not subordinated any of its rights under any obligation owing to it to the rights of any other person.

Section 4.11 TAXES. Each of the Borrower and the Subsidiaries has filed all federal, state and local tax returns required to be filed and has paid or made provision for the payment of all taxes due and payable pursuant to such returns and pursuant to any assessments made against it or any of its property and all other taxes, fees and other charges imposed on it or any of its property by any governmental authority (other than taxes, fees or charges the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in accordance with GAAP have been provided on the books of the Borrower). No material tax Liens have been filed and no material claims are being asserted with respect to any such taxes, fees or charges. The charges, accruals and reserves on the books of the Borrower in respect of taxes and other governmental charges are adequate and the Borrower

knows of no proposed material tax assessment against it or any Subsidiary or any basis therefor.

Section 4.12 TRADEMARKS, PATENTS. Each of the Borrower and the Subsidiaries possesses or has the right to use all of the patents, trademarks, trade names, service marks and copyrights, and applications therefor, and all technology, know-how, processes, methods and designs used in or necessary for the conduct of its business, without known conflict with the rights of others.

Section 4.13 BURDENSOME RESTRICTIONS. Neither the Borrower nor any Subsidiary is a party to or otherwise bound by any indenture, loan or credit agreement or any lease or other agreement or instrument or subject to any charter, corporate or partnership restriction which would foreseeably have a material adverse effect on the business, properties, assets, operations or condition (financial or otherwise) of the Borrower or such Subsidiary or on the ability of the Borrower or any Subsidiary to carry out its obligations under any Loan Document.

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Section 4.14 FORCE MAJEURE. Since the date of the most recent financial statement referred to in Section 4.5, the business, properties and other assets of the Borrower and the Subsidiaries have not been materially and adversely affected in any way as the result of any fire or other casualty, strike, lockout, or other labor trouble, embargo, sabotage, confiscation, condemnation, riot, civil disturbance, activity of armed forces or act of God.

Section 4.15 INVESTMENT COMPANY ACT. Neither the Borrower nor any Subsidiary is an "investment company" or a company "controlled" by an investment company within the meaning of the Investment Company Act of 1940, as amended.

Section 4.16 PUBLIC UTILITY HOLDING COMPANY ACT. Neither the Borrower nor any Subsidiary is a "holding company" or a "subsidiary company" of a holding company or an "affiliate" of a holding company or of a subsidiary company of a holding company within the meaning of the Public Utility Holding Company Act of 1935, as amended.

Section 4.17 RETIREMENT BENEFITS. Under the accounting rules proposed as of the date of this Agreement by the Financial Accounting Standards Board with respect thereto, the present value of the expected cost to the Borrower and the Subsidiaries of post-retirement medical and insurance benefits with respect to employees, as estimated by the Borrower in accordance with GAAP is not material.

Section 4.18 FULL DISCLOSURE. Subject to the following sentence, neither the financial statements referred to in Section 4.5 nor any other certificate, written statement, exhibit or report furnished by or on behalf of the Borrower in connection with or pursuant to this Agreement contains any untrue statement of a material fact or omits to state any material fact

necessary in order to make the statements contained therein not misleading. Certificates or statements furnished by or on behalf of the Borrower to the Banks consisting of projections or forecasts of future results or events have been prepared in good faith and based on good faith estimates and assumptions of the management of the Borrower, and the Borrower has no reason to believe that such projections or forecasts are not reasonable.

Section 4.19 SUBSIDIARIES. Exhibit 4.19 sets forth as of the date of this Agreement a list of all Subsidiaries and the number and percentage of the shares of each class of capital stock owned beneficially or of record by the Borrower or any Subsidiary therein, and the jurisdiction of incorporation of each Subsidiary. Except as otherwise indicated in Exhibit 4.19, all shares of each Subsidiary owned by the Borrower or by any other Subsidiary are validly issued and fully paid and nonassessable.

## ARTICLE V

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### AFFIRMATIVE COVENANTS

Until any obligation of the Banks hereunder to make the Revolving Loans, any obligation of First Bank to permit the Borrower to issue Commercial Paper Notes under the Commercial Paper Program and any obligation of First Bank to issue the Standby Letters of Credit shall have expired or been terminated and the Revolving Notes and all of the other Obligations have been paid in full, all outstanding Commercial Paper Notes and Standby Letters of Credit shall have been paid in full or the liability of First Bank thereon shall have otherwise been discharged and no amount is available to be drawn under the Commercial Paper Letter of Credit with respect to the Commercial Paper Notes or under any Standby Letter of Credit, unless the Majority Banks shall otherwise consent in writing:

Section 5.1 FINANCIAL STATEMENTS AND REPORTS. The Borrower will furnish to the Banks:

5.1 (a) As soon as available and in any event within 100 days after the end of each fiscal year of the Borrower, (i) the consolidated and consolidating financial statements of the Borrower and the Subsidiaries consisting of at least statements of operations, cash flows and shareholders' equity and a consolidated balance sheet as at the end of such year, setting forth in each case in comparative form corresponding figures from the previous annual audit, certified without qualification by Arthur Andersen or other independent certified public accountants of recognized national standing selected by the Borrower and acceptable to the Agent, and (ii) a statement of the Borrower's Contingent Obligations as at the end of such fiscal year.

5.1 (b) Together with the audited financial statements required under Section 5.1 (a), a statement by the accounting firm performing such audit to the effect that it has reviewed this Agreement and that in the course of

performing its examination nothing came to its attention that caused it to believe that any Default or Event of Default exists, or, if such Default or Event of Default exists, describing its nature.

5.1 (c) As soon as available and in any event within 60 days after the end of each fiscal quarter of the Borrower, (i) unaudited consolidated and consolidating statements of operations for the Borrower and the Subsidiaries for such quarter and for the year to date and cash flows for the period from the beginning of such fiscal year to the end of such quarter and a consolidated balance sheet of the Borrower as at the end of such quarter, setting forth in comparative form figures for the corresponding period for the preceding fiscal year, accompanied by a certificate signed by the chief financial officer of the Borrower stating that such financial statements present fairly the financial condition of the Borrower and the Subsidiaries and that the same have been prepared in accordance with GAAP, and

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(ii) a statement of the Borrower's Contingent Obligations as at the end of such fiscal quarter.

5.1 (d) As soon as practicable and in any event within 60 days after the end of the first three fiscal quarters of the fiscal year of the Borrower, a statement signed by the chief financial officer of the Borrower demonstrating in reasonable detail compliance (or noncompliance, as the case may be) with Sections 6.15 through 6.21 as at the end of such quarter and stating that as at the end of such quarter there did not exist any Default or Event of Default or, if such Default or Event of Default existed, specifying the nature and period of existence thereof and what action the Borrower proposes to take with respect thereto.

5.1 (e) As soon as practicable and in any event within 60 days after the beginning of each fiscal year of the Borrower, statements of budgeted consolidated income for the Borrower and the Subsidiaries for each fiscal quarter in such fiscal year and a budgeted consolidated balance sheet of the Borrower and the Subsidiaries, as at the end of each fiscal year, all in reasonable detail and reasonably satisfactory in scope to the Agent.

5.1 (f) Immediately upon any officer of the Borrower becoming aware of any Default or Event of Default, a notice describing the nature thereof and what action the Borrower proposes to take with respect thereto.

5.1 (g) Immediately upon any officer of the Borrower becoming aware of the occurrence, with respect to any Plan, of any Reportable Event or any Prohibited Transaction, a notice specifying the nature thereof and what action the Borrower proposes to take with respect thereto, and, when received, copies of any notice from PBGC of intention to terminate or have a trustee appointed for any Plan.

5.1 (h) Promptly upon the mailing or filing thereof, copies of all financial statements, reports and proxy statements mailed to the Borrower's shareholders, and copies of all registration statements, periodic reports and other documents filed with the Securities and Exchange Commission (or any successor thereto) or any national securities exchange.

5.1 (i) Promptly upon their distribution, copies of all financial statements, reports and proxy statements which the Borrower or any Subsidiary shall have sent to its stockholders.

5.1 (j) Promptly after the sending or filing thereof, copies of all regular and periodic financial reports (including all Form 10-K and Form 10-Q reports) which the Borrower or any Subsidiary shall file with the Securities and Exchange Commission or any national securities exchange.

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5.1 (k) From time to time, such other information regarding the business, operation and financial condition of the Borrower and the Subsidiaries as any Bank may reasonably request.

Section 5.2 CORPORATE EXISTENCE. The Borrower will maintain, and cause each Subsidiary to maintain, its corporate existence in good standing under the laws of its jurisdiction of incorporation and its qualification to transact business in each jurisdiction where failure so to qualify would permanently preclude the Borrower or such Subsidiary from enforcing its rights with respect to any material asset or would expose the Borrower or such Subsidiary to any material liability; provided, however, that nothing herein shall prohibit the merger or liquidation of any Subsidiary allowed under Section 6.1.

Section 5.3 INSURANCE. The Borrower shall maintain, and shall cause each Subsidiary to maintain, with financially sound and reputable insurance companies such insurance as may be required by law and such other insurance in such amounts and against such hazards as is customary in the case of reputable firms engaged in the same or similar business and similarly situated.

Section 5.4 PAYMENT OF TAXES AND CLAIMS. The Borrower shall file, and cause each Subsidiary to file, all tax returns and reports which are required by law to be filed by it and will pay, and cause each Subsidiary to pay, before they become delinquent all taxes, assessments and governmental charges and levies imposed upon it or its property and all claims or demands of any kind (including but not limited to those of suppliers, mechanics, carriers, warehouses, landlords and other like Persons) which, if unpaid, might result in the creation of a Lien upon its property; provided that the foregoing items need not be paid if they are being contested in good faith by appropriate proceedings, and as long as the Borrower's or such Subsidiary's title to its property is not materially adversely affected, its use of such property in the ordinary course of its business is not materially interfered with and adequate



reserves with respect thereto have been set aside on the Borrower's or such Subsidiary's books in accordance with GAAP.

Section 5.5 INSPECTION. The Borrower shall permit any Person designated by the Agent or any Bank to visit and inspect any of the properties, corporate books and financial records of the Borrower and the Subsidiaries, to examine and to make copies of the books of accounts and other financial records of the Borrower and the Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and the Subsidiaries with, and to be advised as to the same by, its officers at such reasonable times and intervals as the Agent or such Bank may designate. So long as no Event of Default exists, the expenses of the Agent or such Bank for such visits, inspections and examinations shall be at the expense of the Agent (for the accounts of the Banks) and such Bank, but any such visits, inspections and examinations made while any Event of Default is continuing shall be at the expense of the Borrower.

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Section 5.6 MAINTENANCE OF PROPERTIES. The Borrower will maintain, and cause each Subsidiary to maintain, its properties used or useful in the conduct of its business in good condition, repair and working order, and supplied with all necessary equipment, and make all necessary repairs, renewals, replacements, betterments and improvements thereto, all as may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times.

Section 5.7 BOOKS AND RECORDS. The Borrower will keep, and will cause each Subsidiary to keep, adequate and proper records and books of account in which full and correct entries will be made of its dealings, business and affairs.

Section 5.8 COMPLIANCE. The Borrower will comply, and will cause each Subsidiary to comply, in all material respects with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject; provided, however, that failure so to comply shall not be a breach of this covenant if such failure does not have, or is not reasonably expected to have, a materially adverse effect on the properties, business, prospects or condition (financial or otherwise) of the Borrower or such Subsidiary and the Borrower or such Subsidiary is acting in good faith and with reasonable dispatch to cure such noncompliance.

Section 5.9 NOTICE OF LITIGATION. The Borrower will give prompt written notice to the Agent of the commencement of any action, suit or proceeding before any court or arbitrator or any governmental department, board, agency or other instrumentality affecting the Borrower or any Subsidiary or any property of the Borrower or a Subsidiary or to which the Borrower or a Subsidiary is a party in which an adverse determination or result could have a material adverse effect on the business, operations, property or condition (financial or otherwise) of the Borrower and the Subsidiaries taken as a whole

or on the ability of the Borrower or any Subsidiary to perform its obligations under this Agreement and the other Loan Documents, stating the nature and status of such action, suit or proceeding.

Section 5.10 ERISA. The Borrower will maintain, and cause each Subsidiary to maintain, each Plan in compliance with all material applicable requirements of ERISA and of the Code and with all material applicable rulings and regulations issued under the provisions of ERISA and of the Code and will not and not permit any of the ERISA Affiliates to (a) engage in any transaction in connection with which the Borrower or any of the ERISA Affiliates would be subject to either a civil penalty assessed pursuant to Section 502(i) of ERISA or a tax imposed by Section 4975 of the Code, in either case in an amount exceeding \$50,000, (b) fail to make full payment when due of all amounts which, under the provisions of any Plan, the Borrower or any ERISA Affiliate is required to pay as contributions thereto, or permit to exist any accumulated funding deficiency (as such term is defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, with

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respect to any Plan in an aggregate amount exceeding \$100,000 or (c) fail to make any payments in an aggregate amount exceeding \$100,000 to any Multiemployer Plan that the Borrower or any of the ERISA Affiliates may be required to make under any agreement relating to such Multiemployer Plan or any law pertaining thereto.

Section 5.11 ENVIRONMENTAL MATTERS; REPORTING. The Borrower will observe and comply with, and cause each Subsidiary to observe and comply with, all laws, rules, regulations and orders of any government or government agency relating to health, safety, pollution, hazardous materials or other environmental matters to the extent non-compliance could result in a material liability or otherwise have a material adverse effect on the Borrower and the Subsidiaries taken as a whole. The Borrower will give the Agent prompt written notice of any violation as to any environmental matter by the Borrower or any Subsidiary and of the commencement of any judicial or administrative proceeding relating to health, safety or environmental matters (a) in which an adverse determination or result could result in the revocation of or have a material adverse effect on any operating permits, air emission permits, water discharge permits, hazardous waste permits or other permits held by the Borrower or any Subsidiary which are material to the operations of the Borrower or such Subsidiary, or (b) which will or threatens to impose a material liability on the Borrower or such Subsidiary to any Person or which will require a material expenditure by the Borrower or such Subsidiary to cure any alleged problem or violation.

## ARTICLE VI

### NEGATIVE COVENANTS

Until any obligation of the Banks hereunder to make the Revolving Loans, any obligation of First Bank to permit the Borrower to issue Commercial Paper Notes under the Commercial Paper Program and any obligation of First Bank to issue the Standby Letters of Credit shall have expired or been terminated and the Revolving Notes and all of the other Obligations have been paid in full, all outstanding Commercial Paper Notes and Standby Letters of Credit shall have been paid in full or the liability of First Bank thereon shall have otherwise been discharged and no amount is available to be drawn under the Commercial Paper Letter of Credit with respect to the Commercial Paper Notes or under any Standby Letter of Credit, unless the Majority Banks shall otherwise consent in writing:

Section 6.1 MERGER. The Borrower will not merge or consolidate or enter into any analogous reorganization or transaction with any Person or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution) or permit any Subsidiary to do any of the foregoing; PROVIDED, HOWEVER, any Subsidiary may be merged with or liquidated into the Borrower or any wholly-owned Subsidiary (if the Borrower or such wholly-owned Subsidiary is the surviving corporation).

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Section 6.2 SALE OF ASSETS. The Borrower will not, and will not permit any Subsidiary to, sell, transfer, lease or otherwise convey all or any substantial part of its assets except for:

(a) sales and leases of inventory in the ordinary course of business;

(b) sales or transfers by a Subsidiary to the Borrower or a wholly-owned subsidiary;

(c) sales or other transfers by the Borrower or its Subsidiaries of assets other than pursuant to clause (a) or (b) of this Section 6.12, PROVIDED that the aggregate book value of assets sold or transferred pursuant to this clause (c) in any fiscal year of the Borrower shall not exceed 10% of Tangible Net Worth as of the last day of the previous fiscal year; and

(d) sales or other transfers of (including the granting of security interests in) NFS Lease Accounts and related leases and equipment made by NFS in connection with the permanent financing of NFS Lease Accounts (and related NFS leases), subject to the following conditions: (i) the entire proceeds of such permanent financing are applied to pay outstanding Revolving Loans under this Agreement, (ii) the terms of such permanent financing are (A) without recourse to the Borrower (except as provided in Section 6.13(d)) and (B) either without recourse to NFS or with recourse to NFS only in an amount which does not exceed 20% of the amount of the permanent financing with respect to such NFS leases (exclusive of damages resulting from the gross negligence or willful misconduct of NFS or breach of representations or warranties by NFS), and (iii) the advance rate on

such NFS leases under such permanent financing must be at least 80% of the total present value of the rental streams under such NFS leases.

(e) sales or other transfers of (including the granting of security interests in) Norstan Canada Lease Accounts and related leases and equipment made by Norstan Canada in connection with the permanent financing of Norstan Canada Lease Accounts (and related Norstan Canada leases), subject to the following conditions: (i) the terms of such permanent financing are (A) without recourse to the Borrower (except as provided in Section 6.13(d)) and (B) either without recourse to Norstan Canada or with recourse to Norstan Canada only in an amount which does not exceed 30% of the amount of the permanent financing with respect to such Norstan Canada leases (exclusive of damages resulting from the gross negligence or willful misconduct of Norstan Canada or breach of representations or warranties by Norstan Canada), and (ii) the advance rate on such Norstan Canada leases under such permanent financing must be at least 80% of the total present value of the rental streams under such Norstan Canada leases.

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Section 6.3 PLANS. The Borrower will not permit, and will not allow any Subsidiary to permit, any event to occur or condition to exist which would permit any Plan to terminate under any circumstances which would cause the Lien provided for in Section 4068 of ERISA to attach to any assets of the Borrower or any Subsidiary; and the Borrower will not permit the underfunded amount of Plan benefits guaranteed under Title IV of ERISA to exceed \$100,000.

Section 6.4 CHANGE IN NATURE OF BUSINESS. The Borrower will not, and will not permit any Subsidiary to, make any material change in the nature of the business of the Borrower or such Subsidiary, as carried on at the date hereof, except for changes in business related to the communications industry.

Section 6.5 SUBSIDIARIES. After the date of this Agreement, the Borrower will not, and will not permit any Subsidiary to, form or acquire any corporation which would thereby become a Subsidiary, unless (a) 100% of the issued and outstanding capital stock of such Subsidiary is owned by Norstan, Inc. or by a 100%-owned Subsidiary of Norstan, Inc., (b) each line of business of such Subsidiary is within the communications industry and (c) the aggregate amount of the Borrower's Investment or Investments in all such Subsidiaries shall not exceed \$1,000,000 in any one fiscal year of the Borrower.

Section 6.6 NEGATIVE PLEDGES; SUBSIDIARY RESTRICTIONS. The Borrower will not, and will not permit any Subsidiary to, enter into any agreement, bond, note or other instrument with or for the benefit of any Person other than the Banks which would prohibit the Borrower or such Subsidiary from granting, or otherwise limit the ability of the Borrower or such Subsidiary to grant, to the Banks any Lien on any assets or properties of the Borrower or such Subsidiary (except as may be provided in any documents evidencing or securing Indebtedness incurred by NFS or Norstan Canada in connection with any financing of NFS Lease

Accounts and Norstan Canada Lease Accounts (and related leases) permitted under Section 6.2, with respect to the NFS Lease Accounts and Norstan Canada Lease Accounts so financed). The Borrower will not permit any Subsidiary to place or allow any restriction, directly or indirectly, on the ability of such Subsidiary to (a) pay dividends or any distributions on or with respect to such Subsidiary's capital stock or (b) make loans or other cash payments to the Borrower.

Section 6.7 RESTRICTED PAYMENTS. The Borrower will not make any Restricted Payments; PROVIDED, HOWEVER, that the Borrower may redeem its capital stock at an aggregate cost not to exceed \$1,500,000 for any fiscal year.

Section 6.8 CAPITAL EXPENDITURES. The Borrower will not, and will not permit any Subsidiary to, make Capital Expenditures in an amount exceeding, on a consolidated basis in any fiscal year, an amount equal to six percent (6%) of the consolidated revenues of the Borrower and the Subsidiaries as reported in their consolidated financial statements for the preceding fiscal year.

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Section 6.9 SUBORDINATED DEBT. The Borrower will not, and will not permit any Subsidiary to, (a) make any scheduled payment of the principal of or interest on any Subordinated Debt which would be prohibited by the terms of such Subordinated Debt and any related subordination agreement; (b) directly or indirectly make any prepayment on or purchase, redeem or defease any Subordinated Debt or offer to do so (whether such prepayment, purchase or redemption, or offer with respect thereto, is voluntary or mandatory); (c) amend or cancel the subordination provisions applicable to any Subordinated Debt; (d) take or omit to take any action if as a result of such action or omission the subordination of such Subordinated Debt, or any part thereof, to the Obligations might be terminated, impaired or adversely affected; or (e) omit to give the Agent prompt notice of any notice received from any holder of Subordinated Debt, or any trustee therefor, or of any default under any agreement or instrument relating to any Subordinated Debt by reason whereof such Subordinated Debt might become or be declared to be due or payable.

