

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 1998

or

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission File Number 0-21467

FIRST PRIORITY GROUP, INC.
(Name of small business issuer in its charter)

NEW YORK
(State or other jurisdiction of
incorporation or organization)

11-2750412
(I.R.S. Employer
Identification No.)

51 East Bethpage Road
Plainview, New York
(Address of principal executive offices)

11803
(Zip Code)

Registrant's telephone number: (516) 694-1010

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock par value \$.015 per share

Preferred Stock Purchase Rights par value \$.01 per share

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB.

State the issuer's revenues for its most recent fiscal year \$14,558,474

The aggregate market value of the issuer's voting stock held by non-affiliates of the issuer as of April 13, 1999, based upon the closing price on the date thereof is \$9,332,348.

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

As of April 13, 1999, the issuer had outstanding a total of 8,331,800 common shares.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III of this Form 10-KSB is hereby incorporated by reference to the

Definitive Proxy or Definitive Information Statement issued by the Company for the Notice of the Annual Meeting of Shareholders.

Transitional Small Business Disclosure Format (check one):

Yes No

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Part I

Item 1. DESCRIPTION OF BUSINESS

The Company, a New York corporation formed on June 28, 1985, is engaged in automotive fleet management and administration of automotive repairs for businesses, insurance companies and members of affinity groups.

The Company's office is located at 51 East Bethpage Road, Plainview, New York 11803 and its telephone number is (516) 694-1010.

Nature of Services

The services offered by the Company consist of vehicle maintenance and repair management, including collision and general repair programs, appraisal services subrogation services, vehicle salvage and vehicle rentals; and the administration of automotive collision repair referral services for self insured fleets, insurance companies and affinity group members.

The Company's wholly-owned subsidiary, National Fleet Service, Inc., ("NFS") conducts the Company's fleet management business. The Company itself provides the various affinity programs for all types of businesses and administers the automotive collision repair referral services for insurance companies through its Direct Appraisal and Repair Program, Affinity Division and Recovery Services Division.

Fleet Management. The Company has entered into contractual arrangements with over 2,000 independently owned and operated repair shops throughout the United States, as well as with national chains of automobile repair shops, to provide repair services for the Company's fleet management clients' vehicles. The automotive repair shops with which the Company has contracted can handle, on a per incident basis, any repair which the Company's fleet management clients' drivers may encounter. Because the Company has made arrangements with a large number of repair shops, whenever a repair to a client's vehicle is needed, the chances are excellent that a local repair shop will be available to perform the required repair work. The repairs provided consist primarily of collision and glass replacement repairs although general repairs can also be provided. In the event that a repair is needed, the driver need only call the Company's toll free telephone number. Through the development of a comprehensive proprietary management system and customized computer software, upon receipt of the call, the driver is directed to a local repair shop to which the driver may take the vehicle for the needed repairs. All the activity surrounding the repair process is tightly managed by the Company's staff. Upon completion of the repair, the bill is forwarded to the Company, which in turn, bills the client. There is no need for independent negotiations between the repair shop and the client or the driver. As part of its fleet management services, the Company also offers its clients computerized appraisal services, salvage and subrogation services, and offers vehicle rentals to permit clients to avoid driver down-time while a client's vehicle is being repaired. Additionally, the Company has created a complete line of customized reports with features that allow risk managers to thoroughly assess all variables concerning the collision activity expense of their

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fleet. It is primarily these unique systems that won the Company it's prestigious award in 1995 from Inc. Magazine and MCI, as one of the nations best run service companies.

Affinity Group Programs. These programs are a series of comprehensive vehicle-related services for consumers sold through affinity groups, financial institutions, corporations and organizations. These programs may be used as re-enrollment incentives and/or membership premiums, or resold at a profit, and may be sold individually, or a variety of services can be bundled together as a high-value package.

Driver's Shield(R). - This is the premium program consisting of components which may be sold individually. This package consists of the Collision Damage Repair Program, Driver Discount Program and the Auto Service Hotline. Also offered, are an auto buying service, legal defense reimbursement, and custom trip routing services.

Collision Damage Repair Program (CDR). - This is the corporate collision program modified to suit consumer needs. Drivers participating in this

program may utilize the Company's proprietary network of collision body repair shops. Additionally, the Company's customer service department will supervise the entire process from expediting estimates and repairs, to troubleshooting any problems or difficulties that may occur.