Section 6.10 INVESTMENTS. The Borrower will not, and will not permit any Subsidiary to, acquire for value, make, have or hold any Investments, except:

6.10 (a) Investments existing on the date of this Agreement;

6.10 (b) Travel advances to management personnel and employees in the ordinary course of business;

6.10 (c) Investments in readily marketable direct obligations issued or guaranteed by the United States or any agency thereof and supported by the full faith and credit of the United States;

6.10 (d) Certificates of deposit or bankers' acceptances issued by any commercial bank organized under the laws of the United States or any State thereof which has (i) combined capital and surplus of at least \$100,000,000, and (ii) a credit rating with respect to its unsecured indebtedness from a nationally recognized rating service that is satisfactory to the Agent;

6.10 (e) Commercial paper given the highest rating by a nationally recognized rating service;

6.10 (f) Repurchase agreements relating to securities issued or guaranteed as to principal and interest by the United States of America;

6.10 (g) Other readily marketable Investments in debt securities which are reasonably acceptable to the Majority Banks;

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6.10 (h) Any existing Investment by the Borrower or any Subsidiary in the stock of any Subsidiary;

6.10 (i) Investments in new Subsidiaries permitted under Section 6.5;

6.10 (j) Loans and advances by the Borrower to NFS that do not exceed at any one time an aggregate of \$8,000,000;

6.10 (k) Loans and advances by the Borrower to Norstan Communications, Inc., Norstan Network Services, Inc. and Norstan Canada;

6.10 (l) Purchases of assets of Persons engaged in the communications industry, provided that the purchase price paid for such assets shall not exceed, in the aggregate during any fiscal year of the Borrower, the sum of (i) \$1,500,000, plus (ii) 50% of the net proceeds (after payment of issuance costs) from any public offering of the common stock of the Borrower, plus (iii) any contingent payments based on profitability of the assets acquired, not to exceed 50% of the operating income from such assets, payable for a period not to exceed five years; PROVIDED, HOWEVER, that if the amount of net proceeds permitted to be used for the purchase of assets under clause (ii) of this Section 6.10(l) is not used, or fully used, in the fiscal year in which such public offering occurs, the unused portion may be carried forward and used to purchase assets in any succeeding fiscal year or fiscal years;

6.10 (m) Indebtedness of any Subsidiary to the Borrower on account of unpaid dividends owed by that Subsidiary to the Borrower;

6.10 (n) Loans to officers and employees of the Borrower or any Subsidiary (other than indebtedness of the kind described in the following paragraphs (q) and (r)) not exceeding at any one time an aggregate of \$500,000 as to the Borrower and all Subsidiaries combined;

6.10 (o) Indebtedness of employees to the Borrower arising under the Borrower's employee personal computer purchase program, so long as the aggregate amount of such Indebtedness outstanding at any one time does not exceed \$400,000;

6.10 (p) Advances in the form of progress payments, prepaid rent or security deposits; and

6.10 (q) Such other investments of the Borrower as are in existence on the date hereof and listed in Exhibit 6.10 hereto, but not any renewal or extension thereof (except for renewals or extensions of Investments reasonably determined by the Borrower to be not material in amount);

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PROVIDED, HOWEVER, that any Investments under clauses (c), (d), (e) or (f) above shall mature within one year of the acquisition thereof by the Borrower or a Subsidiary.

Section 6.11 INDEBTEDNESS. The Borrower will not, and will not permit any Subsidiary to, incur, create, issue, assume or suffer to exist any Indebtedness, except:

6.11 (a) The Obligations.

6.11 (b) Current Liabilities, other than for borrowed money, incurred in the ordinary course of business.

6.11 (c) Indebtedness existing on the date of this Agreement and disclosed on Exhibit 6.11 hereto, but not including any extension or refinancing thereof.

6.11 (d) Indebtedness secured by Liens permitted under Section 6.12 hereof.

6.11 (e) Indebtedness of the Borrower under lines of credit for foreign exchange transactions and for wire transfers and daylight overdrafts.

6.11 (f) Indebtedness of NFS incurred in connection with any permanent financing of NFS Lease Accounts permitted under Section 6.2(d).

6.11 (g) Indebtedness of Norstan Canada incurred in connection with any permanent financing of Norstan Canada Lease Accounts permitted under Section 6.2(e).

6.11 (h) Indebtedness incurred by Norstan Canada for working capital which is secured by Standby Letters of Credit issued hereunder; provided

that the aggregate principal amount of such Indebtedness shall not exceed the aggregate face amount of such Standby Letters of Credit.

6.11 (i) Subordinated Indebtedness and renewals thereof.

6.11 (j) Contingent Obligations permitted under Section 6.13.

6.11 (k) Unsecured Indebtedness of the Borrower (other than as permitted by other clauses of this Section 6.11); PROVIDED, HOWEVER, that (i) the aggregate principal amount of such Indebtedness outstanding at any time shall not exceed \$3,000,000.

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Section 6.12 LIENS. The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or suffer to exist any Lien, or enter into, or make any commitment to enter into, any arrangement for the acquisition of any property through conditional sale, lease-purchase or other title retention agreements, with respect to any property now owned or hereafter acquired by the Borrower or a Subsidiary, except:

6.12 (a) Liens existing on the date of this Agreement and disclosed on Exhibit 6.12 hereto.

6.12 (b) Deposits or pledges to secure payment of workers' compensation, unemployment insurance, old age pensions or other social security obligations, in the ordinary course of business of the Borrower or a Subsidiary.

6.12 (c) Liens for taxes, fees, assessments and governmental charges not delinquent or to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of Section 5.4.

6.12 (d) Liens of carriers, warehousemen, mechanics and materialmen, and other like Liens arising in the ordinary course of business, for sums not due or to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of Section 5.4.

6.12 (e) Liens incurred or deposits or pledges made or given in connection with, or to secure payment of, indemnity, performance or other similar bonds.

6.12 (f) Encumbrances in the nature of zoning restrictions, easements and rights or restrictions of record on the use of real property and landlord's Liens under leases on the premises rented, which do not materially detract from the value of such property or impair the use thereof in the business of the Borrower or a Subsidiary.

6.12 (g) The interest of any lessor under any Capitalized Lease entered into after the Closing Date or purchase money Liens on property acquired



after the Closing Date; PROVIDED, that, (i) the Indebtedness secured thereby is otherwise permitted by this Agreement and (ii) such Liens are limited to the property acquired and do not secure Indebtedness other than the related Capitalized Lease Obligations or the purchase price of such property.

6.12 (h) Purchase money mortgages, liens, or security interests (which term for purposes of this subsection shall include conditional sale agreements or other title retention agreements and leases in the nature of title retention agreements) upon or in property acquired after the date hereof, or mortgages, liens or security interests existing in such property at the time of

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acquisition thereof, or, in the case of any corporation which thereafter becomes a Subsidiary, mortgages, liens or security interests upon or in its property, existing at the time such corporation becomes a Subsidiary, provided that no such mortgage, lien or security interest extends or shall extend to or cover any property of the Borrower or any Subsidiary, as the case may be, other than the property then being acquired and fixed improvements then or thereafter erected thereon.

6.12 (i) Mortgages, liens, pledges and security interests created by any Subsidiary as security for Indebtedness owing to the Borrower or to another Subsidiary.

6.12 (j) Liens arising out of a judgment or judgments against the Borrower or any Subsidiary for the payment of money in an aggregate amount not exceeding \$300,000 with respect to which an appeal is being prosecuted and a stay of execution pending such appeal has been secured.

Section 6.13 CONTINGENT OBLIGATIONS. The Borrower will not, and will not permit any Subsidiary to, be or become liable on any Contingent Obligations except:

(a) Contingent Obligations existing on the date of this Agreement and described on Exhibit 6.13;

(b) the Borrower's guaranty of the limited recourse obligations of NFS under the First Bank/NFS Loan Documents;

(c) other Contingent Obligations not to exceed \$500,000 in aggregate principal amount at any time outstanding; and

(d) the Borrower's guaranty of the indemnity obligations of NFS and Norstan Canada under any permanent financing permitted to be incurred by NFS or Norstan Canada under Section 6.2 and which indemnity obligations relate to breaches of obligations, representations and warranties, failure to perfect security interests and breaches of administration or other services to be performed by NFS or Norstan Canada under any lease.

Section 6.14 TRANSACTIONS WITH AFFILIATES. Except as expressly permitted by this Agreement, the Borrower will not, nor will it permit any of its Subsidiaries to, directly or indirectly: (a) make any Investment in an Affiliate; (b) transfer, sell, lease, assign or otherwise dispose of any Property to an Affiliate if the aggregate book value of all Properties transferred, sold, leased, assigned or otherwise disposed of at any time would exceed \$100,000; (c) merge into or consolidate with or purchase or acquire Property from an Affiliate; or (d) enter into any other transaction directly or indirectly with or for the benefit of an Affiliate (including, without limitation, guarantees and assumptions of obligations of an Affiliate); PROVIDED that (x) any

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Affiliate who is an individual may serve as a director, officer or employee of the Borrower or any of its Subsidiaries and receive reasonable compensation for his or her services in such capacity and (y) the Borrower and its Subsidiaries may enter into transactions (other than extensions of credit by the Borrower or any of its Subsidiaries to an Affiliate) providing for the leasing of Property, the rendering or receipt of services or the purchase or sale of inventory and other Property in the ordinary course of business if the monetary or business consideration arising therefrom would be substantially as advantageous to the Borrower and its Subsidiaries as the monetary or business consideration which would obtain in a comparable transaction with a Person not an Affiliate.

Section 6.15 CURRENT RATIO. The Borrower will not permit the ratio of its Current Assets to its Current Liabilities to be less than 1.3 to 1.0 at any time.

Section 6.16 TANGIBLE NET WORTH. The Borrower will not permit Tangible Net Worth as of the last day of any fiscal quarter to be less than an amount equal to the sum of (a) \$38,000,000, PLUS (b) 75% of the aggregate consolidated net income of the Borrower (determined in accordance with GAAP but disregarding any fiscal quarter for which consolidated net income is negative) for the period beginning May 1, 1994 and ending on the last day of such fiscal quarter, PLUS 100% of the net proceeds (after payment of issuance costs) from any public offering of the common stock of the Borrower occurring after May 1, 1994.

Section 6.17 LEVERAGE RATIO. The Borrower will not permit the Leverage Ratio to be more than:

(a) 2.9 to 1.0 on October 29, 1994 and January 28, 1995;

(b) 2.6 to 1.0 on April 30, 1995 or on the last day of any subsequent fiscal quarter occurring prior to April 30, 1996;

(c) 2.3 to 1.0 on April 30, 1996 or on the last day of any subsequent

fiscal quarter occurring prior to April 30, 1997;

(d) 2.0 to 1.0 on April 30, 1997 or on the last day of any subsequent fiscal quarter.

Section 6.18 ADJUSTED LEVERAGE RATIO. The Borrower will not permit the Adjusted Leverage Ratio to be more than:

(a) 2.1 to 1.0 on October 29, 1994 and January 28, 1995;

(b) 1.8 to 1.0 on April 30, 1995 or on the last day of any subsequent fiscal quarter occurring prior to April 30, 1996;

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(c) 1.5 to 1.0 on April 30, 1996 or on the last day of any subsequent fiscal quarter occurring prior to April 30, 1997;

(d) 1.5 to 1.0 on April 30, 1997 or on the last day of any subsequent fiscal quarter.

Section 6.19 DEBT SERVICE RATIO. The Borrower will not permit the Debt Service Ratio to be less than 2.5 to 1.0 as of the end of any fiscal quarter.

Section 6.20 RATIO OF NFS TOTAL SENIOR DEBT TO NFS TANGIBLE NET WORTH. The Borrower will not permit the ratio of the NFS Total Senior Debt to the NFS Tangible Net Worth to be more than 18.0 to 1.0 at any time.

Section 6.21 NFS TOTAL RESERVE AS PERCENTAGE OF NFS TOTAL GROSS INVESTMENT. The Borrower will not permit the NFS Total Reserve to be less than 2.5% of the NFS Total Gross Investment at any time.

Section 6.22 TOTAL LEASE EXPENSE. The Borrower will not, and will not permit any Subsidiary to, become or be a party as lessee to any lease with respect to real or personal property if, after giving effect to such lease, the aggregate amount of lease expense for any fiscal year of the Borrower and its Subsidiaries with respect to all such leases (after deducting the aggregate amount of rent receivable by the Borrower and its Subsidiaries under any sublease of any such lease to any Person) will exceed an amount equal to five percent (5%) of the consolidated revenues of the Borrower and the Subsidiaries as reported in their consolidated financial statements for the preceding fiscal year. For purposes of this Section, "lease expense," with respect to any lease or sublease and for any period, means the amount of lease expense as disclosed in the notes to the consolidated financial statements of the Borrower and its Subsidiaries under the heading "Total Lease Expense."

Section 6.23 SUBSIDIARY LOSSES. The Borrower will not permit any Subsidiary to incur a net loss (as determined in accordance with GAAP) in excess

of \$1,000,000 for any fiscal year of such Subsidiary.

Section 6.24 LOAN PROCEEDS. The Borrower will not, and will not permit any Subsidiary to, use any part of the proceeds of any Revolving Loan or Advance directly or indirectly, and whether immediately, incidentally or ultimately, (a) to purchase or carry margin stock (as defined in Regulation U of the Board) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund Indebtedness originally incurred for such purpose or (b) for any purpose which entails a violation of, or which is inconsistent with, the provisions of Regulations G, U or X of the Board.

## ARTICLE VII

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### EVENTS OF DEFAULT AND REMEDIES

Section 7.1 EVENTS OF DEFAULT. The occurrence of any one or more of the following events shall constitute an Event of Default:

7.1 (a) The Borrower shall fail to make when due, whether by acceleration or otherwise, any payment of principal of or interest on any Revolving Note or any other Obligation required to be made to the Agent or any Bank pursuant to this Agreement.

7.1 (b) Any representation or warranty made by or on behalf of the Borrower, any Subsidiary or any Guarantor in this Agreement or any other Loan Document or by or on behalf of the Borrower, any Subsidiary or any Guarantor in any certificate, statement, report or document herewith or hereafter furnished to any Bank or the Agent pursuant to this Agreement or any other Loan Document shall prove to have been false or misleading in any material respect on the date as of which the facts set forth are stated or certified.

7.1 (c) The Borrower shall fail to comply with Sections 5.2 or 5.3 hereof or any Section of Article VI hereof.

7.1 (d) The Borrower shall fail to comply with any other agreement, covenant, condition, provision or term contained in this Agreement (other than those hereinabove set forth in this Section 7.1) and such failure to comply shall continue for 30 calendar days after whichever of the following dates is the earliest: (i) the date the Borrower gives notice of such failure to the Banks, (ii) the date the Borrower should have given notice of such failure to the Banks pursuant to Section 5.1, or (iii) the date the Agent or any Bank gives notice of such failure to the Borrower.

7.1 (e) The Borrower, any Subsidiary or any Guarantor shall become insolvent or shall generally not pay its debts as they mature or shall apply for, shall consent to, or shall acquiesce in the appointment of a custodian, trustee or receiver of the Borrower, such Subsidiary or such

Guarantor or for a substantial part of the property thereof or, in the absence of such application, consent or acquiescence, a custodian, trustee or receiver shall be appointed for the Borrower, a Subsidiary or a Guarantor or for a substantial part of the property thereof and shall not be discharged within 30 days, or the Borrower, any Subsidiary or a Guarantor shall make an assignment for the benefit of creditors.

7.1 (f) Any bankruptcy, reorganization, debt arrangement or other proceedings under any bankruptcy or insolvency law shall be instituted by or against the Borrower, a Subsidiary or any Guarantor, and, if instituted against the Borrower, a Subsidiary or any Guarantor, shall have been consented to or acquiesced in by the Borrower, such Subsidiary or such Guarantor, or shall remain undismissed

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for 30 days, or an order for relief shall have been entered against the Borrower, such Subsidiary or such Guarantor.

7.1 (g) Any dissolution or liquidation proceeding not permitted by Section 6.1 shall be instituted by or against the Borrower or a Subsidiary or any dissolution or liquidation proceeding shall be instituted by or against any Guarantor, and, if instituted against the Borrower, any Subsidiary or any Guarantor, shall be consented to or acquiesced in by the Borrower, such Subsidiary or such Guarantor or shall remain for 45 days undismissed.

7.1 (h) A judgment or judgments for the payment of money in excess of the sum of \$300,000 in the aggregate shall be rendered against the Borrower or a Subsidiary and the Borrower or such Subsidiary shall not discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof, prior to any execution on such judgment by such judgment creditor, within 30 days from the date of entry thereof, and within said period of 30 days, or such longer period during which execution of such judgment shall be stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal.

7.1 (i) The maturity of any material Indebtedness of the Borrower (other than Indebtedness under this Agreement) or a Subsidiary shall be accelerated by reason of default, or the Borrower or a Subsidiary shall fail to pay any such material Indebtedness when due (after the lapse of any applicable grace period) or, in the case of such Indebtedness payable on demand, when demanded (after the lapse of any applicable grace period), or any event shall occur or condition shall exist and shall continue for more than the period of grace, if any, applicable thereto and shall have the effect of causing, or permitting the holder of any such Indebtedness or any trustee or other Person acting on behalf of such holder to cause, such material Indebtedness to become due prior to its stated maturity or to realize upon any collateral given as security therefor. For purposes of this Section, Indebtedness of the Borrower or a Subsidiary shall be deemed "material" if it exceeds \$1,000,000 as to any item of Indebtedness or in the aggregate for all items of Indebtedness with

respect to which any of the events described in this Section 7.1(i) has occurred.

7.1 (j) Any execution or attachment shall be issued whereby any substantial part of the property of the Borrower or any Subsidiary shall be taken or attempted to be taken and the same shall not have been vacated or stayed within 30 days after the issuance thereof.

7.1 (k) Any Guarantor shall repudiate or purport to revoke its Guaranty, or any Guaranty for any reason shall cease to be in full force and effect as to the Guarantor executing and delivering the same or shall be judicially declared null and void as to such Guarantor.

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7.1 (l) 50% or more of any class of the capital stock of the Borrower shall come to be owned by a single Person, or by two or more Persons acting together in holding such stock for a common purpose.

7.1 (m) The Borrower shall cease to be the sole shareholder of the stock of any Guarantor.

7.1 (n) Any distribution agreement pursuant to which the Borrower or any Subsidiary sells, installs and/or services new private communications systems for ROLM Company is cancelled or terminates and is not renewed; PROVIDED, HOWEVER, that an Event of Default shall not exist under this Section 7.1(n) if and for so long as both the Borrower and ROLM Company are negotiating for a renewal of such distribution agreement in good faith and with reasonable diligence.

Section 7.2 REMEDIES. If (a) any Event of Default described in Sections 7.1(e), (f) or (g) shall occur with respect to the Borrower, the Revolving Commitments shall automatically terminate (except as provided in Section 2.2(b)) and the Revolving Notes and all other Obligations shall automatically become immediately due and payable, the Borrower shall without demand pay into the Holding Account an amount equal to the aggregate face amount of all outstanding Commercial Paper Notes and Standby Letters of Credit, and the Borrower shall have no right to have any new Commercial Paper Notes or Standby Letters of Credit issued on its behalf; or (b) any other Event of Default shall occur and be continuing, then, upon receipt by the Agent of a request in writing from the Majority Banks, the Agent shall (i) declare the Revolving Commitments terminated, whereupon the Revolving Commitments shall terminate (except as provided in Section 2.2(b)), (ii) declare the outstanding unpaid principal balance of the Revolving Notes, the accrued and unpaid interest thereon and all other Obligations to be forthwith due and payable, whereupon the Revolving Notes, all accrued and unpaid interest thereon and all such Obligations shall immediately become due and payable, in each case without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived, anything in this Agreement or in the Revolving Notes to the contrary

notwithstanding, (iii) demand that the Borrower pay into the Holding Account an amount equal to the aggregate face amount of all outstanding Commercial Paper Notes and Standby Letters of Credit, whereupon the Borrower shall pay such amount, (iv) cause First Bank to instruct the Depositary under the Commercial Paper Documents not to issue any additional Commercial Paper Notes on behalf of the Company; (v) exercise all rights and remedies under any of the Loan Documents, and (vi) enforce all rights and remedies under any applicable law.

Section 7.3 OFFSET. In addition to the remedies set forth in Section 7.2, upon the occurrence of any Event of Default and thereafter while the same be continuing, the Borrower hereby irrevocably authorizes each Bank to set off any Obligations owed to such Bank against all deposits and credits of the Borrower with,

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and any and all claims of the Borrower against, such Bank. Such right shall exist whether or not such Bank shall have made any demand hereunder or under any other Loan Document, whether or not the Obligations, or any part thereof, or deposits and credits held for the account of the Borrower is or are matured or unmatured, and regardless of the existence or adequacy of any collateral, guaranty or any other security, right or remedy available to such Bank or the Banks. Each Bank agrees that, as promptly as is reasonably possible after the exercise of any such setoff right, it shall notify the Borrower of its exercise of such setoff right; provided, however, that the failure of such Bank to provide such notice shall not affect the validity of the exercise of such setoff rights. Nothing in this Agreement shall be deemed a waiver or prohibition of or restriction on any Bank to all rights of banker's Lien, setoff and counterclaim available pursuant to law.

## ARTICLE VIII

### THE AGENT

The following provisions shall govern the relationship of the Agent with the Banks.

Section 8.1 APPOINTMENT AND AUTHORIZATION. Each Bank appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such respective powers under the Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto. Neither the Agent nor any of its directors, officers or employees shall be liable for any action taken or omitted to be taken by it under or in connection with the Loan Documents, except for its own gross negligence or willful misconduct. The Agent shall act as an independent contractor in performing its obligations as Agent hereunder and nothing herein contained shall be deemed to create any fiduciary relationship among or between the Agent, the Borrower or the Banks.

Section 8.2 NOTE HOLDERS. The Agent may treat the payee of any Revolving Note as the holder thereof until written notice of transfer shall have been filed with it, signed by such payee and in form satisfactory to the Agent.

Section 8.3 CONSULTATION WITH COUNSEL. The Agent may consult with legal counsel selected by it with reasonable care and shall not be liable for any action taken or suffered in good faith by it in accordance with the advice of such counsel.

Section 8.4 LOAN DOCUMENTS. The Agent shall not be under a duty to examine or pass upon the validity, effectiveness, genuineness or value of any of the Loan Documents or any other instrument or document furnished pursuant thereto, and the Agent shall be entitled to assume that the same are valid, effective and genuine and what they purport to be.

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Section 8.5 FIRST BANK AND AFFILIATES. With respect to its Revolving Commitment and the Revolving Loans made by it, First Bank shall have the same rights and powers under the Loan Documents as any other Bank and may exercise the same as though it were not the Agent consistent with the terms thereof, and First Bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower as if it were not the Agent.

Section 8.6 ACTION BY AGENT. Except as may otherwise be expressly stated in this Agreement, the Agent shall be entitled to use its discretion with respect to exercising or refraining from exercising any rights which may be vested in it by, or with respect to taking or refraining from taking any action or actions which it may be able to take under or in respect of, the Loan Documents. The Agent shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Banks, and such instructions shall be binding upon all holders of Revolving Notes; provided, however, that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to the Loan Documents or applicable law. The Agent shall incur no liability under or in respect of any of the Loan Documents by acting upon any notice, consent, certificate, warranty or other paper or instrument believed by it to be genuine or authentic or to be signed by the proper party or parties and to be consistent with the terms of this Agreement.

Section 8.7 CREDIT ANALYSIS. Each Bank has made, and shall continue to make, its own independent investigation or evaluation of the operations, business, property and condition, financial and otherwise, of the Borrower in connection with entering into this Agreement and has made its own appraisal of the creditworthiness of the Borrower. Except as explicitly provided herein, the Agent has no duty or responsibility, either initially or on a continuing basis, to provide any Bank with any credit or other information with respect to such operations, business, property, condition or creditworthiness, whether such



information comes into its possession on or before the first Event of Default or at any time thereafter.

Section 8.8 NOTICES OF EVENT OF DEFAULT, ETC. In the event that the Agent shall have acquired actual knowledge of any Event of Default or Default, the Agent shall promptly give notice thereof to the Banks.

Section 8.9 INDEMNIFICATION. Each Bank agrees to indemnify the Agent, as Agent (to the extent not reimbursed by the Borrower), ratably according to

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such Bank's share of the Aggregate Revolving Commitment Amounts from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on or incurred by the Agent in any way relating to or arising out of the Loan Documents or any action taken or omitted by the Agent under the Loan Documents, provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. No payment by any Bank under this Section shall relieve the Borrower of any of its obligations under this Agreement.

Section 8.10 PAYMENTS AND COLLECTIONS. All funds received by the Agent in respect of (a) any payments made by the Borrower on the Revolving Notes, (b) any reimbursement payments made by the Borrower with respect to Unpaid Drawings that were funded by Unpaid Drawing Repayment Loans and/or participation payments made by the Banks under Section 2.11(b), and (c) any payments by the Bank of Revolving Commitment Fees, shall be distributed forthwith by the Agent among the Banks, in like currency and funds as received, ratably according to each Bank's Revolving Outstandings Percentage. All funds received by the Agent in respect of any payments made by the Borrower for Letter of Credit Fees shall be distributed forthwith by the Agent among the Banks, in like currency and funds as received, ratably according to each Bank's Revolving Commitment Percentage (except as provided in the proviso clause of Section 2.14(b)). After any Event of Default has occurred, all funds received by the Agent, whether as payments by the Borrower or as realization on collateral or on any Guaranties, shall (except as may otherwise be required by law) be distributed by the Agent in the following order: (a) first to the Agent or any Bank who has incurred unreimbursed costs of collection with respect to any Obligations hereunder, ratably to the Agent and each Bank in the proportion that the costs incurred by the Agent or such Bank bear to the total of all such costs incurred by the Agent and all Banks; (b) next to the Agent for the account of the Banks (in accordance with their respective Revolving Percentages) for application on the Revolving Notes and Unpaid Drawings; (c) next to the Agent for the account of the Banks (in accordance with their respective Revolving Outstandings Percentages) for any unpaid Revolving Commitment Fees owing by the

Borrower hereunder; (d) next to the Agent for the account of the Banks (in accordance with their respective Revolving Commitment Percentages) for any unpaid Letter of Credit Fees owing by the Borrower; and (e) last to the Agent to be held in the Holding Account to cover any outstanding Commercial Paper Notes and Standby Letters of Credit. The provisions of this Section 8.10 shall not apply to payments of the issuance, amendment, drawing and other fees and out-of-pocket expenses of First Bank under Section 2.14(c), the Agent Fee under Section 2.16 (a), First Bank Fees under Section 2.16 (b) or Placement Agent Fees under Section 2.16 (c), which fees shall be solely for the account of First Bank, the Agent and the Placement Agent, respectively.

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Section 8.11 SHARING OF PAYMENTS. If any Bank shall receive and retain any payment, voluntary or involuntary, whether by setoff, application of deposit balance or security, or otherwise, in respect of the Obligations owing to such Bank under this Agreement or the Revolving Notes in excess of such Bank's share, as determined under this Agreement, of the Obligations then due and payable to the Banks under this Agreement, then such Bank shall purchase from the other Banks for cash and at face value and without recourse, such participation in the Revolving Notes held by such other Banks as shall be necessary to cause such excess payment to be shared ratably as aforesaid with such other Banks; provided, that if such excess payment or part thereof is thereafter recovered from such purchasing Bank, the related purchases from the other Banks shall be rescinded ratably and the purchase price restored as to the portion of such excess payment so recovered, but without interest. Subject to the participation purchase obligation above, each Bank agrees to exercise any and all rights of setoff, counterclaim or banker's lien first fully against any Revolving Notes and participations therein held by such Bank, next to any other Indebtedness of the Borrower to such Bank arising under or pursuant to this Agreement and to any participations held by such Bank in Obligations of the Borrower arising under or pursuant to this Agreement, and only then to any other Obligations of the Borrower to such Bank.

Section 8.12 ADVICE TO BANKS. The Agent shall forward to the Banks copies of all notices, financial reports and other communications received hereunder from the Borrower by it as Agent, excluding, however, notices, reports and communications which by the terms hereof are to be furnished by the Borrower directly to each Bank.

Section 8.13 RESIGNATION. If at any time First Bank shall deem it advisable, in its sole discretion, it may submit to each of the Banks and the Borrower a written notification of its resignation as Agent under this Agreement, such resignation to be effective upon the appointment of a successor Agent, but in no event later than 30 days from the date of such notice. Upon submission of such notice, the Majority Banks may appoint a successor Agent.

## ARTICLE IX

Section 9.1 MODIFICATIONS. Notwithstanding any provisions to the contrary herein, any term of this Agreement may be amended with the written consent of the Borrower; provided that no amendment, modification or waiver of any provision of this Agreement or any other Loan Document or consent to any departure therefrom by the Borrower or other party thereto shall in any event be effective unless the same shall be in writing and signed by the Majority Banks, and then such amendment, modification, waiver or consent shall be effective only in

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the specific instance and for the purpose for which given. Notwithstanding the foregoing, no such amendment, modification, waiver or consent shall:

9.1 (a) Reduce the rate or extend the time of payment of interest thereon, or reduce the amount of the principal thereof, or modify any of the provisions of any Revolving Note with respect to the payment or repayment thereof, without the consent of the holder of each Revolving Note so affected; or

9.1 (b) Increase the amount or extend the time of any Revolving Commitment of any Bank, without the consent of such Bank; or

9.1 (c) Reduce the rate or extend the time of payment of any fee payable to a Bank, without the consent of the Bank affected; or

9.1 (d) Amend the definition of Majority Banks or otherwise reduce the percentage of the Banks required to approve or effectuate any such amendment, modification, waiver, or consent, without the consent of all the Banks; or

9.1 (e) Amend any of Sections 2.20 through 2.25 or any of the foregoing Sections 9.1 (a) through (d) or this Section 9.1 (e) without the consent of all the Banks; or

9.1 (f) Amend any provision of this Agreement relating to the Agent in its capacity as Agent without the consent of the Agent; or

9.1 (g) Amend any provision of this Agreement relating to the Commercial Paper Program or the issuance of Commercial Paper Notes or Standby Letters of Credit without the consent of First Bank; or

9.1 (h) Release any Guarantor from its obligations under its Guaranty.

Section 9.2 EXPENSES. Whether or not the transactions contemplated hereby are consummated, the Borrower agrees to reimburse the Agent upon demand

for all reasonable out-of-pocket expenses paid or incurred by the Agent (including filing and recording costs and fees and expenses of Dorsey & Whitney, counsel to the Agent), in connection with the negotiation, preparation, approval, review, execution, delivery, amendment, modification and interpretation of this Agreement and the other Loan Documents and any commitment letters relating thereto. The Borrower shall also reimburse the Agent and, after the occurrence of an Event of Default, each Bank upon demand for all reasonable out-of-pocket expenses (including expenses of legal counsel) paid or incurred by the Agent or any Bank in connection with the collection and enforcement of this Agreement and any

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other Loan Document. The obligations of the Borrower under this Section shall survive any termination of this Agreement.

Section 9.3 WAIVERS, ETC. No failure on the part of the Agent or the holder of a Revolving Note to exercise and no delay in exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right. The remedies herein and in the other Loan Documents provided are cumulative and not exclusive of any remedies provided by law.

Section 9.4 NOTICES. Except when telephonic notice is expressly authorized by this Agreement, any notice or other communication to any party in connection with this Agreement shall be in writing and shall be sent by manual delivery, telegram, telex, facsimile transmission, overnight courier or United States mail (postage prepaid) addressed to such party at the address specified on the signature page hereof, or at such other address as such party shall have specified to the other party hereto in writing. All periods of notice shall be measured from the date of delivery thereof if manually delivered, from the date of sending thereof if sent by telegram, telex or facsimile transmission, from the first Business Day after the date of sending if sent by overnight courier, or from four days after the date of mailing if mailed; provided, however, that any notice to the Agent or any Bank under Article II hereof shall be deemed to have been given only when received by the Agent or such Bank.

Section 9.5 TAXES. The Borrower agrees to pay, and save the Agent and the Banks harmless from all liability for, any stamp or other taxes which may be payable with respect to the execution or delivery of this Agreement or the issuance of the Revolving Notes, which obligation of the Borrower shall survive the termination of this Agreement.

Section 9.6 SUCCESSORS AND ASSIGNS; DISPOSITION OF LOANS; TRANSFEREES. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign its rights or delegate its obligations hereunder or under any other Borrower Loan Document without the prior written consent of all

the Banks. Each Bank may at any time, with the written consent of the Agent and, if no Default or Event of Default has occurred which is continuing, the Borrower, sell, assign, transfer, grant participations in, or otherwise dispose of any portion of its Revolving Commitment, the Revolving Loans and/or Advances (each such interest so disposed of being herein called a "Transferred Interest") to banks or other financial institutions ("Transferees"). The Borrower agrees that each Transferee shall be entitled to the benefits of Sections 2.21, 2.22, 2.23, 2.24 and 9.2 with respect to its Transferred Interest and that each Transferee may exercise any and all rights of banker's Lien, setoff and counterclaim as if such Transferee were a direct lender to

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the Borrower. If any Bank makes any assignment to a Transferee, then upon notice to the Borrower such Transferee, to the extent of such assignment (unless otherwise provided therein), shall become a "Bank" hereunder and shall have all the rights and obligations of such Bank hereunder and such Bank shall be released from its duties and obligations under this Agreement to the extent of such assignment. Notwithstanding the sale by any Bank of any participation hereunder, no participant shall be deemed to be or have the rights and obligations of a Bank hereunder except that any participant shall have a right of setoff under Section 7.3 as if it were such Bank and the amount of its participation were owing directly to such participant by the Borrower.

Section 9.7 CONFIDENTIALITY OF INFORMATION. The Agent and each Bank shall use reasonable efforts to assure that information about the Borrower and its operations, affairs and financial condition, not generally disclosed to the public or to trade and other creditors, which is furnished to the Agent or such Bank pursuant to the provisions hereof is used only for the purposes of this Agreement and any other relationship between any Bank and the Borrower and shall not be divulged to any Person other than the Banks, their Affiliates and their respective officers, directors, employees and agents, except: (a) to their attorneys and accountants, (b) in connection with the enforcement of the rights of the Banks hereunder and under the Revolving Notes and the Guaranties or otherwise in connection with applicable litigation, (c) in connection with assignments and participations and the solicitation of prospective assignees and participants referred to in the immediately preceding Section, and (d) as may otherwise be required or requested by any regulatory authority having jurisdiction over any Bank or by any applicable law, rule, regulation, judicial process or legal process, the opinion of such Bank's counsel concerning the making of such disclosure to be binding on the parties hereto. No Bank shall incur any liability to the Borrower by reason of any disclosure permitted by this Section 9.7.

Section 9.8 GOVERNING LAW AND CONSTRUCTION. THE VALIDITY, CONSTRUCTION AND ENFORCEABILITY OF THIS AGREEMENT AND THE REVOLVING NOTES SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS OF THE UNITED STATES APPLICABLE TO NATIONAL BANKS. Whenever possible, each

provision of this Agreement and the other Loan Documents and any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be interpreted in such manner as to be effective and valid under such applicable law, but, if any provision of this Agreement, the other Loan Documents or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto shall be held to be prohibited or invalid under such applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement, the other Loan

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Documents or any other statement, instrument or transaction contemplated hereby or thereby or relating hereto or thereto.

Section 9.9 CONSENT TO JURISDICTION. AT THE OPTION OF THE AGENT, THIS AGREEMENT AND THE OTHER BORROWER LOAN DOCUMENTS MAY BE ENFORCED IN ANY FEDERAL COURT OR MINNESOTA STATE COURT SITTING IN MINNEAPOLIS OR ST. PAUL, MINNESOTA; AND THE BORROWER CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT THE BORROWER COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, THE AGENT AT ITS OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 9.10 SURVIVAL OF AGREEMENT. All representations, warranties, covenants and agreement made by the Borrower herein or in the other Borrower Loan Documents and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be deemed to have been relied upon by the Banks and shall survive the making of the Revolving Loans by the Banks and the execution and delivery to the Banks by the Borrower of the Revolving Notes, regardless of any investigation made by or on behalf of the Banks, and shall continue in full force and effect as long as any Obligation is outstanding and unpaid and so long as the Revolving Commitments have not been terminated; provided, however, that the obligations of the Borrower under Section 9.2, 9.5 and 9.11 shall survive payment in full of the Obligations and the termination of the Revolving Commitments.

Section 9.11 INDEMNIFICATION. The Borrower hereby agrees to defend, protect, indemnify and hold harmless the Agent and the Banks and their respective Affiliates and the directors, officers, employees, attorneys and agents of the Agent and the Banks and their respective Affiliates (each of the foregoing being an "Indemnatee" and all of the foregoing being collectively the "Indemnitees") from and against any and all claims, actions, damages, liabilities, judgments, costs and expenses (including all reasonable fees and

disbursements of counsel which may be incurred in the investigation or defense of any matter) imposed upon, incurred by or asserted against any Indemnitee, whether direct, indirect or consequential and whether based on any federal, state, local or foreign laws or regulations (including securities laws, environmental laws, commercial laws and regulations), under common law or on equitable cause, or on contract or otherwise:

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(a) by reason of, relating to or in connection with the execution, delivery, performance or enforcement of any Loan Document, any commitments relating thereto, or any transaction contemplated by any Loan Document; or

(b) by reason of, relating to or in connection with any credit extended or used under the Loan Documents or any act done or omitted by any Person, or the exercise of any rights or remedies thereunder, including the acquisition of any collateral by the Banks by way of foreclosure of the Lien thereon, deed or bill of sale in lieu of such foreclosure or otherwise;

provided, however, that the Borrower shall not be liable to any Indemnitee for any portion of such claims, damages, liabilities and expenses resulting from such Indemnitee's gross negligence or willful misconduct. In the event this indemnity is unenforceable as a matter of law as to a particular matter or consequence referred to herein, it shall be enforceable to the full extent permitted by law.

This indemnification applies, without limitation, to any act, omission, event or circumstance existing or occurring on or prior to the later of the Termination Date or the date of payment in full of the Obligations, including specifically Obligations arising under clause (b) of this Section. The indemnification provisions set forth above shall be in addition to any liability the Borrower may otherwise have. Without prejudice to the survival of any other obligation of the Borrower hereunder the indemnities and obligations of the Borrower contained in this Section shall survive the payment in full of the other Obligations.

Section 9.12 CAPTIONS. The captions or headings herein and any table of contents hereto are for convenience only and in no way define, limit or describe the scope or intent of any provision of this Agreement.

Section 9.13 ENTIRE AGREEMENT. This Agreement and the other Borrower Loan Documents embody the entire agreement and understanding between the Borrower, the Agent and the Banks with respect to the subject matter hereof and thereof. This Agreement supersedes all prior agreements and understandings relating to the subject matter hereof. Nothing contained in this Agreement or in any other Loan Document, expressed or implied, is intended to confer upon any Persons other than the parties hereto any rights, remedies, obligations or liabilities hereunder or thereunder.

Section 9.14 COUNTERPARTS. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Agreement by signing any such counterpart.

Section 9.15 BORROWER ACKNOWLEDGEMENTS. The Borrower hereby acknowledges that (a) it has been advised by counsel in the negotiation, execution

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and delivery of this Agreement, the other Loan Documents and the Commercial Paper Program Documents, (b) neither the Agent nor any Bank has any fiduciary relationship to the Borrower, the relationship being solely that of debtor and creditor, (c) no joint venture exists between the Borrower and the Agent or any Bank, and (d) neither the Agent nor any Bank undertakes any responsibility to the Borrower to review or inform the Borrower of any matter in connection with any phase of the business or operations of the Borrower and the Borrower shall rely entirely upon its own judgment with respect to its business, and any review, inspection or supervision of, or information supplied to, the Borrower by the Agent or any Bank is for the protection of the Banks and neither the Borrower nor any third party is entitled to rely thereon.

Section 9.16 EXISTING SECURITY AGREEMENT. The Existing Security Agreement is hereby terminated. As soon after the Closing Date as is administratively feasible, the Agent shall file termination statements in all applicable Uniform Commercial Code filing offices, terminating the financing statements heretofore filed with respect to the Existing Security Agreement.

Section 9.17 COVENANT RIDER. All references to the "Credit Agreement" contained in the covenant rider shall be deemed to mean and refer to this Agreement as it may be amended, supplemented or restated from time to time.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to



be executed as of the date first above written.

NORSTAN, INC.