Driver Discount Program (DDP). This program offers drivers discounts of up to forty percent off automotive-related services through thousands of premium auto chain facilities throughout the nation. It applies these discounts to virtually all routine maintenance including oil changes, brakes, transmissions, mufflers, shocks, tires and glass. An option to this program also provides 24 hour emergency roadside assistance for drivers anywhere in the U.S..

Auto Service Hotline (ASH). This program provides drivers with their own repair specialist who will help the driver determine a course of action to repair the vehicle, and if necessary, provide a referral to one of thousands of independently owned auto repair facilities. Drivers will receive a ten percent discount off repairs and an enhanced nationwide warranty when utilizing the shop to which they were referred. Additionally, drivers will be offered rental replacement cars at preferred rates that are delivered to and picked up from the driver's home or office.

Direct Appraisal and Repair Program (DARP). In 1992 the Company began developing the business of providing automotive appraisal and collision repair services for insurance companies. The automobile insurance industry is experiencing massive changes as it moves in the direction of a "PPO" or "HMO" type environment, similar to that of the health industry. The Company believes that it's presence in this market and provision of such services to insurance companies will be an important source of revenue for the Company because of the high volume of collision repair referrals that insurance companies can provide. The Company believes it is uniquely positioned to take advantage of the need for such services by insurance companies. The Company has entered into agreements with insurance companies whereby such insurance companies have agreed to utilize the Company for appraisal and repair services. The Company proposes to try to expand its insurance company referral business, and has increased its' sales force in order to rapidly expand its market share in Direct Appraisal and Repair Programs. [See Forward-Looking Statements and Cautionary Factors]

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Discontinued Operations

In September 1996, the Company's FPG Direct division began to market consumer goods through direct mailing efforts to credit card customers of major oil companies and retail department stores. During the second quarter of 1997, the Company decided to discontinue its FPG Direct division. The division has not participated in any new promotions since June 1997, it continued to fill orders (to reduce inventory) through October 1997, pay vendors, collect receivables, and receive returns. The Company did not expect to incur any additional losses during the remaining phase out period; however, the Company was unable to realize certain assets being carried (consisting mostly of inventories) and wrote these assets off in 1998. Losses from this division did not provide any income tax benefit during 1997 or 1998.

Recent Developments.

The Company has made a decision to grow its business by entering into a number of strategic partnerships. Recently the Company announced that NFS has begun to provide collision claims management services to self insured clients of Sedgwick Claims Management Services, Inc., a unit of Marsh & McLennan Companies, Inc. Previously, the Company announced that it had entered into an agreement with American Bankers Insurance Group, Inc. ("American Bankers") whereby American will market the Company's Driver's Shield(R) program. [See Forward-Looking Statements and Cautionary Factors]

Sales and Marketing. The Company's fleet management clients generally consist of companies having a large number of vehicles on the road over a broad geographical area. The Company's clients for its affinity programs are organizations and affinity groups. The Company's clients for the insurance company referral program are property and casualty insurance companies.

Sales activities are performed by the Company's own personnel and contracted agencies outside the Company. Sales are made through referrals, cold canvassing of appropriate prospects and direct mailings. The Company also attends trade shows in order to increase its client base.

Since the Company deals with a large number of independently owned repair facilities, it is often able to offer to its fleet management clients a custom tailored program to suit their needs for vehicle repairs. The Company believes that this flexibility is important in its marketing activities and in increasing its client base.

In 1998, one customer accounted for approximately 10% of the Company's revenue. In 1997, a different customer accounted for approximately 10% of the Company's revenue.

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Employees

At year end, the Company employed thirty-seven full-time employees and three part time employees. None of the Company's employees are governed by a union contract and the Company believes that its employee relationships are satisfactory.

Competition

Fleet Management. Some leasing companies offer fleet management services, but most offer such services only to fleets leased by them. The Company is aware of three other companies that, like the Company, offer fleet management services independent of a fleet leasing arrangement.

Affinity Group Programs. Although there are several companies providing various types of auto club programs the Company believes that there is only one other company that offers a program providing similar services offered by the Company's Affinity Group division.