By /s/ Richard Cohen

-----  
Title CFO  
-----

ADDRESS:

6900 Wedgwood Road  
Suite 150  
Post Office Box 9003  
Maple Grove, MN 55311  
Attention: Richard Cohen  
Telecopier: (612) 420-1244

WITH COPIES TO:

Mr. Winston Munson  
Mackall, Crouse & Moore  
1600 TCF Tower  
Minneapolis, MN 55402  
Telecopier: (612) 333-6173

(Signature page to Credit Agreement dated October 28, 1994)

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FIRST BANK NATIONAL ASSOCIATION,  
as Agent and as a Bank

By /s/ Kurt D. Egertson

-----  
Title Vice President  
-----

ADDRESS:

First Bank Place  
601 Second Avenue South

Minneapolis, MN 55402-4302  
Attention: Kurt D. Egertson MPFP0907  
Telecopier: (612) 973-0822

HARRIS TRUST AND SAVINGS BANK

By /s/ Catherine C. Ciolek

-----  
Title Vice President  
-----

ADDRESS:

111 West Monroe Street  
Chicago, IL 60603  
Attention: Peter D. Morris  
Telecopier: (312) 461-2591

(Signature page to Credit Agreement dated October 28, 1994)

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EXHIBIT 1.1A TO  
CREDIT AGREEMENT

REVOLVING COMMITMENT AMOUNTS AND SUBLIMITS

<TABLE>  
<CAPTION>

Bank	Revolving Commitment Amount	Revolving Percentage	Commercial Paper Sublimit	Standby Letter of Credit Sublimit
-----	-----	-----	-----	-----
<S> First Bank National Association	<C> \$25,000,000 (1)	<C> 71.429%	<C> \$10,714,350	<C> \$3,571,450
Harris Trust and Savings	\$10,000,000 (2)	28.571%	\$ 4,285,650	\$1,428,550

Bank

	-----	-----	-----	-----
Total	\$35,000,000 (3)	100%	\$15,000,000	\$5,000,000

NOTE 1: This amount will reduce by \$535,717.50 on each January 31, April 30, July 31 and October 31 occurring after the Closing Date, commencing January 31, 1995.

NOTE 2: This amount will reduce by \$214,282.50 on each January 31, April 30, July 31 and October 31 occurring after the Closing Date, commencing January 31, 1995.

NOTE 3: This amount will reduce by \$750,000 on each January 31, April 30, July 31 and October 31 occurring after the Closing Date, commencing January 31, 1995.

</TABLE>

EXHIBIT 1.1B TO  
CREDIT AGREEMENT

#### GUARANTY

THIS GUARANTY, dated as of October 28, 1994, is made and entered into by and between \_\_\_\_\_, a Minnesota corporation (the "Guarantor"), and FIRST BANK NATIONAL ASSOCIATION, a national banking association, as Agent for the benefit of the Agent and the Banks party to the Credit Agreement referred to below (in such capacity, the "Agent").

#### RECITALS

A. The Borrower, First Bank National Association ("First Bank"), Norwest Bank Minnesota, National Association ("Norwest") and The Daiwa Bank, Limited ("Daiwa"), as "Banks," and the Agent are parties to a Credit Agreement dated as of April 29, 1993, as amended by a First Amendment dated as of October 26, 1993, a Second Amendment dated as of March 1, 1994 and a Third Amendment to Credit Agreement, First Amendment to Pledge and Security Agreement and Waiver dated as of April 29, 1994 (as so amended, the "Existing Credit Agreement").

B. The Borrower's obligations under the Existing Credit Agreement are guaranteed by the Guarantor pursuant to a Guaranty executed by the Guarantor in favor of the Agent for benefit of said Banks, dated as of April 29, 1993 (the "Existing Guaranty").

D. Norwest and Daiwa are, concurrently herewith, ceasing to be "Banks" under the Existing Credit Agreement.

E. First Bank, Harris Trust and Savings Bank ("Harris") and the Agent are, concurrently herewith, entering into a Credit Agreement of even date herewith (the "Credit Agreement"), which Credit Agreement constitutes an amendment and restatement of the Existing Credit Agreement.

F. It is a condition precedent to the effectiveness of the Credit Agreement and to the obligations of First Bank and Harris to extend credit accommodations pursuant to the terms of the Credit Agreement and the availability of drawings under the Commercial Paper Letter of Credit for the Commercial Paper Program that the Existing Guaranty be amended and restated in its entirety.

G. The Guarantor is a wholly owned subsidiary of the Borrower and may receive a portion of the proceeds received by the Borrower under the Credit Agreement in the form of loans, capital contributions or other Investments by the Borrower in the Guarantor.

H. The Guarantor expects to derive benefits from the extension of credit accommodations to the Borrower under the Credit Agreement and finds it advantageous, desirable and in its best interests to amend and restate the Existing Guaranty.

NOW, THEREFORE, In consideration of the credit accommodations to be extended to the Borrower and for other good and valuable consideration, the parties hereto hereby agree that the Existing Guaranty shall be, and it hereby is, amended and restated to read in full as follows:

Section 1. DEFINED TERMS. Terms defined in the Credit Agreement and not otherwise defined herein shall, when used herein, have the meanings ascribed thereto in the Credit Agreement. In addition, the following terms shall have the meanings indicated:

"ADJUSTED NET WORTH" of the Guarantor shall mean, as of any date of determination thereof, the excess of (a) the amount of the "present fair saleable value" of the assets of the Guarantor as of the date of such determination, over (b) the amount of all "liabilities of the Guarantor, contingent or otherwise," as of the date of such determination, as such quoted terms are determined in accordance with applicable federal and state laws governing determinations of the insolvency of debtors; provided, however, that in determining the liabilities of the Guarantor for purposes of calculating the Guarantor's Adjusted Net Worth, the liabilities of the Guarantor under this Guaranty shall be excluded.

"AGENT" shall mean First Bank National Association in its capacity as Agent under the Credit Agreement and any successor thereto in such capacity.

"CREDIT AGREEMENT" shall have the meaning indicated in Recital A.

"DETERMINATION DATE" shall mean the earlier of (a) the date of commencement of a case under Title 11 of the United States Code in which the Guarantor is a debtor, or (b) the date enforcement hereunder is sought with respect to the Guarantor.

"EXTENSION OF CREDIT" shall mean all loans, advances, other extensions of credit and other credit facilities and accommodations of any kind whatsoever extended to the Borrower under the Credit Agreement and/or the Commercial Paper Program Documents.

"GUARANTOR" shall have the meaning indicated in the opening paragraph hereof.

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"MAXIMUM GUARANTEED AMOUNT" for the Guarantor shall mean, as of the Determination Date, the sum of (a) an amount equal to the aggregate amount of the Extensions of Credit under the Credit Agreement the proceeds of which are used to make a Valuable Transfer to the Guarantor, plus (b) the greater of (i) 95% of the Adjusted Net Worth of the Guarantor at the date of the making of the first of the Extensions of Credit under the Credit Agreement, or (ii) 95% of the Adjusted Net Worth of the Guarantor on such Determination Date.

"VALUABLE TRANSFER" shall mean, in respect of the Guarantor, (a) all loans, advances or capital contributions made to the Guarantor with proceeds of Extensions of Credit, (b) all debt securities or other obligations of the Guarantor acquired from the Guarantor, or retired by the Guarantor, with proceeds of Extensions of Credit, (c) the fair market value of all property acquired with proceeds of Extensions of Credit and transferred, absolutely and not as collateral, to the Guarantor (but only to the extent of the economic benefit to the Guarantor of the property so transferred), (d) all equity securities of the Guarantor acquired from the Guarantor with proceeds of Extensions of Credit, and (e) the value of quantifiable economic benefits not included in clauses (a) through (d) above accruing to the Guarantor as a result of the Extensions of Credit.

Section 2. THE GUARANTY. The Guarantor hereby absolutely and unconditionally guarantees to the Agent and the Banks the payment when due (whether at a stated maturity or earlier by reason of acceleration or otherwise) and performance of the Obligations; PROVIDED, HOWEVER, that the obligation of the Guarantor on this Guaranty is limited to the Maximum Guaranteed Amount as determined at the Determination Date; and PROVIDED, FURTHER, that the Maximum Guaranteed Amount for which the Guarantor may be liable hereunder shall in no event exceed the amount which can be guaranteed by the Guarantor under applicable federal and state laws relating to the insolvency of debtors.

Section 3. CONTINUING GUARANTY. This Guaranty is an absolute, unconditional, complete and continuing guaranty of payment and performance of the Obligations, and the obligations of the Guarantor hereunder shall not be released, in whole or in part, by any action or thing which might, but for this provision of this Guaranty, be deemed a legal or equitable discharge of a surety or guarantor, other than irrevocable payment and performance in full of the Obligations. No notice of the Obligations to which this Guaranty may apply, or of any renewal or extension thereof need be given to the Guarantor and none of the foregoing acts shall release the Guarantor from liability hereunder. The Guarantor hereby expressly waives (a) demand of payment, presentment, protest, notice of dishonor, nonpayment or nonperformance on any and all forms of the Obligations; (b) notice of acceptance of this Guaranty and notice of any liability to which it may

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apply; (c) all other notices and demands of any kind and description relating to the Obligations now or hereafter provided for by any agreement, statute, law, rule or regulation; and (d) any and all defenses of the Borrower pertaining to the Obligations except for the defense of discharge by payment. The Guarantor shall not be exonerated with respect to the Guarantor's liabilities under this Guaranty by any act or thing except irrevocable payment and performance of the Obligations, it being the purpose and intent of this Guaranty that the Obligations constitute the direct and primary obligations of the Guarantor and that the covenants, agreements and all obligations of the Guarantor hereunder be absolute, unconditional and irrevocable. The Guarantor shall be and remain liable for any deficiency remaining after foreclosure of any mortgage, deed of trust or security agreement securing all or any part of the Obligations, whether or not the liability of the Borrower or any other Person for such deficiency is discharged pursuant to statute, judicial decision or otherwise. The acceptance of this Guaranty by the Agent for the benefit of the Agent and the Banks is not intended and does not release any liability previously existing of any guarantor or surety of any indebtedness of the Borrower to the Agent or the Banks.

Section 4. OTHER TRANSACTIONS. The Agent and the Banks are expressly authorized (a) to exchange, surrender or release with or without consideration any or all collateral and security which may at any time be placed with it by the Borrower or by any other Person, or to forward or deliver any or all such collateral and security directly to the Borrower for collection and remittance or for credit, or to collect the same in any other manner without notice to the Guarantor; and (b) to amend, modify, extend or supplement the Credit Agreement, any note or other instrument evidencing the Obligations or any part thereof and any other agreement with respect to the Obligations, waive compliance by the Borrower or any other Person with the respective terms thereof and settle or compromise any of the Obligations without notice to the Guarantor and without in any manner affecting the absolute liabilities of the Guarantor hereunder. No invalidity, irregularity or unenforceability of all or any part of the Obligations or of any security therefor or other recourse with respect thereto shall affect, impair or be a defense to this Guaranty. The liabilities of the

Guarantor hereunder shall not be affected or impaired by any failure, delay, neglect or omission on the part of the Agent or the Banks to realize upon any of the Obligations of the Borrower to the Agent or the Banks, or upon any collateral or security for any or all of the Obligations, nor by the taking by the Agent or the Banks of (or the failure to take) any other guaranty or guaranties to secure the Obligations, nor by the taking by the Agent or the Banks of (or the failure to take or the failure to perfect their security interest in or other Lien on) collateral or security of any kind. No act or omission of the Agent or the Banks, whether or not such action or failure to act varies or increases the risk of, or affects the rights or remedies of the Guarantor, shall affect or impair the obligations of the Guarantor hereunder. The Guarantor acknowledges that this Guaranty is in effect and binding without reference to whether this Guaranty is signed by any other

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Person or Persons, that possession of this Guaranty by the Agent shall be conclusive evidence of due delivery hereof by the Guarantor and that this Guaranty shall continue in full force and effect, both as to the Obligations then existing and/or thereafter created, notwithstanding the release of or extension of time to any other guarantor of the Obligations or any part thereof.

Section 5. ACTIONS NOT REQUIRED. The Guarantor hereby waives any and all right to cause a marshalling of the assets of the Borrower or any other action by any court or other governmental body with respect thereto or to cause the Agent or the Banks to proceed against any security for the Obligations or any other recourse which the Agent or the Banks may have with respect thereto and further waives any and all requirements that the Agent or the Banks institute any action or proceeding at law or in equity, or obtain any judgment, against the Borrower or any other Person, or with respect to any collateral security for the Obligations, as a condition precedent to making demand on or bringing an action or obtaining and/or enforcing a judgment against, the Guarantor upon this Guaranty. The Guarantor further acknowledges that time is of the essence with respect to the Guarantor's obligations under this Guaranty. Any remedy or right hereby granted which shall be found to be unenforceable as to any Person or under any circumstance, for any reason, shall in no way limit or prevent the enforcement of such remedy or right as to any other Person or circumstance, nor shall such unenforceability limit or prevent enforcement of any other remedy or right hereby granted.

Section 6. NO SUBROGATION. Notwithstanding any payment or payments made by the Guarantor hereunder or any setoff or application of funds of the Guarantor by the Agent or the Banks, the Guarantor shall not be entitled to be subrogated to any of the rights of the Agent or the Banks against the Borrower or any other guarantor or any collateral security or guaranty or right of offset held by the Agent or the Banks for the payment of the Obligations, nor shall the Guarantor seek or be entitled to seek any contribution or reimbursement from the

Borrower or any other guarantor in respect of payments made by the Guarantor hereunder, until all amounts owing to the Agent and the Banks by the Borrower on account of the Obligations are irrevocably paid in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all of the Obligations shall not have been irrevocably paid in full, such amount shall be held by the Guarantor in trust for the Agent for the benefit of the Agent and the Banks, segregated from other funds of the Guarantor, and shall, forthwith upon receipt by the Guarantor, be turned over to the Agent, for the benefit of the Agent and the Banks, in the exact form received by the Guarantor (duly indorsed by the Guarantor to the Agent, if required), to be applied against the Obligations, whether matured or unmatured, in such order as the Agent and the Banks may determine.

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Section 7. APPLICATION OF PAYMENTS. Any and all payments upon the Obligations made by the Guarantor or by any other Person, and/or the proceeds of any or all collateral or security for any of the Obligations, may be applied by the Agent and the Banks on such items of the Obligations as the Agent and the Banks may elect.

Section 8. RECOVERY OF PAYMENT. If any payment received by the Agent or the Banks and applied to the Obligations is subsequently set aside, recovered, rescinded or required to be returned for any reason (including, without limitation, the bankruptcy, insolvency or reorganization of the Borrower or any other obligor), the Obligations to which such payment was applied shall for the purposes of this Guaranty be deemed to have continued in existence, notwithstanding such application, and this Guaranty shall be enforceable as to such Obligations as fully as if such application had never been made. References in this Guaranty to amounts "irrevocably paid" or to "irrevocable payment" refer to payments that cannot be set aside, recovered, rescinded or required to be returned for any reason.

Section 9. BORROWER'S FINANCIAL CONDITION. The Guarantor is familiar with the financial condition of the Borrower, and the Guarantor has executed and delivered this Guaranty based on the Guarantor's own judgment and not in reliance upon any statement or representation of the Agent or the Banks. Neither the Agent nor the Banks shall have any obligation to provide the Guarantor with any advice whatsoever or to inform the Guarantor at any time of the Agent's or the Banks' actions, evaluations or conclusions on the financial condition or any other matter concerning the Borrower.

Section 10. REMEDIES. All remedies afforded to the Agent for the benefit of the Banks by reason of this Guaranty are separate and cumulative remedies and it is agreed that no one of such remedies, whether or not exercised by the Agent, shall be deemed to be in exclusion of any of the other remedies available to the Agent or the Banks and shall in no way limit or prejudice any other legal or equitable remedy which the Agent or the Banks may have hereunder



and with respect to the Obligations. Mere delay or failure to act shall not preclude the exercise or enforcement of any rights and remedies available to the Agent under or with respect to this Guaranty.

Section 11. BANKRUPTCY OF THE BORROWER. The Guarantor expressly agrees that the liabilities and obligations of the Guarantor under this Guaranty shall not in any way be impaired or otherwise affected by the institution by or against the Borrower or any other Person of any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, or any other similar proceedings for relief under any bankruptcy law or similar law for the relief of debtors and that any discharge of any of the Obligations pursuant to any such bankruptcy or similar law or other law shall not diminish, discharge or otherwise affect in any way the

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obligations of the Guarantor under this Guaranty, and that upon the institution of any of the above actions, such obligations shall be enforceable against the Guarantor.

Section 12. COSTS AND EXPENSES. The Guarantor will pay or reimburse the Agent and the Banks on demand for all out-of-pocket expenses (including in each case all reasonable fees and expenses of counsel) incurred by the Agent or the Banks arising out of or in connection with the enforcement of this Guaranty against the Guarantor or arising out of or in connection with any failure of the Guarantor to fully and timely perform the obligations of the Guarantor hereunder.

Section 13. WAIVERS AND AMENDMENTS. This Guaranty can be waived, modified, amended, terminated or discharged only explicitly in a writing signed by the Agent. A waiver so signed shall be effective only in the specific instance and for the specific purpose given.

Section 14. NOTICES. Any notice or other communication to any party in connection with this Guaranty shall be in writing and shall be sent by manual delivery, telegram, telex, facsimile transmission, overnight courier or United States mail (postage prepaid) addressed to such party at the address specified on the signature page hereof, or at such other address as such party shall have specified to the other party hereto in writing. All periods of notice shall be measured from the date of delivery thereof if manually delivered, from the date of sending thereof if sent by telegram, telex or facsimile transmission, from the first business day after the date of sending if sent by overnight courier, or from four days after the date of mailing if mailed.

Section 15. GUARANTOR ACKNOWLEDGEMENTS. The Guarantor hereby acknowledges that (a) counsel has advised the Guarantor in the negotiation, execution and delivery of this Guaranty, (b) neither the Agent nor any of the

Banks has any fiduciary relationship to the Guarantor, the relationship being solely that of debtor and creditor, and (c) no joint venture exists between the Guarantor, the Agent or any of the Banks.

Section 16. REPRESENTATIONS AND WARRANTIES. The Guarantor hereby represents and warrants to the Agent and the Banks that:

16(a) The Guarantor is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has the corporate power and authority and the legal right to own and operate its properties and to conduct the business in which it is currently engaged.

16(b) The Guarantor has the corporate power and authority and the legal right to execute and deliver, and to perform its obligations under, this

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Guaranty and has taken all necessary corporate action to authorize such execution, delivery and performance.

16(c) This Guaranty constitutes its legal, valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

16(d) The execution, delivery and performance of this Guaranty will not (i) violate any provision of any law, statute, rule or regulation or any order, writ, judgment, injunction, decree, determination or award of any court, governmental agency or arbitrator presently in effect having applicability to the Guarantor, (ii) violate or contravene any provision of its Articles of Incorporation or bylaws, or (iii) result in a breach of or constitute a default under any indenture, loan or credit agreement or any other agreement, lease or instrument to which it is a party or by which it or any of its properties may be bound or result in the creation of any lien thereunder. The Guarantor is not in default under or in violation of any such law, statute, rule or regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, loan or credit agreement or other agreement, lease or instrument in any case in which the consequences of such default or violation could have a material adverse effect on its business, operations, properties, assets or condition (financial or otherwise).

16(e) No order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by, any governmental or public body or authority is required on the part of the Guarantor to authorize, or is required in connection with the execution,

delivery and performance of, or the legality, validity, binding effect or enforceability of, this Guaranty.

16(f) There are no actions, suits or proceedings pending or, to the knowledge of the Guarantor, threatened against or affecting it or any of its properties before any court or arbitrator, or any governmental department, board, agency or other instrumentality which, if determined adversely to the Guarantor, would have a material adverse effect on its business, operations, property or condition (financial or otherwise) or on its ability to perform its obligations hereunder.

16(g) It expects to derive benefits from the transactions resulting in the creation of the Obligations. The Agent and the Banks may rely conclusively on the continuing warranty, hereby made, that the Guarantor continues to be benefitted by the Banks" extensions of credit accommodations to the Borrower and neither the Agent nor any of the Banks shall have any duty to inquire into or confirm the receipt of any such benefits, and this Guaranty shall be effective and enforceable by

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the Agent for the benefit of the Agent and the Banks without regard to the receipt, nature or value of any such benefits.

16(h) The Guarantor (i) is not insolvent as of the Closing Date and will not become insolvent as a result of the execution, delivery and performance of this Guaranty, (ii) is not engaged in a business or transaction, or about to engage in a business or transaction, for which its property is an unreasonably small capital, and (iii) does not intend to incur, or believe that it will incur, debts that would be beyond its ability to pay as such debts mature.

Section 17. CONTINUING GUARANTY; ASSIGNMENTS UNDER CREDIT AGREEMENT. This Guaranty shall (a) remain in full force and effect until irrevocable payment in full of the Obligations and the expiration of the obligations, if any, of the Banks to extend credit accommodations to the Borrower, (b) be binding upon the Guarantor, its successors and assigns and (c) inure to the benefit of, and be enforceable by, the Agent and its successors and assigns in such capacity, for the benefit of the Agent and the Banks and their respective successors, transferees, and assigns. Without limiting the generality of the foregoing clause (c), the Banks may assign or otherwise transfer all or any portion of their respective rights and obligations under the Credit Agreement to any other Persons to the extent and in the manner provided in the Credit Agreement and may similarly transfer all or any portion of their respective rights (as derived through the Agent) under this Guaranty to such Persons.

Section 1. GOVERNING LAW AND CONSTRUCTION. THE VALIDITY, CONSTRUCTION AND ENFORCEABILITY OF THIS GUARANTY SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MINNESOTA, WITHOUT GIVING EFFECT TO CONFLICT OF LAWS PRINCIPLES

THEREOF, BUT GIVING EFFECT TO FEDERAL LAWS OF THE UNITED STATES APPLICABLE TO NATIONAL BANKS. Whenever possible, each provision of this Guaranty and any other statement, instrument or transaction contemplated hereby or relating hereto shall be interpreted in such manner as to be effective and valid under such applicable law, but, if any provision of this Guaranty or any other statement, instrument or transaction contemplated hereby or relating hereto shall be held to be prohibited or invalid under such applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Guaranty or any other statement, instrument or transaction contemplated hereby or relating hereto.

Section 19. CONSENT TO JURISDICTION. AT THE OPTION OF THE AGENT, THIS GUARANTY MAY BE ENFORCED IN ANY FEDERAL COURT OR MINNESOTA STATE COURT SITTING IN MINNEAPOLIS OR ST. PAUL, MINNESOTA; AND THE GUARANTOR CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT

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VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT THE GUARANTOR COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS GUARANTY, THE AGENT AT ITS OPTION SHALL BE ENTITLED TO HAVE THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE- DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 20. COUNTERPARTS. This Guaranty may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

Section 21. GENERAL. All representations and warranties contained in this Guaranty or in any other agreement between the Guarantor, the Agent and/or the Banks shall survive the execution, delivery and performance of this Guaranty and the creation and payment of the Obligations. Captions in this Guaranty are for reference and convenience only and shall not affect the interpretation or meaning of any provision of this Guaranty.

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IN WITNESS WHEREOF, the Guarantor has executed this Guaranty as of the date first above written.

GUARANTOR:

\_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_

Address:

6900 Wedgwood Road  
Suite 150  
Maple Grove, MN 55311

FIRST BANK NATIONAL ASSOCIATION,  
as Agent for the benefit of the Agent and  
the Banks

By: \_\_\_\_\_

Title: \_\_\_\_\_

Address:

First Bank National Association

First Bank Place  
601 Second Avenue South  
Minneapolis, MN 55402-4302  
Attention: Kurt D. Egertson - MPFP0907  
Fax (612) 973-0822

(Signature page for Guaranty dated October 28, 1994)

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EXTENSION OF  
CONSULTING AGREEMENT

THIS AGREEMENT, made as of March 4, 1995, by and between SIDNEY COHEN, of Minneapolis, Minnesota ("Consultant") and NORSTAN, INC., a Minnesota corporation (the "Company"),

W I T N E S S E T H:

WHEREAS, Consultant is currently acting as a consultant to the Company pursuant to an Extension of Consulting Agreement dated February 29, 1992, which extended a Consulting Agreement dated May 1, 1987, which agreement as extended will expire on April 30, 1995; and

WHEREAS, the continued availability of Consultant's experience and knowledge are considered to be important to the continued success of the Company's business; and

WHEREAS, the Company wishes to renew the Consulting Agreement and to retain the services of Consultant as an adviser and consultant to the Company and to restrict his right to compete with the Company, for an additional period of three years, and Consultant is willing to provide such services and to agree to such restrictions on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises, and of the mutual covenants hereinafter set forth, the parties do hereby agree as follows:

1. CONSULTING PERIOD. The Company agrees to renew the Consulting Agreement and to retain the services of Consultant, and Consultant agrees to provide the services hereinafter described, for an additional period (the "Consulting Period") beginning on May 1, 1995 and ending on April 30, 1998.

2. DUTIES.

a. CONSULTING SERVICES. During the Consulting Period, Consultant shall hold himself available to consult with and advise the officers, directors, and other representatives of the Company concerning such matters relating to the operations of the Company as the Board of Directors of the Company shall determine. Consultant shall make himself available to render such services at all reasonable times by telephone or letter and, upon reasonable advance notice, in person; PROVIDED, that Consultant shall not be required to perform consulting or advisory services for more than 30 hours during any calendar month during the Consulting Period and shall not be required to perform consulting or advisory services during any period in which he is precluded from doing so by reason of incapacity or ill health.

b. SERVICES AS A DIRECTOR. Consultant shall continue to serve as a Director of the Company until the expiration of his current term, whereupon the Company shall use its best efforts to have him included among management's nominees for election to its Board of Directors for each succeeding term ending not later than one year after the expiration of the Consulting Period. Consultant shall continue to serve as Chairman of the Board of Directors of the Company until the annual meeting of the Company's shareholders next following the date of this Agreement, and for any subsequent portion of the Consulting Period for which he may be elected to that position. Consultant agrees that, except insofar as he may be unable to do so by reason of incapacity or ill health, he shall serve as a Director, and as Chairman of the Board of the Directors, of the Company and of any of its subsidiaries during any part of the Consulting Period for which he may be elected to such a position. Consultant shall be entitled to standard Director's fees for any period during which he is serving as a Director of the Company, which fees shall be in addition to any compensation payable to Consultant pursuant to this Agreement.

3. COMPENSATION. During the Consulting Period, Consultant shall be compensated as follows:

a. RETAINER. During the Consulting Period, Consultant shall be paid a retainer at the rate of \$95,000 per year, payable in equal monthly installments.

b. FACILITIES. During the Consulting Period, Company shall provide Consultant with office space, secretarial assistance, and the use of a Company automobile comparable to that currently provided to him.

c. EXPENSES. Consultant shall be reimbursed by the Company for all reasonable business expenses incurred by him in the performance of his duties pursuant to this Agreement, to the extent such expenses are substantiated and are consistent with the general policies of the Company relating to the reimbursement of such expenses.

d. FRINGE BENEFITS. Consultant shall not be entitled to participate in any of the pension, profit sharing, or other employee benefit plans or fringe benefit programs which are from time to time maintained by the Company for its employees.

e. DEDUCTION AND WITHHOLDING. All compensation and other benefits payable to or on behalf of Consultant pursuant to this Agreement shall be subject to such deductions and withholding as may be agreed to by Consultant or required by applicable law.

4. DISABILITY. If, during the Consulting Period, Consultant shall become incapacitated by accident or illness and, in the opinion of the Board of Directors of the Company, shall be unable to perform the services required of

Agreement, the retainer payable to Consultant pursuant to paragraph 3.a. shall be continued for the remainder of the Consulting Period, but the Company shall have no further obligations to Consultant pursuant to paragraphs 2 or 3 hereof, and Consultant shall have no further obligations to render services pursuant to paragraph 2 hereof.

5. DEATH. If Consultant shall die during the Consulting Period without having breached any of the terms of this Agreement, the retainer payable pursuant to paragraph 3.a. shall be continued for the remainder of the Consulting Period and shall be paid to the beneficiary named in the last written instrument signed by Consultant for the purposes of this Agreement and received by the Company prior to his death. If Consultant fails to name a beneficiary, such amounts shall be paid to his estate. In addition, Consultant shall be entitled to the additional death benefit provided in paragraph 6 below.

6. ADDITIONAL DEATH BENEFIT. The provisions of this paragraph 6 shall supersede, amend, and replace the provisions of the "Employee Death Benefit Agreement" between Consultant and the Company, dated May 3, 1985.

a. PAYMENT ON DEATH. In the event of the Consultant's death during the Consulting Period without having breached any of the terms of this Agreement, the Company shall pay to his wife, Beverly Cohen, if she is then living, or if she is not then living, in equal shares to Consultant's children who are then living, the principal sum of \$200,000 together with interest thereon at the rate of 8% per annum, from the date of death, in installments as hereinafter provided. The Company shall pay said principal and interest in equal monthly installments including interest over a period of time not to exceed five years, said period of time to be determined in the sole discretion of the Company's Board of Directors. In the event that any beneficiary dies before receiving any payment otherwise payable to said beneficiary hereunder, said payment and any remaining payments shall be paid to the then surviving beneficiary or beneficiaries named herein in the same manner as if said deceased beneficiary had not survived the Consultant as regards any payments not yet made upon the deceased beneficiary's death. The beneficiary designations set forth in this paragraph 6.a. shall be irrevocable with respect to any death benefit payable pursuant to this paragraph 6.a.

b. INSURANCE POLICIES. At the expiration of the Consulting Period, the Company shall transfer and assign to Consultant, at no cost to Consultant (other than income or other taxes payable by Consultant with respect to such transfer, which shall be the responsibility of Consultant), all of its right, title, and interest in or to any insurance policy or policies then maintained by it for the purpose of funding its obligation to pay the death benefit provided for in paragraph 6.a. The Company shall have no obligation to maintain, or to continue to maintain, any such policy or policies; PROVIDED, that if the



value of the policy or policies so maintained by the Company at the expiration of the Consulting Period (the "Policy Value") is less than the "Target Value" (as such term is hereinafter defined), then the Company shall pay to Consultant, within 30 days after the expiration of the Consulting Period, the amount by which the Target Value exceeds the Policy Value. (If no such policies are maintained by the Company at the expiration of the Consulting Period, the Company shall pay to Consultant an amount equal to the Target Value.) For the purposes of this paragraph 6.b., "Target Value" shall mean the combined cash values of:

(1) a \$100,000 face value life insurance policy, number 1083085, issued by Minnesota Mutual Life Insurance Company and dated December 19, 1974; and

(2) a \$100,000 face value life insurance policy, number 1846894, issued by Connecticut General Life Insurance Company and dated August 20, 1980;

determined as of the expiration of the Consulting Period as though such policies had been continued in effect until such time, with all premiums paid when due, and with no loans or withdrawals from such policies other than loans or withdrawals made prior to the date of this Agreement.

## 7. COMPETITION.

a. Consultant covenants and agrees that during the Consulting Period, he will not, except with the express written consent of the Board of Directors of the Company, engage directly or indirectly in, or permit his name to be used in connection with, any competitive business in the geographic area serviced by the Company or its subsidiaries.

b. For the purposes of this paragraph 7: (i) the phrase, "engage directly or indirectly in" shall encompass: (A) all of consultant's activities whether on his own account or as an employee, director, officer, agent, consultant, independent contractor, or partner of or in any person, firm, or corporation (other than the Company and its subsidiaries), and (B) Consultant's ownership of more than 10% of the voting stock of any corporation, 5% or more of the gross income of which is derived from any business or businesses in which Consultant may not then engage; and (ii) the phrase "competitive business" shall mean: (A) the sale of telephone, telecommunications, or similar equipment, and (B) any other business in which the Company or its subsidiaries is then engaged.

8. ENFORCEMENT. If, at the time of enforcement of any provision of paragraph 7, a court shall hold that the period, scope, or geographical area restrictions stated therein are unreasonable under circumstances then existing, the maximum period, scope, or geographical area reasonable under the

circumstances shall be substituted for the stated period, scope, or area. In the event of a breach by Consultant of any of the

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provisions of paragraph 7, the Company may, in addition to any other rights and remedies existing in its favor: (a) discontinue the payment of any amounts, or the provision of any benefits, required to be paid or provided to Consultant pursuant to this Agreement; and (b) apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof.

9. STATUS OF CONSULTANT. During the Consulting Period, Consultant's relationship to the Company shall be solely that of an independent contractor. Subject to the provisions of paragraph 7 hereof, Consultant shall be free to dispose of such portion of his time during normal business hours as he is not obligated to devote to the Company hereunder in such manner, and to such persons, firms, and corporations, as he sees fit. Consultant agrees that he will not take any position inconsistent with his status as an independent contractor hereunder in any federal, state, or local income or other tax return.

10. SUCCESSORS.

a. OF THE COMPANY. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined, and any successor to the business and/or assets of the Company which executes and delivers the agreement provided for in this paragraph 10 or which otherwise becomes bound by all the terms and provisions of this Agreement as a matter of law.

b. OF CONSULTANT. This Agreement shall inure to the benefit of and shall be enforceable by Consultant, his legal representative, or other successors in interest.

11. GENERAL PROVISIONS.

a. ASSIGNMENT. Except as provided in paragraph 5, it is agreed that neither Consultant nor any beneficiary shall have any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payment or other benefit hereunder, which payments and benefits, and the rights thereto, are expressly declared to be nonassignable and nontransferable. Except as provided in paragraph 10.a., the Company shall have no right to assign or transfer its rights or obligations under this Agreement without Consultant's prior written consent.

b. UNSECURED CREDITORS. The rights of Consultant under this Agreement, and of any beneficiary or Consultant, shall be solely those of an unsecured creditor of the Company. Any asset acquired by the Company, in connection with the liabilities

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assumed by it under this Agreement, shall not be deemed to be held under any trust for the benefit of the Consultant or his beneficiaries or to be considered security for the performance of the obligations of the Company, but shall be, and remain, a general, unpledged, unrestricted asset of the Company.

c. EFFECT OF HEADINGS. The headings of all of the paragraphs and subparagraphs of this Agreement are inserted for convenience of reference only, and shall not affect the construction or interpretation of this Agreement.

d. MODIFICATION, AMENDMENT, WAIVER. No modification, amendment, or waiver of any provision of this Agreement shall be effective unless approved in writing by both parties. The failure at any time to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of either party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

e. SEVERABILITY. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

f. NO STRICT CONSTRUCTION. The language used in this Agreement shall be deemed to be the language chosen by the parties thereto to express their mutual intent, and no rule of strict construction shall be applied against any person.

g. APPLICABLE LAW. All questions concerning the construction, validity, and interpretation of this Agreement shall be governed by the laws of the State of Minnesota.

h. NOTICES. Any notice to be served under this Agreement shall be in writing and shall be mailed by registered or certified mail, registry or certification fee and postage prepaid and return receipt requested, addressed:

If to the Company, to:

Norstan, Inc.  
P.O. Box 9003  
Maple Grove, Minnesota 55311

If to Consultant, to:

Sidney Cohen  
3916 Basswood Road  
Minneapolis, Minnesota 55416;

or to such other place as either party may specify in writing, delivered in accordance with the provisions of this subparagraph.

i. SURVIVAL. The rights and obligations of the parties shall survive the term of the Consulting Period to the extent that any performance is required under this Agreement after the expiration or termination of such term.

j. ENTIRE AGREEMENT. This Agreement, the Extension of Consulting Agreement dated February 29, 1992, and the Consulting Agreement dated May 1, 1987 constitute all the agreements of the parties with respect to the subject matter thereof, and supersede all previous agreements between the parties relating to the same subject matter including, without limitation, the Employee Death Benefit Agreement between the parties dated May 3, 1985.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

NORSTAN, INC.

By /s/ Paul Baszucki  
-----  
Chief Executive Officer

/s/ Sidney Cohen  
-----  
Sidney Cohen

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT, made as of the 7th day of April, 1995, by and between PAUL BASZUCKI, of Orono, Minnesota ("Executive") and NORSTAN, INC., a Minnesota corporation (the "Company"),

W I T N E S S E T H:

WHEREAS, Executive is presently employed as Vice Chairman and Chief Executive Officer of the Company; and

WHEREAS, Executive's employment relationship is subject to an Employment Agreement dated May 1, 1987 between Executive and the Company (the "Former Agreement"); and

WHEREAS, Executive's experience and knowledge are considered to be necessary to the continued success of the Company's business; and

WHEREAS, the Company desires to encourage the Executive's continued dedication and attention to his assigned duties without distraction from circumstances arising from a possible change in control of the Company; and

WHEREAS, the Company wishes to amend the Former Agreement with Executive governing the terms and conditions of his employment, and Executive is willing to be employed on the terms and conditions hereinafter set forth which shall supersede in all respects the Former Agreement;

NOW, THEREFORE, in consideration of the premises, and of the mutual covenants hereinafter set forth, the parties do hereby agree to amend and restate the Former Agreement in its entirety as follows:

1. EMPLOYMENT PERIOD. The Company agrees to employ Executive, and Executive agrees to remain in the full-time employ of the Company, for the period (the "Employment Period") beginning on the date of this Agreement and ending on April 30, 1998; provided, that on May 1, 1997, and on each May 1st thereafter ("Renewal Date"), the Employment Period shall be extended to a date which is 24 months after such Renewal Date unless, not later than such Renewal Date, the Company gives Executive written notice that the Employment Period shall not be so extended; PROVIDED FURTHER, that in the event of a "Change in Control" (as defined in subparagraph 7.d. below), the Employment Period shall automatically be extended to the date which is 36 months after the date on which the Change in Control occurs, with Renewal Dates thereafter occurring on the second and each subsequent anniversary of the Change in Control. Notwithstanding the foregoing, in no event shall the Employment Period continue beyond the earliest to occur of Executive's 65th birthday, the date as of which Executive's employment is terminated pursuant to paragraph 4 or paragraph 7, or

the date of Executive's death.

2. DUTIES AND LOCATION. During the Employment Period, Executive shall serve as Chief Executive Officer of the Company and, except as otherwise provided in this Agreement, in such other executive positions as the Board of Directors of the Company shall from time to time determine. Executive shall perform such executive and managerial duties consistent with such positions as the Board of Directors of the Company shall from time to time direct. Executive shall devote his best efforts and all of his business time and attention (except for usual vacation periods and reasonable periods of illness or other incapacity) to the business of the Company and its subsidiaries and shall, if elected to such a position, also serve as a director of the Company, and as a director of one or more of the Company's subsidiaries. Executive shall be based at, and shall perform his duties in, Minneapolis, Minnesota, or at such other location as may be mutually agreed upon by Executive and the Board of Directors of the Company; PROVIDED, that Executive shall travel to such other locations at such times as may be necessary or appropriate to the performance of his duties pursuant to this Agreement.

3. COMPENSATION. During the Employment Period, Executive shall be compensated as follows:

a. SALARY. Executive shall be paid a salary at a rate which is not less than \$279,562 per year, exclusive of bonuses, if any, which may from time to time be awarded to Executive pursuant to any authorized bonus, incentive, or similar plan maintained by the Company. Executive's salary shall be paid in installments in accordance with the Company's regular payroll schedule for senior management and it shall be reviewed annually.

b. EXPENSES. Executive shall be reimbursed for all reasonable business expenses incurred in the performance of his duties pursuant to this Agreement, to the extent such expenses are substantiated and are consistent with the general policies of the Company and its subsidiaries relating to the reimbursement of expenses of executive officers.

c. FRINGE BENEFITS. In addition to any other compensation provided under this Agreement, Executive shall be entitled, during the Employment Period, to the following:

i. four weeks vacation per year, to be taken in accordance with the Company's regular vacation policy for senior management;

ii. reimbursement by the Company, in an amount not exceeding \$5,000 per year, of medical, psychological, dental, optical, and prescription expenses incurred by Executive, his spouse, and his dependent children which are not otherwise paid or reimbursed under any employee benefit plan maintained by the Company or its subsidiaries;

iii. use of a current model Company automobile and reimbursement of related expenses;

iv. membership in a country club and a luncheon club in the Twin Cities metropolitan area, the costs of such membership to be paid by the Company; and

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v. reimbursement by the Company, in an amount not exceeding \$4,000 per year, of the costs of personal financial and tax consulting services.

In addition, during the Employment Period, Executive shall be entitled to participate in any and all pension, profit sharing, incentive, and other employee benefit plans or fringe benefit programs which are from time to time maintained by the Company for its executive officers, in accordance with the provisions of such plans or programs as from time to time in effect.

d. DEDUCTION AND WITHHOLDING. All compensation and other benefits payable to or on behalf of Executive pursuant to this Agreement shall be subject to such deductions and withholding as may be agreed to by Executive or required by applicable law.

4. DISABILITY. If, during the Employment Period, Executive shall become incapacitated by accident or illness and, in the opinion of the Board of Directors of the Company, shall be unable to perform the duties of the positions he then occupies for a period of 150 consecutive days, the Company shall have the right to terminate the Employment Period effective at any time after such 150 day period of disability by giving 30 days advance written notice to Executive.

5. DEATH. If Executive shall die during the Employment Period without having breached any of the terms of this Agreement in any material respect, his base salary (at the rate in effect at the time of his death) shall be continued for a period of 12 months to the beneficiary named in the last written instrument signed by Executive for the purposes of this Agreement and received by the Company prior to his death. If Executive fails to name a beneficiary, such amounts shall be paid to his estate.

6. OTHER BENEFITS. The compensation provisions of this Agreement shall be in addition to, and not in derogation or diminution of, any benefits that Executive or his beneficiaries may be entitled to receive under the provisions of any pension, profit sharing, disability, or other employee benefit plan now or hereafter maintained by the Company.

7. TERMINATION.

a. FOR CAUSE BY COMPANY. The Company may terminate Executive's employment for cause upon 60 days prior written notice to Executive. Such

notice shall specify in reasonable detail the nature of the cause and, during such 60 day period, Executive shall have the opportunity to cure the stated cause. If Executive fails to cure a stated cause, the Employment Period shall terminate at the end of the 60 day notice period, but without prejudice to Executive's right to contest the existence of any stated cause and/or to contest the fact that the cause has not been cured. For the purposes of this Agreement, cause shall mean any conduct by Executive involving an act or acts of dishonesty on the part of the Executive constituting a felony and resulting or intended to result directly or indirectly in gain or personal enrichment at the expense of the Company, or any failure by Executive to comply with the terms of this Agreement in any material respect.

b. INELIGIBILITY. If the Company terminates Executive's employment for cause, or if Executive voluntarily terminates his employment under circumstances other than those specified in subparagraphs 7.c. or 14.a., Executive shall not be entitled to receive any

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compensation or other benefits pursuant to this Agreement other than compensation or benefits accrued through the effective date of such termination.

c. ELIGIBILITY. If, prior to the expiration of the initial or then current extension of the Employment Period, (a) Executive voluntarily terminates his employment after a "Change in Control" (as such term is defined in subparagraph 7.d. below), because (i) he has been reassigned to a position of lesser rank or status, because he has been transferred to a location which is more than 25 miles from his previous principal place of employment, because his base salary or incentive compensation has been reduced, or because his benefits have been reduced (unless such reduction is made uniformly in a plan of general application to all of the Company's eligible employees), (ii) for Good Reason (as defined below); or (iii) if his health should become impaired to an extent that makes his continued performance of his duties hereunder hazardous to his physical or mental health or his life, provided that the Executive shall have furnished the Company with a written statement from a qualified physician to such effect and provided, further, that, at the Company's request, the Executive shall submit to an examination by a physician selected by the Company and such doctor shall have concurred in the conclusion of the Executive's doctor; or (iv) for any reason in Executive's sole discretion at any time within 18 months after the date of a Change in Control of the Company by giving thirty (30) days prior notice of termination; or (b) if the Company terminates Executive's employment for reasons other than those specified in paragraph 4 or subparagraph 7.a. of this Agreement, then Executive shall receive the compensation and benefits set forth in Section 8 below, whether or not a Change in Control occurred.

i. For the purposes of this Agreement, "Good Reason" shall mean (A) a failure by the Company to comply with any material provision of this Agreement which has not been cured within ten (10) days after notice of such noncompliance has been given by the Executive to the Company, or (B) any purported termination of the Executive's employment which is not



effected pursuant to a notice of termination which notice shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

d. CHANGE IN CONTROL, DEFINED. For the purposes of this Agreement, a Change in Control shall be deemed to occur when and if, during the Employment Period:

i. any Person (meaning any individual, firm, corporation, partnership, trust or other entity, and includes a "group" (as that term is used in Sections 13(d) and 14(d) of the Act), but excludes Continuing Directors (as defined below) and benefit plans sponsored by the Company):

(1) makes a tender or exchange offer for any shares of the Company's outstanding voting securities at any point in time (the "Company Stock") pursuant to which any shares of the Company's Stock are purchased; or

(2) together with its "affiliates" and "associates" (as those terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934 (the "Act")) becomes the "beneficial owner" (within the meaning of Rule 13d-3 under the Act) of at least 20% of Company's Stock; or

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ii. the stockholders of the Company approve a definitive agreement or plan to merge or consolidate the Company with or into another unaffiliated corporation, to sell or otherwise dispose of all or substantially all of its assets, or to liquidate the Company; or

iii. a majority of the members of the Board become individuals other than Continuing Directors (as defined below).

A "Continuing Director" means:

(a) any member of the Board as of April 1, 1995, and

(b) any other member of the Board, from time to time, who was

(i) nominated for election by the Board, or

(ii) appointed by the Board to fill a vacancy on the Board or to fill a newly-created directorship, in each case excluding any individual nominated or appointed (y) at a Board meeting at which the majority of directors present are not Continuing Directors or (z) by unanimous written action of the Board unless a majority of the directors taking such action are Continuing Directors.

8. COMPENSATION ON CHANGE IN CONTROL. In the event of a termination

under subparagraph 7.c. above, during the Period of Employment or any extension thereof:

a. ACCRUALS. The Company shall pay the Executive any earned and accrued but unpaid installment of base salary through the Date of Termination, at the rate in effect on the Date of Termination, or if greater, on the date immediately preceding the date that a Change in Control occurs, and all other unpaid amounts to which the Executive is entitled as of the Date of Termination under any compensation plan or program of the Company, including, without limitation, all accrued vacation time; such payments to be made in a lump sum on or before the fifth day following the Date of Termination.

b. LIQUIDATED DAMAGES. In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, the Company shall pay as liquidated damages to the Executive an amount equal to the product of (A) the sum of (1) the Executive's annual salary rate in effect as of the Date of Termination, or if greater, on the date immediately preceding the date that a Change in Control occurs, and (2) the greater of: (i) the prior year's actual incentive payment to the Executive under the Company's incentive plan for that year or (ii) the dollar amount payable at 100% of target under the Company's then current incentive plan for the year in which occurs such Date of Termination, and (B) the number two (2); such payment to be made in a lump sum on or before the fifth day following the Date of Termination.

c. OTHER DAMAGES. The Company shall pay all other damages to which the Executive is entitled as a result of such termination, including damages for any and all loss of

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benefits to the Executive under the Company's employee welfare benefit plans and perquisite programs which the Executive would have received had the Executive's employment continued for an additional two (2) years, and including all reasonable legal fees and expenses incurred by him as a result of such termination, including the fees and expenses of enforcing the terms of this Agreement; payment of such fees to be made within thirty (30) days following the Company's receipt of an appropriate invoice therefor.

d. OUTPLACEMENT. For a period of not less than twenty-four (24) months following the Executive's Date of Termination, the Company will reimburse the Executive in an amount not to exceed \$15,000 for all reasonable expenses of a reputable outplacement organization incurred by him (but not including any arrangement by which the Executive prepays expenses for a period of greater than thirty (30) days) in seeking employment with another employer.

e. VESTING OF RESTRICTED STOCK AND STOCK OPTIONS. Executive shall be fully vested in all shares of restricted stock, performance awards, stock appreciation rights and stock options granted to him under the Norstan Inc. 1986 Long-Term Incentive Plan (or any predecessor or successor plan) on the date of a Change in Control.

f. LIMITATION. The present value (as defined herein) of the liquidated damages payable to the Executive under subparagraph (b) above, and any other payments otherwise payable to the Executive by the Company on or after a Change in Control, as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), which are deemed under said Section 280G to constitute "parachute payments" (as defined in Section 280G without regard to Section 280G(b)(2)(A)(ii)), shall be less than three times the Executive's base amount (as defined herein). In the event that the present value of such payments equals or exceeds such amount, the provisions set forth in this subparagraph (f) will apply, and liquidated damages or other severance benefits payable to the Executive under this Agreement will be made only in accordance with this subparagraph (f) notwithstanding any provision to the contrary in this Agreement.

i. Not later than thirty days after the Date of Termination, the Company will provide the Executive with a schedule indicating by category the present value of the liquidated damages payable to the Executive under this Agreement, all other benefits payable to the Executive under this Agreement (specifying the paragraph, subparagraph or clause under which each such payment is to be made) and any other payments otherwise payable to the Executive by the Company on or after the Change in Control, which, in the Company's opinion, constitute parachute payments under Section 280G of the Code. No payments under this Agreement shall be made until after thirty days from the receipt of such schedule by the Executive. At any time prior to the expiration of said 30-day period, the Executive shall have the right to select from all or part of any category of payment to be made under this Agreement those payments to be made to the Executive in an amount the present value of which (when combined with the present value of any other payments otherwise payable to the Executive by the Company that are deemed parachute payments) is less than 300 percent of the Executive's base amount. If the Executive fails to exercise his right to make a selection, only a lump sum cash severance payment equal to

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one dollar less than 300 percent of the Executive's base amount (reduced by the present value of any other payments otherwise payable to the Executive by the Company that are deemed parachute payments and increased, to the extent such increase will not cause the payment to be an excess parachute payment under Section 280G of the Code, by interest from the Date of Termination to the date of payment at the Federal short-term rate, compounded annually, promulgated under Section 1274(d) of the Code as effective for the month in which the Date of Termination occurs) shall be made to the Executive on the day after the expiration of the period extending thirty days from his receipt of the schedule provided for hereunder, and no other liquidated damages or other benefits under subparagraphs (b), (c), (d)

and (e) above of this Agreement shall be paid to the Executive.

ii. If the Company fails to supply the schedule within thirty days of the Date of Termination, then the provisions of this subparagraph (f) shall not apply and the Company shall be obligated to pay to the Executive the full amount of liquidated damages and other benefits under this Agreement, without regard to subparagraph (f).

iii. If the Executive disagrees with the schedule prepared by the Company, then the Executive shall have the right to submit the schedule to arbitration, in accordance with the provisions of paragraph 12 herein. The period in which the Executive may select his benefits under this Agreement shall be extended until fifteen days after a final and binding arbitration award is issued or a final judgment, order or decree of a court of competent jurisdiction is entered upon such arbitration award (the time for appeal therefrom having expired and no appeal having been perfected), and the Company's period for paying the Executive's unpaid benefits under this Agreement shall be extended until ten days thereafter. If the Executive fails to make a selection within said fifteen day period, the Company shall pay the unpaid benefits within five days following the expiration of the Executive's fifteen day period.

iv. For purposes of this subparagraph (f), "present value" means the value determined in accordance with the principles of Section 1274(b)(2) of the Code under regulations promulgated under Section 280G of the Code, and "base amount" means the annualized includible compensation for the base period payable to the Executive by the Company and includible in the Executive's gross income for Federal income tax purposes during the shorter of the period consisting of the most recent five taxable years ending before the date of any Change in Control of the Company or the portion of such period during which the Executive was an employee of the Company.

v. In the event that Section 280G of the Code, or any successor statute, is repealed, this subparagraph (f) shall cease to be effective on the effective date of such repeal.

g. MITIGATION NOT REQUIRED. The Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other

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employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

9. COMPETITION.

a. During the Employment Period, Executive will not, except with the express written consent of the Board of Directors of the Company, become engaged in, or permit his name to be used in connection with any business other than the businesses of the Company and its subsidiaries, whether or not such other business is a competitive business.

b. Executive covenants and agrees that for a period of 12 months after the termination of the Employment Period, or for such longer period as Executive is receiving payments pursuant to paragraph 8, he will not, except with the express written consent of the Board of Directors of the Company, engage directly or indirectly in, or permit his name to be used in connection with any competitive business in the geographic area serviced by the Company or its subsidiaries. Executive further covenants and agrees for a period of 12 months from the date of termination of his employment hereunder not to solicit or assist anyone else in the solicitation of, any of the Company's then-current employees to terminate their employment with the Company and to become employed by any business enterprise with which the Executive may then be associated, affiliated or connected.

c. For the purposes of this paragraph 9: (i) the phrase, "engage directly or indirectly in" shall encompass: (A) all of Executive's activities whether on his own account or as an employee, director, officer, agent, consultant, independent contractor, or partner of or in any person, firm, or corporation (other than the Company and its subsidiaries), or (B) Executive's ownership of more than 10% of the voting stock of any corporation, 5% or more of the gross income of which is derived from any business or businesses in which Executive may not then engage; and (ii) the phrase "competitive business" shall mean: (A) the sale of telephone, telecommunications, or similar equipment, or (B) any other business in which the Company or its subsidiaries is then engaged.

d. Notwithstanding the foregoing, the restrictions set forth in subparagraph 9.b. shall not apply if Executive's employment is terminated under any of the circumstances described in subparagraphs 7.c. or 14.a.

10. CONFIDENTIAL INFORMATION. Executive agrees that he will not, without the prior written consent of the Board of Directors of the Company, during the term or after termination of his employment under this Agreement, directly or indirectly disclose to any individual, corporation, or other entity (other than the Company or any subsidiary thereof, their officers, directors, or employees entitled to such information, or to any other person or entity to whom such information is regularly disclosed in the normal course of the Company's business) or use for his own or such another's benefit, any information, whether or not reduced to written or other tangible form, which:

a. is not generally known to the public or in the industry;

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b. has been treated by the Company or any of its subsidiaries as

confidential or proprietary: and

c. is of competitive advantage to the Company or any of its subsidiaries and in the confidentiality of which the Company or any of its subsidiaries has a legally protectable interest.

Information which becomes generally known to the public or in the industry, or in the confidentiality of which the Company and its subsidiaries cease to have a legally protectable interest, shall cease to be subject to the restrictions of this paragraph.

11. ENFORCEMENT. If, at the time of enforcement of any provision of paragraphs 9 or 10, the period, scope, or geographical area restrictions stated therein are held to be unreasonable under circumstances then existing, the maximum period, scope, or geographical area reasonable under the circumstances shall be substituted for the stated period, scope, or area. In the event of a breach by Executive of any of the provisions of paragraphs 9 or 10, the Company may, in addition to any other rights and remedies existing in its favor, apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof.

12. ARBITRATION. Except to the extent provided in paragraph 11, any controversy or claim arising out of or relating to this Agreement, or any breach thereof, shall be settled by arbitration before three arbitrators, and judgment rendered by the arbitrators, or a majority of them, may be entered in any court having jurisdiction thereof. Within 30 days after notice by either party to the other requesting such arbitration, each party shall appoint a disinterested and neutral arbitrator, and the two thus chosen shall appoint a third disinterested and neutral arbitrator. If the two arbitrators so appointed cannot agree upon the appointment of a third arbitrator, then such third arbitrator shall be appointed by the Chief Judge of the United States District Court for the district that then includes the City of Minneapolis. Such arbitration shall be conducted in the City of Minneapolis in conformity with the procedures provided under the Uniform Arbitration Act, as adopted by the State of Minnesota and as then in effect. Except as provided in paragraph 13 of this Agreement, the parties shall each pay their own expenses in connection with such arbitration and any related proceedings.

13. PAYMENT OF COSTS. If a dispute arises regarding a termination of Executive's employment after a Change in Control and Executive obtains a final judgment in his favor from which no appeal may be taken, whether because the time to do so has expired or otherwise, or his claim is settled by the Company prior to the rendering of such a judgment, all reasonable legal fees and expenses incurred by Executive in contesting or disputing any such termination, in seeking to obtain or enforce any right or benefit provided for in this Agreement, or in otherwise pursuing his claim will be promptly paid by the Company, with interest thereon at the highest Minnesota statutory rate for interest on judgments against private parties, from the date of payment thereof by Executive to the date of reimbursement to him by the Company.

#### 14. SUCCESSORS.

a. OF THE COMPANY. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the

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business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to terminate his employment with the Company and to receive the payments and benefits provided for in paragraph 8. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined, and any successor to the business and/or assets of the Company which executes and delivers the agreement provided for in this paragraph 14 or which otherwise becomes bound by all the terms and provisions of this Agreement as a matter of law.

b. OF EXECUTIVE. This Agreement and all rights of the Executive hereunder shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

#### 15. GENERAL PROVISIONS.

a. ASSIGNMENTS. Executive's rights and interests under this Agreement may not be assigned, pledged, or encumbered.

b. EFFECT OF HEADINGS. The headings of all of the paragraphs and subparagraphs of this Agreement are inserted for convenience of reference only, and shall not affect the construction of interpretation of this Agreement.

c. MODIFICATION, AMENDMENT, WAIVER. No modification, amendment, or waiver of any provision of this Agreement shall be effective unless approved in writing by both parties. The failure at any time to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of either party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

d. SEVERABILITY. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without

invalidating the remainder of such provision or the remaining provisions of this Agreement.

e. NO STRICT CONSTRUCTION. The language used in this Agreement shall be deemed to be the language chosen by the parties thereto to express their mutual intent, and no rule of strict construction shall be applied against any person.

f. APPLICABLE LAW. All questions concerning the construction, validity, and interpretation of this Agreement shall be governed by the laws of the State of Minnesota.

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g. NOTICES. Any notice to be served under this Agreement shall be in writing and shall be mailed by registered mail, registry fee and postage prepaid and return receipt requested, addressed:

If to the Company, to:

Norstan, Inc.  
6900 Wedgwood Road  
Suite 150  
Maple Grove, Minnesota 55311-3552  
Attention: Board of Directors; or

If to Executive, to:

Paul Baszucki  
250 Wakefield Road  
Orono, Minnesota 55391;

or to such other place as either party may specify in writing, delivered in accordance with the provisions of this subparagraph.

h. SURVIVAL. The rights and obligations of the parties shall survive the term of Executive's employment to the extent that any performance is required under this Agreement after the expiration or termination of such term.

i. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement of the parties with respect to the subject matter thereof, and supersedes all previous agreements between the parties relating to the same subject matter, including that certain Former Agreement dated May 1, 1987.

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IN WITNESS WHEREOF, the parties hereto have executed this Amended and Restated Agreement as of the day and year first above written.



NORSTAN, INC.

By /s/ Richard Cohen

-----  
Richard Cohen  
Vice Chairman and  
Chief Financial Officer

EXECUTIVE

/s/ Paul Baszucki

-----  
Paul Baszucki

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, made effective as of the 7th day of April, 1995, by and between RICHARD COHEN of Edina, Minnesota ("Executive") and NORSTAN, INC., a Minnesota corporation (the "Company"),

W I T N E S S E T H:

WHEREAS, the Company employs Executive as Vice Chairman and Chief Financial Officer of Norstan, Inc.;

WHEREAS, Executive's experience and knowledge are considered to be necessary to the continued success of the Company's business;

WHEREAS, the Company desires to encourage the Executive's continued dedication and attention to his assigned duties without distraction from circumstances arising from a possible change in control of the Company;

WHEREAS, the Company wishes to enter into an agreement with Executive governing the terms and conditions of his employment, and Executive is willing to be employed on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises, and of the mutual covenants hereinafter set forth, the parties do hereby agree as follows:

1. EMPLOYMENT PERIOD. The Company agrees to employ Executive, and Executive agrees to serve in the full-time employ of the Company, for the period (the "Employment Period") beginning on the date of this Agreement and ending on April 30, 1997; PROVIDED, that on April 30, 1996, and on each April 30 thereafter ("Renewal Date"), the Employment Period shall automatically be extended to the date which is 24 months after such Renewal Date unless, not later than such Renewal Date, the Company gives Executive written notice that the Employment Period shall not be so extended; PROVIDED FURTHER, that in the event of a "Change in Control" (as defined in subparagraph 7.e. below), the Employment Period shall automatically be extended to the date which is 36 months after the date on which the Change in Control occurs. Notwithstanding the foregoing, in no event shall the Employment Period continue beyond the earliest to occur of the date of Executive's 65th birthday, the date as of which Executive's employment is terminated pursuant to paragraph 4 or paragraph 7, or the date of the Executive's death.

2. DUTIES. During the Employment Period, Executive shall serve as Chief Financial Officer of Norstan, Inc., or, except as otherwise provided in this Agreement, in such other executive positions as the Board of Directors of the Company shall from time to time determine. Executive shall perform such executive and managerial duties consistent with such positions as the Chief Executive Officer of the Company shall from time to time direct. Executive shall devote his best efforts and all of his business time and attention (except

for usual vacation periods and reasonable periods of illness or other incapacity) to the business of the Company and its subsidiaries.

3. COMPENSATION. During the Employment Period, Executive shall be compensated as follows:

a. SALARY. Executive shall be paid a salary at a rate which is not less than \$164,115 per year, exclusive of bonuses, if any, which may from time to time be awarded to Executive pursuant to any authorized bonus, incentive, or similar plan maintained by the Company. Executive's salary shall be paid in equal, semi-monthly installments.

b. EXPENSES. Executive shall be reimbursed for all reasonable business expenses incurred in the performance of his duties pursuant to this Agreement, to the extent such expenses are substantiated and are consistent with the general policies of the Company and its subsidiaries relating to the reimbursement of expenses of executive officers.

c. FRINGE BENEFITS. In addition to any other compensation provided under this Agreement, Executive shall be entitled to participate, during the Employment Period, in any and all pension, profit sharing, and other employee benefit plans or fringe benefit programs which are from time to time maintained by the Company for its executive officers, in accordance with the provisions of such plans or programs as are from time to time in effect.

d. DEDUCTIONS AND WITHHOLDING. All compensation and other benefits payable to or on behalf of Executive pursuant to this Agreement shall be subject to such deductions and withholding as may be agreed to by Executive or required by applicable law.

4. DISABILITY. If, during the Employment Period, Executive shall become incapacitated by accident or illness and, in the opinion of the Board of Directors of the Company, shall be unable to perform the duties of the positions he then occupies for a period of 150 consecutive days, the Company shall have the right to terminate the Employment Period effective at any time after such 150 day period of disability by giving 30 days advance written notice to Executive. If the Employment Period is thus terminated, Executive shall not be entitled to receive any compensation or other benefits pursuant to this Agreement, other than compensation or benefits accrued through the effective date of such termination.

5. DEATH. If Executive shall die during the Employment Period without having breached any of the terms of this Agreement in any material respect, his base salary (at the rate in effect at the time of his death) shall be continued for a period of 12 months to the beneficiary named in the last written instrument signed by Executive for the purposes of this Agreement and received by the Company prior to his death. If Executive fails to name a beneficiary, such amounts shall be paid to his estate.

6. OTHER BENEFITS. The compensation provisions of this Agreement shall be in addition to, and not in derogation or diminution of, any benefits that Executive or his beneficiaries may be entitled to receive under the provisions of any pension, profit sharing, disability, or other employee benefit plan now or hereafter maintained by the Company.

7. TERMINATION.

a. FOR CAUSE BY COMPANY. The Company may terminate Executive's employment for cause upon 60 days prior written notice to Executive. Such notice shall specify

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in reasonable detail the nature of the cause and, during such 60 day period, Executive shall have the opportunity to cure the stated cause. If Executive fails to cure a stated cause, the Employment Period shall terminate at the end of the 60 day notice period, but without prejudice to Executive's right to contest the existence of any stated cause and/or to contest the fact that the cause has not been cured. For the purposes of this Agreement, cause shall mean any conduct by Executive involving an act or acts of dishonesty on the part of the Executive constituting a felony and resulting or intended to result directly or indirectly in gain or personal enrichment at the expense of the Company, or any failure by Executive to comply with the terms of this Agreement in any material respect.

b. INELIGIBILITY. If the Company terminates Executive's employment for cause, or if Executive voluntarily terminates his employment under circumstances other than those specified in subparagraphs 7.c., or 13.a., Executive shall not be entitled to receive any compensation or other benefits pursuant to this Agreement, other than compensation or benefits accrued through the effective date of such termination.

c. ELIGIBILITY. If, after or due to a "Change in Control" (as such term is defined in subparagraph 7.e. below), and prior to the expiration of the then current extension of the Employment Period, (a) Executive voluntarily terminates his employment (i) because he has been reassigned to a position of lesser rank or status or because he has been transferred to a location which is more than 25 miles from his previous principal place of employment, or because his base salary or incentive compensation has been reduced, or because his benefits have been reduced (unless such reduction is made uniformly in a plan of general application to all of the Company's eligible employees); or (ii) for Good Reason (as defined below); or (iii) if his health should become impaired to an extent that makes his continued performance of his duties hereunder hazardous to his physical or mental health or his life, provided that the Executive shall have furnished the Company with a written statement from a qualified physician to such effect and provided, further, that, at the Company's request, the Executive shall submit to an examination by a physician selected by the Company and such doctor shall have concurred in the

conclusion of the Executive's doctor; or (iv) for any reason in Executive's sole discretion at any time within 18 months after the date of a Change in Control of the Company by giving thirty (30) days prior notice of his intention to terminate; or (b) the Company terminates Executive's employment for reasons other than those specified in paragraph 4 or subparagraph 7.a. of this Agreement, then Executive shall receive the compensation and benefits set forth in paragraph 8 below.

(i) For purposes of this Agreement, "Good Reason" shall mean (A) a failure by the Company to comply with any material provision of this Agreement which has not been cured within ten (10) days after notice of such noncompliance has been given by the Executive to the Company, or (B) any purported termination of the Executive's employment which is not effected pursuant to a notice of termination which notice shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

d. WITHOUT CAUSE BY COMPANY. If, other than caused by a Change in Control, the Company terminates Executive's employment at any time prior to the expiration of the initial or then current extension of the Employment Period for reasons other than those

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specified in paragraph 4 or subparagraph 7.a. of this Agreement, then Executive shall continue to receive his base salary and fringe benefits for a period of 12 months.

e. CHANGE IN CONTROL, DEFINED. For the purposes of this Agreement, a Change in Control shall be deemed to occur when and if, during the Employment Period:

(i) any Person (meaning any individual, firm, corporation, partnership, trust or other entity, and includes a "group" (as that term is used in Sections 13(d) and 14(d) of the Act), but excludes Continuing Directors (as defined below) and benefit plans sponsored by the Company):

(A) makes a tender or exchange offer for any shares of the Company's outstanding voting securities at any point in time (the "Company Stock") pursuant to which any shares of the Company's Stock are purchased; or

(B) together with its "affiliates" and "associates" (as those terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934 (the "Act")) becomes the "beneficial owner" (within the meaning of Rule 13d-3 under the Act) of at least 20% of Company's Stock; or

(ii) the stockholders of the Company approve a definitive

agreement or plan to merge or consolidate the Company with or into another unaffiliated corporation, to sell or otherwise dispose of all or substantially all of its assets, or to liquidate the Company; or

(iii) a majority of the members of the Board become individuals other than Continuing Directors (as defined below).

A "Continuing Director" means: (a) any member of the Board as of April 1, 1995, and (b) any other member of the Board, from time to time, who was (i) nominated for election by the Board or (ii) appointed by the Board to fill a vacancy on the Board or to fill a newly-created directorship, in each case excluding any individual nominated or appointed (y) at a Board meeting at which the majority of directors present are not Continuing Directors or (z) by unanimous written action of the Board unless a majority of the directors taking such action are Continuing Directors.

8. COMPENSATION ON CHANGE IN CONTROL. In the event of a termination under subparagraph 7.c. above, during the Period of Employment or any extension thereof:

(i) The Company shall pay the Executive any earned and accrued but unpaid installment of base salary through the Date of Termination, at the rate in effect on the Date of Termination, or if greater, on the date immediately preceding the date that a Change in Control occurs, and all other unpaid amounts to which the Executive is entitled as of the Date of Termination under any compensation plan or program of the Company, including, without limitation, all accrued vacation time; such

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payments to be made in a lump sum on or before the fifth day following the Date of Termination.

(ii) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, the Company shall pay as liquidated damages to the Executive an amount equal to the product of (A) the sum of (1) the Executive's annual salary rate in effect as of the Date of Termination, or if greater, on the date immediately preceding the date that a Change in Control occurs, and (2) the greater of: (i) the prior year's actual incentive payment to the Executive under the Company's incentive plan for that year or (ii) the dollar amount payable at 100% of target under the Company's then current incentive plan for the year in which occurs such Date of Termination, and (B) the number two (2); such payment to be made in a lump sum on or before the fifth day following the Date of Termination.

(iii) The Company shall pay all other damages to which the

Executive is entitled as a result of such termination, including damages for any and all loss of benefits to the Executive under the Company's employee welfare benefit plans and perquisite programs which the Executive would have received had the Executive's employment continued for an additional two (2) years, and including all reasonable legal fees and expenses incurred by him as a result of such termination, including the fees and expenses of enforcing the terms of this Agreement; payment of such fees to be made within thirty (30) days following the Company's receipt of an appropriate invoice therefor.

(iv) For a period of not less than twenty-four (24) months following the Executive's Date of Termination, the Company will reimburse the Executive in an amount not to exceed \$15,000 for all reasonable expenses of a reputable outplacement organization incurred by him (but not including any arrangement by which the Executive prepays expenses for a period of greater than thirty (30) days) in seeking employment with another employer.

(v) Executive shall be fully vested in all shares of restricted stock, performance awards, stock appreciation rights and stock options granted to him under the Norstan, Inc. 1986 Long-Term Incentive Plan (or any predecessor or successor plan) on the date of a Change in Control.

(vi) The present value (as defined herein) of the liquidated damages payable to the Executive under subsection (ii) above, and any other payments otherwise payable to the Executive by the Company on or after a Change in Control, as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), which are deemed under said Section 280G to constitute "parachute payments" (as defined in Section 280G without regard to Section 280G(b)(2)(A)(ii)), shall be less than three times the Executive's base amount (as defined herein). In the

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event that the present value of such payments equals or exceeds such amount, the provisions set forth in this subparagraph (vi) will apply, and liquidated damages or other severance benefits payable to the Executive under this Agreement will be made only in accordance with this subparagraph (vi) notwithstanding any provision to the contrary in this Agreement.

(A) Not later than thirty days after the Date of Termination, the Company will provide the Executive with a schedule indicating by category the present value of the liquidated damages payable to the Executive under this Agreement, all other benefits payable to the Executive under this Agreement (specifying the paragraph, subparagraph or

clause under which each such payment is to be made) and any other payments otherwise payable to the Executive by the Company on or after the Change in Control, which, in the Company's opinion, constitute parachute payments under Section 280G of the Code. No payments under this Agreement shall be made until after thirty days from the receipt of such schedule by the Executive. At any time prior to the expiration of said 30-day period, the Executive shall have the right to select from all or part of any category of payment to be made under this Agreement those payments to be made to the Executive in an amount the present value of which (when combined with the present value of any other payments otherwise payable to the Executive by the Company that are deemed parachute payments) is less than 300 percent of the Executive's base amount. If the Executive fails to exercise his right to make a selection, only a lump sum cash severance payment equal to one dollar less than 300 percent of the Executive's base amount (reduced by the present value of any other payments otherwise payable to the Executive by the Company that are deemed parachute payments and increased, to the extent such increase will not cause the payment to be an excess parachute payment under Section 280G of the Code, by interest from the Date of Termination to the date of payment at the Federal short-term rate, compounded annually, promulgated under Section 1274(d) of the Code as effective for the month in which the Date of Termination occurs) shall be made to the Executive on the day after the expiration of the period extending thirty days from his receipt of the schedule provided for hereunder, and no other liquidated damages or other benefits under subparagraphs (ii), (iii), (iv) and (v) above of this Agreement shall be paid to the Executive.

(B) If the Company fails to supply the schedule within thirty days of the Date of Termination, then the provisions of this subparagraph (vi) shall not apply and the Company shall be obligated to pay to the Executive the full amount of liquidated damages and other benefits under this Agreement, without regard to subparagraph (vi).

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(C) If the Executive disagrees with the schedule prepared by the Company, then the Executive shall have the right to submit the schedule to arbitration, conducted before a panel of three arbitrators in Minneapolis, Minnesota, in accordance with the rules of the American Arbitration Association then in effect. The period in which the Executive may select his benefits under this Agreement shall be extended until fifteen days after a final and



binding arbitration award is issued or a final judgment, order or decree of a court of competent jurisdiction is entered upon such arbitration award (the time for appeal therefrom having expired and no appeal having been perfected), and the Company's period for paying the Executive's unpaid benefits under this Agreement shall be extended until ten days thereafter. If the Executive fails to make a selection within said fifteen day period, the Company shall pay the unpaid benefits within five days following the expiration of the Executive's fifteen day period.

(D) For purposes of this subparagraph (vi), "present value" means the value determined in accordance with the principles of Section 1274(b) (2) of the Code under regulations promulgated under Section 280G of the Code, and "base amount" means the annualized includible compensation for the base period payable to the Executive by the Company and includible in the Executive's gross income for Federal income tax purposes during the shorter of the period consisting of the most recent five taxable years ending before the date of any Change in Control of the Company or the portion of such period during which the Executive was an employee of the Company.

(E) In the event that Section 280G of the Code, or any successor statute, is repealed, this subparagraph (vi) shall cease to be effective on the effective date of such repeal.

(vii) The Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

## 9. COMPETITION.

a. During the Employment Period, Executive will not, except with the express written consent of the Chief Executive Officer of the Company, become engaged in, or permit his name to be used in connection with any business other than the businesses of the Company and its subsidiaries, whether or not such other business is a competitive business.

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b. Executive covenants and agrees that for a period of 12 months after the termination of the Employment Period, or for such longer period as Executive is receiving payments pursuant to paragraph 8, he will not, except

with the express written consent of the Chief Executive Officer of the Company, engage directly or indirectly in, or permit his name to be used in connection with any competitive business in the geographic area serviced by the Company or its subsidiaries. Executive further covenants and agrees for a period of 12 months from the date of termination of his employment hereunder not to solicit or assist anyone else in the solicitation of, any of the Company's then-current employees to terminate their employment with the Company and to become employed by any business enterprise with which the Executive may then be associated, affiliated or connected.

c. For the purposes of this paragraph 9: (i) the phrase, "engage directly or indirectly in" shall encompass: (A) all of Executive's activities whether on his own account or as an employee, director, officer, agent, consultant, independent contractor, or partner of or in any person, firm, or corporation (other than the Company and its subsidiaries), or (B) Executive's ownership of more than 10% of the voting stock of any corporation, 5% or more of the gross income of which is derived from any business or businesses in which Executive may not then engage; and (ii) the phrase "competitive business" shall mean: (A) the sale of telephone, telecommunications, or similar equipment, or (B) any other business in which the Company or its subsidiaries is then engaged.

d. Notwithstanding the foregoing, the restrictions set forth in subparagraph 9.b. shall not apply if Executive's employment is terminated under any of the circumstances described in subparagraphs 7.c. or 13.a.

10. CONFIDENTIAL INFORMATION. Executive agrees that he will not, without the prior written consent of the Board of Directors of the Company, during the term or after termination of his employment under this Agreement, directly or indirectly disclose to any individual, corporation, or other entity (other than the Company or any subsidiary thereof, their officers, directors, or employees entitled to such information, or to any other person or entity to whom such information is regularly disclosed in the normal course of the Company's business) or use for his own or such another's benefit, any information, whether or not reduced to written or other tangible form, which:

a. is not generally known to the public or in the industry;

b. has been treated by the Company or any of its subsidiaries as confidential or proprietary; and

c. is of competitive advantage to the Company or any of its subsidiaries and in the confidentiality of which the Company or any of its subsidiaries has a legally protectable interest.

Information which becomes generally known to the public or in the industry, or in the confidentiality of which the Company and its subsidiaries cease to have a legally protectable interest, shall cease to be subject to the restrictions of this paragraph.

11. ENFORCEMENT. If, at the time of enforcement of any provision of paragraphs 9 or 10, a court shall hold that the period, scope, or geographical area restrictions stated therein are unreasonable under circumstances then existing, the maximum period, scope, or geographical area reasonable under the circumstances shall be substituted for the stated period, scope, or area. In the event of a breach by Executive of any of the provisions of paragraphs 9 or 10, the Company may, in addition to any other rights and remedies existing in its favor, apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof.

12. PAYMENT OF COSTS. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys fees, costs and necessary disbursements in addition to any other relief to which it may be entitled. In addition, if a dispute arises regarding a termination of Executive's employment after a Change in Control and Executive obtains a final judgment in his favor from a court of competent jurisdiction from which no appeal may be taken, whether because the time to do so has expired or otherwise, or his claim is settled by the Company prior to the rendering of such a judgment, all reasonable legal fees and expenses incurred by Executive in contesting or disputing any such termination, in seeking to obtain or enforce any right or benefit provided for in this Agreement, or in otherwise pursuing his claim will be promptly paid by the Company, with interest thereon at the highest Minnesota statutory rate for interest on judgments against private parties, from the date of payment thereof by Executive to the date of reimbursement to him by the Company.

13. SUCCESSORS.

a. OF THE COMPANY. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to terminate his employment with the Company and to receive the payments and benefits provided for in paragraph 8. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined, and any successor to the business and/or assets of the Company which executes and delivers the agreement provided for in this paragraph 13 or which otherwise becomes bound by all the terms and provisions of this Agreement as a matter of law.

b. OF EXECUTIVE. This Agreement and all rights of the Executive hereunder shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be

paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

14. GENERAL PROVISIONS.

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a. ASSIGNMENTS. Executive's rights and interests under this Agreement may not be assigned, pledged, or encumbered by him without the Company's written consent.

b. EFFECT OF HEADINGS. The headings of all of the paragraphs and subparagraphs of this Agreement are inserted for convenience of reference only, and shall not affect the construction or interpretation of this Agreement.

c. MODIFICATION, AMENDMENT, WAIVER. No modification, amendment, or waiver of any provision of this Agreement shall be effective unless approved in writing by both parties. The failure at any time to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of either party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

d. SEVERABILITY. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

e. NO STRICT CONSTRUCTION. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any person.

f. APPLICABLE LAW. All questions concerning the construction, validity, and interpretation of this Agreement shall be governed by the laws of the State of Minnesota.

g. NOTICES. Any notice to be served under this Agreement shall be in writing and shall be mailed by registered mail, registry fee and postage prepaid and return receipt requested, addressed:

If to the Company, to:

Norstan, Inc.  
6900 Wedgwood Road, Suite 150

Maple Grove, MN 55311-3552  
Attention: Chief Executive Officer; or

If to Executive, to:

Richard Cohen  
6990 Tupa Drive  
Edina, MN 55439

or to such other place as either party may specify in writing, delivered in accordance with the provisions of this subparagraph.

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h. SURVIVAL. The rights and obligations of the parties shall survive the term of Executive's employment to the extent that any performance is required under this Agreement after the expiration or termination of such term.

i. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement of the parties with respect to the subject matter thereof, and supersedes all previous agreements between the parties relating to the same subject matter.

IN WITNESS WHEREOF, the parties hereto have executed this Amended and Restated Employment Agreement as of the day and year first above written.

NORSTAN INC. (the "Company")

By /s/ Paul Baszucki

-----  
Chief Executive Officer

RICHARD COHEN (the "Executive")

/s/ Richard Cohen  
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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT, made effective as of the 7th day of April, 1995, by and between MAX MAYER of Shorewood, Minnesota, ("Executive") and NORSTAN, INC., a Minnesota corporation (the "Company"),

W I T N E S S E T H:

WHEREAS, the Company employs Executive as President and Chief Operating Officer of Norstan, Inc. pursuant to an Employment Agreement dated January 23, 1995 (the "Former Agreement"); and

WHEREAS, Executive's experience and knowledge are considered to be necessary to the continued success of the Company's business;

WHEREAS, the Company desires to encourage the Executive's continued dedication and attention to his assigned duties without distraction from circumstances arising from a possible change in control of the Company;

WHEREAS, the Company wishes to amend the Former Agreement with Executive governing the terms and conditions of his employment, and Executive is willing to be employed on the terms and conditions hereinafter set forth which shall supersede in all respects the Former Agreement;

NOW, THEREFORE, in consideration of the premises, and of the mutual covenants hereinafter set forth, the parties do hereby agree to amend and restate the Former Agreement in its entirety as follows:

1. EMPLOYMENT PERIOD. The Company agrees to employ Executive, and Executive agrees to serve in the full-time employ of the Company, for the period (the "Employment Period") beginning on the date of this Agreement and ending on April 30, 1997; PROVIDED, that on April 30, 1996, and on each April 30 thereafter ("Renewal Date"), the Employment Period shall automatically be extended to the date which is 24 months after such Renewal Date unless, not later than such Renewal Date, the Company gives Executive written notice that the Employment Period shall not be so extended; PROVIDED FURTHER, that in the event of a "Change in Control" (as defined in subparagraph 7.e. below), the Employment Period shall automatically be extended to the date which is 36 months after the date on which the Change in Control occurs. Notwithstanding the foregoing, in no event shall the Employment Period continue beyond the earliest to occur of the date of Executive's 65th birthday, the date as of which Executive's employment is terminated pursuant to paragraph 4 or paragraph 7, or the date of the Executive's death.

2. DUTIES. During the Employment Period, Executive shall serve as President and Chief Operating Officer of Norstan, Inc., or, except as otherwise provided in this Agreement, in such other executive positions as the Board of

Directors of the Company shall from time to time determine. Executive shall perform such executive and managerial duties consistent with

such positions as the Chief Executive Officer of the Company shall from time to time direct. Executive shall devote his best efforts and all of his business time and attention (except for usual vacation periods and reasonable periods of illness or other incapacity) to the business of the Company and its subsidiaries.

3. COMPENSATION. During the Employment Period, Executive shall be compensated as follows:

a. SALARY. Executive shall be paid a salary at a rate which is not less than \$250,000 per year, exclusive of bonuses, if any, which may from time to time be awarded to Executive pursuant to any authorized bonus, incentive, or similar plan maintained by the Company. Executive's salary shall be paid in equal, semi-monthly installments.

b. EXPENSES. Executive shall be reimbursed for all reasonable business expenses incurred in the performance of his duties pursuant to this Agreement, to the extent such expenses are substantiated and are consistent with the general policies of the Company and its subsidiaries relating to the reimbursement of expenses of executive officers.

c. FRINGE BENEFITS. In addition to any other compensation provided under this Agreement, Executive shall be entitled to participate, during the Employment Period, in any and all pension, profit sharing, and other employee benefit plans or fringe benefit programs which are from time to time maintained by the Company for its executive officers, in accordance with the provisions of such plans or programs as are from time to time in effect.

d. DEDUCTIONS AND WITHHOLDING. All compensation and other benefits payable to or on behalf of Executive pursuant to this Agreement shall be subject to such deductions and withholding as may be agreed to by Executive or required by applicable law.

4. DISABILITY. If, during the Employment Period, Executive shall become incapacitated by accident or illness and, in the opinion of the Board of Directors of the Company, shall be unable to perform the duties of the positions he then occupies for a period of 150 consecutive days, the Company shall have the right to terminate the Employment Period effective at any time after such 150 day period of disability by giving 30 days advance written notice to Executive. If the Employment Period is thus terminated, Executive shall not be entitled to receive any compensation or other benefits pursuant to this Agreement, other than compensation or benefits accrued through the effective date of such termination.

5. DEATH. If Executive shall die during the Employment Period without having breached any of the terms of this Agreement in any material



respect, his base salary (at the rate in effect at the time of his death) shall be continued for a period of 12 months to the beneficiary named in the last written instrument signed by Executive for the purposes of this Agreement and received by the Company prior to his death. If Executive fails to name a beneficiary, such amounts shall be paid to his estate.

6. OTHER BENEFITS. The compensation provisions of this Agreement shall be in addition to, and not in derogation or diminution of, any benefits that Executive or his beneficiaries may be entitled to receive under the provisions of any pension, profit sharing, disability, or other employee benefit plan now or hereafter maintained by the Company.

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7. TERMINATION.

a. FOR CAUSE BY COMPANY. The Company may terminate Executive's employment for cause upon 60 days prior written notice to Executive. Such notice shall specify in reasonable detail the nature of the cause and, during such 60 day period, Executive shall have the opportunity to cure the stated cause. If Executive fails to cure a stated cause, the Employment Period shall terminate at the end of the 60 day notice period, but without prejudice to Executive's right to contest the existence of any stated cause and/or to contest the fact that the cause has not been cured. For the purposes of this Agreement, cause shall mean any conduct by Executive involving an act or acts of dishonesty on the part of the Executive constituting a felony and resulting or intended to result directly or indirectly in gain or personal enrichment at the expense of the Company, or any failure by Executive to comply with the terms of this Agreement in any material respect.

b. INELIGIBILITY. If the Company terminates Executive's employment for cause, or if Executive voluntarily terminates his employment under circumstances other than those specified in subparagraphs 7.c., or 13.a., Executive shall not be entitled to receive any compensation or other benefits pursuant to this Agreement, other than compensation or benefits accrued through the effective date of such termination.

c. ELIGIBILITY. If, after or due to a "Change in Control" (as such term is defined in subparagraph 7.e. below), and prior to the expiration of the then current extension of the Employment Period, (a) Executive voluntarily terminates his employment (i) because he has been reassigned to a position of lesser rank or status or because he has been transferred to a location which is more than 25 miles from his previous principal place of employment, or because his base salary or incentive compensation has been reduced, or because his benefits have been reduced (unless such reduction is made uniformly in a plan of general application to all of the Company's eligible employees); or (ii) for Good Reason (as defined below); or (iii) if his health should become impaired to an extent that makes his continued performance of his duties hereunder hazardous to his physical or mental health or his life,

provided that the Executive shall have furnished the Company with a written statement from a qualified physician to such effect and provided, further, that, at the Company's request, the Executive shall submit to an examination by a physician selected by the Company and such doctor shall have concurred in the conclusion of the Executive's doctor; or (iv) for any reason in Executive's sole discretion at any time within 18 months after the date of a Change in Control of the Company by giving thirty (30) days prior notice of his intention to terminate; or (b) the Company terminates Executive's employment for reasons other than those specified in paragraph 4 or subparagraph 7.a. of this Agreement, then Executive shall receive the compensation and benefits set forth in paragraph 8 below.

(i) For purposes of this Agreement, "Good Reason" shall mean (A) a failure by the Company to comply with any material provision of this Agreement which has not been cured within ten (10) days after notice of such noncompliance has been given by the Executive to the Company, or (B) any purported termination of the Executive's employment which is not effected pursuant to a notice of termination which notice shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

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d. WITHOUT CAUSE BY COMPANY. If, other than caused by a Change in Control, the Company terminates Executive's employment at any time prior to the expiration of the initial or then current extension of the Employment Period for reasons other than those specified in paragraph 4 or subparagraph 7.a. of this Agreement, then Executive shall continue to receive his base salary and fringe benefits for a period of 12 months.

e. CHANGE IN CONTROL, DEFINED. For the purposes of this Agreement, a Change in Control shall be deemed to occur when and if, during the Employment Period:

(i) any Person (meaning any individual, firm, corporation, partnership, trust or other entity, and includes a "group" (as that term is used in Sections 13(d) and 14(d) of the Act), but excludes Continuing Directors (as defined below) and benefit plans sponsored by the Company):

(A) makes a tender or exchange offer for any shares of the Company's outstanding voting securities at any point in time (the "Company Stock") pursuant to which any shares of the Company's Stock are purchased; or

(B) together with its "affiliates" and "associates" (as those terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934 (the "Act")) becomes the "beneficial

owner" (within the meaning of Rule 13d-3 under the Act) of at least 20% of Company's Stock; or

(ii) the stockholders of the Company approve a definitive agreement or plan to merge or consolidate the Company with or into another unaffiliated corporation, to sell or otherwise dispose of all or substantially all of its assets, or to liquidate the Company; or

(iii) a majority of the members of the Board become individuals other than Continuing Directors (as defined below).

A "Continuing Director" means: (a) any member of the Board as of April 1, 1995, and (b) any other member of the Board, from time to time, who was (i) nominated for election by the Board or (ii) appointed by the Board to fill a vacancy on the Board or to fill a newly-created directorship, in each case excluding any individual nominated or appointed (y) at a Board meeting at which the majority of directors present are not Continuing Directors or (z) by unanimous written action of the Board unless a majority of the directors taking such action are Continuing Directors.

8. COMPENSATION ON CHANGE IN CONTROL. In the event of a termination under subparagraph 7.c. above, during the Period of Employment or any extension thereof:

(i) The Company shall pay the Executive any earned and accrued but unpaid installment of base salary through the Date of Termination, at the rate in effect on the Date of Termination, or if greater, on the date

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immediately preceding the date that a Change in Control occurs, and all other unpaid amounts to which the Executive is entitled as of the Date of Termination under any compensation plan or program of the Company, including, without limitation, all accrued vacation time; such payments to be made in a lump sum on or before the fifth day following the Date of Termination.

(ii) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, the Company shall pay as liquidated damages to the Executive an amount equal to the product of (A) the sum of (1) the Executive's annual salary rate in effect as of the Date of Termination, or if greater, on the date immediately preceding the date that a Change in Control occurs, and (2) the greater of: (i) the prior year's

actual incentive payment to the Executive under the Company's incentive plan for that year or (ii) the dollar amount payable at 100% of target under the Company's then current incentive plan for the year in which occurs such Date of Termination, and (B) the number two (2); such payment to be made in a lump sum on or before the fifth day following the Date of Termination.

(iii) The Company shall pay all other damages to which the Executive is entitled as a result of such termination, including damages for any and all loss of benefits to the Executive under the Company's employee welfare benefit plans and perquisite programs which the Executive would have received had the Executive's employment continued for an additional two (2) years, and including all reasonable legal fees and expenses incurred by him as a result of such termination, including the fees and expenses of enforcing the terms of this Agreement; payment of such fees to be made within thirty (30) days following the Company's receipt of an appropriate invoice therefor.

(iv) For a period of not less than twenty-four (24) months following the Executive's Date of Termination, the Company will reimburse the Executive in an amount not to exceed \$15,000 for all reasonable expenses of a reputable outplacement organization incurred by him (but not including any arrangement by which the Executive prepays expenses for a period of greater than thirty (30) days) in seeking employment with another employer.

(v) Executive shall be fully vested in all shares of restricted stock, performance awards, stock appreciation rights and stock options granted to him under the Norstan, Inc. 1986 Long-Term Incentive Plan (or any predecessor or successor plan) on the date of a Change in Control.

(vi) The present value (as defined herein) of the liquidated damages payable to the Executive under subsection (ii) above, and any other payments otherwise payable to the Executive by the Company on or after a Change in Control, as defined in Section 280G of the Internal

Revenue Code of 1986, as amended (the "Code"), which are deemed under said Section 280G to constitute "parachute payments" (as defined in Section 280G without regard to Section 280G(b)(2)(A)(ii)), shall be less than three times the Executive's base amount (as defined herein). In the event that the present value of such payments equals or exceeds such amount, the provisions set forth in this subparagraph (vi) will apply, and liquidated damages or other severance benefits payable to the

Executive under this Agreement will be made only in accordance with this subparagraph (vi) notwithstanding any provision to the contrary in this Agreement.

(A) Not later than thirty days after the Date of Termination, the Company will provide the Executive with a schedule indicating by category the present value of the liquidated damages payable to the Executive under this Agreement, all other benefits payable to the Executive under this Agreement (specifying the paragraph, subparagraph or clause under which each such payment is to be made) and any other payments otherwise payable to the Executive by the Company on or after the Change in Control, which, in the Company's opinion, constitute parachute payments under Section 280G of the Code. No payments under this Agreement shall be made until after thirty days from the receipt of such schedule by the Executive. At any time prior to the expiration of said 30-day period, the Executive shall have the right to select from all or part of any category of payment to be made under this Agreement those payments to be made to the Executive in an amount the present value of which (when combined with the present value of any other payments otherwise payable to the Executive by the Company that are deemed parachute payments) is less than 300 percent of the Executive's base amount. If the Executive fails to exercise his right to make a selection, only a lump sum cash severance payment equal to one dollar less than 300 percent of the Executive's base amount (reduced by the present value of any other payments otherwise payable to the Executive by the Company that are deemed parachute payments and increased, to the extent such increase will not cause the payment to be an excess parachute payment under Section 280G of the Code, by interest from the Date of Termination to the date of payment at the Federal short-term rate, compounded annually, promulgated under Section 1274(d) of the Code as effective for the month in which the Date of Termination occurs) shall be made to the Executive on the day after the expiration of the period extending thirty days from his receipt of the schedule provided for hereunder, and no other liquidated damages or other benefits under subparagraphs (ii), (iii), (iv) and (v) above of this Agreement shall be paid to the Executive.

(B) If the Company fails to supply the schedule within thirty days of the Date of Termination, then the provisions of this

subparagraph (vi) shall not apply and the Company shall be obligated to pay to the Executive the full amount of liquidated damages and other benefits under this Agreement, without regard to subparagraph (vi).

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(C) If the Executive disagrees with the schedule prepared by the Company, then the Executive shall have the right to submit the schedule to arbitration, conducted before a panel of three arbitrators in Minneapolis, Minnesota, in accordance with the rules of the American Arbitration Association then in effect. The period in which the Executive may select his benefits under this Agreement shall be extended until fifteen days after a final and binding arbitration award is issued or a final judgment, order or decree of a court of competent jurisdiction is entered upon such arbitration award (the time for appeal therefrom having expired and no appeal having been perfected), and the Company's period for paying the Executive's unpaid benefits under this Agreement shall be extended until ten days thereafter. If the Executive fails to make a selection within said fifteen day period, the Company shall pay the unpaid benefits within five days following the expiration of the Executive's fifteen day period.

(D) For purposes of this subparagraph (vi), "present value" means the value determined in accordance with the principles of Section 1274(b)(2) of the Code under regulations promulgated under Section 280G of the Code, and "base amount" means the annualized includible compensation for the base period payable to the Executive by the Company and includible in the Executive's gross income for Federal income tax purposes during the shorter of the period consisting of the most recent five taxable years ending before the date of any Change in Control of the Company or the portion of such period during which the Executive was an employee of the Company.

(E) In the event that Section 280G of the Code, or any successor statute, is repealed, this subparagraph (vi) shall cease to be effective on the effective date of such repeal.

(vii) The Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be

reduced by any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

9. COMPETITION.

a. During the Employment Period, Executive will not, except with the express written consent of the Chief Executive Officer of the Company, become engaged in, or permit his name to be used in connection with any business other than the businesses of the Company and its subsidiaries, whether or not such other business is a competitive business.

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b. Executive covenants and agrees that for a period of 12 months after the termination of the Employment Period, or for such longer period as Executive is receiving payments pursuant to paragraph 8, he will not, except with the express written consent of the Chief Executive Officer of the Company, engage directly or indirectly in, or permit his name to be used in connection with any competitive business in the geographic area serviced by the Company or its subsidiaries. Executive further covenants and agrees for a period of 12 months from the date of termination of his employment hereunder not to solicit or assist anyone else in the solicitation of, any of the Company's then-current employees to terminate their employment with the Company and to become employed by any business enterprise with which the Executive may then be associated, affiliated or connected.

c. For the purposes of this paragraph 9: (i) the phrase, "engage directly or indirectly in" shall encompass: (A) all of Executive's activities whether on his own account or as an employee, director, officer, agent, consultant, independent contractor, or partner of or in any person, firm, or corporation (other than the Company and its subsidiaries), or (B) Executive's ownership of more than 10% of the voting stock of any corporation, 5% or more of the gross income of which is derived from any business or businesses in which Executive may not then engage; and (ii) the phrase "competitive business" shall mean: (A) the sale of telephone, telecommunications, or similar equipment, or (B) any other business in which the Company or its subsidiaries is then engaged.

d. Notwithstanding the foregoing, the restrictions set forth in subparagraph 9.b. shall not apply if Executive's employment is terminated under any of the circumstances described in subparagraphs 7.c. or 13.a.

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10. CONFIDENTIAL INFORMATION. Executive agrees that he will not, without the prior written consent of the Board of Directors of the Company, during the term or after termination of his employment under this Agreement, directly or indirectly disclose to any individual, corporation, or other entity

(other than the Company or any subsidiary thereof, their officers, directors, or employees entitled to such information, or to any other person or entity to whom such information is regularly disclosed in the normal course of the Company's business) or use for his own or such another's benefit, any information, whether or not reduced to written or other tangible form, which:

a. is not generally known to the public or in the industry;

b. has been treated by the Company or any of its subsidiaries as confidential or proprietary; and

c. is of competitive advantage to the Company or any of its subsidiaries and in the confidentiality of which the Company or any of its subsidiaries has a legally protectable interest.

Information which becomes generally known to the public or in the industry, or in the confidentiality of which the Company and its subsidiaries cease to have a legally protectable interest, shall cease to be subject to the restrictions of this paragraph.

11. ENFORCEMENT. If, at the time of enforcement of any provision of paragraphs 9 or 10, a court shall hold that the period, scope, or geographical area restrictions stated therein are unreasonable under circumstances then existing, the maximum period, scope, or geographical area reasonable under the circumstances shall be substituted for the stated period, scope, or area. In the event of a breach by Executive of any of the provisions of paragraphs 9 or 10, the Company may, in addition to any other rights and remedies existing in its favor, apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof.

12. PAYMENT OF COSTS. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys fees, costs and necessary disbursements in addition to any other relief to which it may be entitled. In addition, if a dispute arises regarding a termination of Executive's employment after a Change in Control and Executive obtains a final judgment in his favor from a court of competent jurisdiction from which no appeal may be taken, whether because the time to do so has expired or otherwise, or his claim is settled by the Company prior to the rendering of such a judgment, all reasonable legal fees and expenses incurred by Executive in contesting or disputing any such termination, in seeking to obtain or enforce any right or benefit provided for in this Agreement, or in otherwise pursuing his claim will be promptly paid by the Company, with interest thereon at the highest Minnesota statutory rate for interest on judgments against private parties, from the date of payment thereof by Executive to the date of reimbursement to him by the Company.



### 13. SUCCESSORS.

a. OF THE COMPANY. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would have been required to perform it if no such succession had taken place. Failure of the Company to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Executive to terminate his employment with the Company and to receive the payments and benefits provided for in paragraph 8. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined, and any successor to the business and/or assets of the Company which executes and delivers the agreement provided for in this paragraph 13 or which otherwise becomes bound by all the terms and provisions of this Agreement as a matter of law.

b. OF EXECUTIVE. This Agreement and all rights of the Executive hereunder shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

### 14. GENERAL PROVISIONS.

a. ASSIGNMENTS. Executive's rights and interests under this Agreement may not be assigned, pledged, or encumbered by him without the Company's written consent.

b. EFFECT OF HEADINGS. The headings of all of the paragraphs and subparagraphs of this Agreement are inserted for convenience of reference only, and shall not affect the construction or interpretation of this Agreement.

c. MODIFICATION, AMENDMENT, WAIVER. No modification, amendment, or waiver of any provision of this Agreement shall be effective unless approved in writing by both parties. The failure at any time to enforce any of the provisions of this Agreement shall in no way be construed as a waiver of such provisions and shall not affect the right of either party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

d. SEVERABILITY. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this

Agreement.

e. NO STRICT CONSTRUCTION. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any person.

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f. APPLICABLE LAW. All questions concerning the construction, validity, and interpretation of this Agreement shall be governed by the laws of the State of Minnesota.

g. NOTICES. Any notice to be served under this Agreement shall be in writing and shall be mailed by registered mail, registry fee and postage prepaid and return receipt requested, addressed:

If to the Company, to:

Norstan, Inc.  
6900 Wedgwood Road, Suite 150  
Maple Grove, MN 55311-3552  
Attention: Chief Executive Officer; or

If to Executive, to:

Max Mayer  
  
27665 Bryn Mawr  
Shorewood, MN 55331

or to such other place as either party may specify in writing, delivered in accordance with the provisions of this subparagraph.

h. SURVIVAL. The rights and obligations of the parties shall survive the term of Executive's employment to the extent that any performance is required under this Agreement after the expiration or termination of such term.

i. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement of the parties with respect to the subject matter thereof, and supersedes all previous agreements between the parties relating to the same subject matter, including that certain Former Agreement dated January 23, 1995.

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IN WITNESS WHEREOF, the parties hereto have executed this Amended and Restated Employment Agreement as of the day and year first above written.

NORSTAN INC. (the "Company")

By /s/ Paul Baszucki

-----  
Chief Executive Officer

MAX MAYER (the "Executive")

/s/ Max Mayer  
-----

## NORSTAN, INC. AND SUBSIDIARIES

## STATEMENT REGARDING COMPUTATION OF EARNINGS PER SHARE

(In Thousands, Except Per Share Amounts)

<TABLE>  
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	YEAR ENDED APRIL 30,		
	1995	1994	1993
<S>	<C>	<C>	<C>
Primary earnings per share -			
Weighted average number of issued shares outstanding	4,121	4,009	3,833
Effect of:			
1986 Long-Term Incentive Plan	207	202	187
1986 Directors' Stock Option Plan	41	35	33
Employee Stock Purchase Plan	6	6	30
Shares outstanding used to compute primary earnings per share	4,375	4,252	4,083
Net income	\$7,063	\$5,612	\$5,100
Primary earnings per share	\$ 1.61	\$ 1.32	\$ 1.25

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	Year Ended April 30,		
	1995	1994	1993
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Fully diluted earnings per share -			
Weighted average number of shares used for primary earnings per share	4,375	4,252	4,083
Effect of:			
1986 Long-Term Incentive Plan	3	6	3
1986 Directors' Stock Option Plan	1	1	1
Employee Stock Purchase Plan	1	3	2
Shares outstanding used to compute fully diluted earnings per share	4,380	4,262	4,089

	-----	-----	-----
	-----	-----	-----
Net income	\$7,063	\$5,612	\$5,100
	-----	-----	-----
	-----	-----	-----
Fully diluted earnings per share	\$ 1.61	\$ 1.32	\$ 1.25
	-----	-----	-----
	-----	-----	-----

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## SUBSIDIARIES OF NORSTAN, INC.

<TABLE>  
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Percentage of

Name -----	State of Incorporation -----	Voting Securities Owned by the Company -----
<S>	<C>	<C>
Norstan Communications, Inc.	Minnesota	100%
Norstan Financial Services, Inc.	Minnesota	100%
Norstan Canada Inc.	Minnesota	100%
Norstan Network Services, Inc.	Minnesota	100%
Norstan Network Services, Inc. of New Hampshire	New Hampshire	100%
Norstan Information Systems, Inc.	Minnesota	100%
Summit Gear, Inc.	Minnesota	100%

</TABLE>

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K into the Company's previously filed Registration Statements on Form S-8 relating to the 1986 Long-Term Incentive Plan of Norstan, Inc. (Registration Nos. 33-30323 and 33-72928), and the 1990 Employee Stock Purchase and Bonus Plan of Norstan, Inc. (Registration Nos. 33-32310, 33-44470 and 33-72926).

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,  
July 27, 1995

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