Insurance Company Referral Business. The Company is aware of two other companies that offer automotive collision repair services to insurance companies. One of such companies is, like the Company, in the fleet management business, while the other is in the vehicle software valuation business. The Company believes that its services for insurance companies are superior to those offered by such other companies.

Item 2. DESCRIPTION OF PROPERTY

In December 1996, the Company entered into a lease for new office space at 51 East Bethpage Road, Plainview, New York 11803. The space consists of approximately 12,000 square feet of office space. The Company relocated to this new space during April 1997. The lease is for five years and expires on March 31, 2002.

In July 1998, the Company entered into a one year sublease for approximately 6,500 of office space in Margate, Florida to house the Company's second call center. Although this call center was closed in January 1999, the lease runs through June 30, 1999.

Item 3. LEGAL PROCEEDINGS

The Company was served with a summons and complaint filed by Philip M. Panzera in United States District Court (Eastern District, NY) alleging that the Company wrongfully terminated his employment on January 29, 1998 pursuant to an employment agreement dated November 14, 1997 (the "Employment Agreement") and wrongfully converted Mr. Panzera's personal property. Mr. Panzera is

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seeking monetary damages in excess of \$1 million. Mr. Panzera held the position in the Company of Senior Vice President, Chief Financial Officer for the period of November 17, 1997 through January 29, 1998. The Company has recently answered this complaint and denied all of Mr. Panzera's allegations stating that the Company properly terminated Mr. Panzera for cause pursuant to the Employment Agreement. Additionally, the Company has filed a counterclaim against Mr. Panzera alleging, among other things, that Mr. Panzera fraudulently induced the Company to enter into the Employment Agreement by making false representations concerning his educational background, employment history, experience and skills. The Company is seeking monetary damages of no less than \$1 million. The Company believes that Mr. Panzera's claim is without merit and intends to vigorously defend this suit.

PART II

Item 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's common shares are traded on The Nasdaq SmallCap market. The following table shows the high and low closing prices for the periods indicated.

| | Sale Price(\$) | |
|----------------|----------------|--------|
| | High | Low |
| 1998 | ---- | --- |
| First Quarter | \$6.625 | \$4.94 |
| Second Quarter | \$6.75 | \$5.50 |
| Third Quarter | \$5.125 | \$2.50 |
| Fourth Quarter | \$4.25 | \$1.50 |
| 1997 | | |
| First Quarter | \$2.25 | \$1.50 |

| | | |
|----------------|---------|---------|
| Second Quarter | \$2.167 | \$1.375 |
| Third Quarter | \$3.375 | \$1.44 |
| Fourth Quarter | \$6.875 | \$3.00 |

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The number of record holders of the Company's common shares as of March 31, 1999 was 379.

The Company has never paid dividends on its common stock and is not expected to do so in the foreseeable future. Payment of dividends is within the discretion of the Company's Board of Directors and would depend on, among other factors, the earnings, capital requirements and operating and financial condition of the Company.

Item 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Results of Operations

The Company, prior to September 1996, conducted business in only one segment, automotive fleet management and related operations, such as the DARP and Affinity programs ("Automotive Management."). In September 1996, the Company commenced a new line of business, under the name FPG Direct. FPG Direct marketed consumer goods to the credit card base of customers of oil companies and retail department stores through direct mailing efforts throughout the United States. See discussion below regarding the discontinuance of the operations of FPG Direct.

Automotive Management

Revenues from services of the automotive management operations were \$14,558,474 in 1998, as compared to \$13,558,640 in 1997, representing an increase of \$999,834, or 7.4%. The direct costs of services related to such revenue (principally charges from automotive repair facilities) were \$12,129,819 in 1998, as compared to \$11,262,698 in 1997, representing an increase of \$867,121, or 7.7%. Gross profit percentage decreased .2% to 16.7% in 1998 from 16.9% in 1997. Although the number of vehicles increased, this was partially offset by a reduction in the national vehicle accident rate. The reduced vehicle accident rate, recognized by various insurance industry sources, is due to: (i) increased safety conditions on both roads and in vehicles, (ii) drivers' safety awareness and defensive driving and (iii) moderate weather conditions.

Total operating expenses were \$4,573,009 for 1998, as compared to \$2,946,232 for 1997, representing an increase of \$1,626,777 or 55.2%. Increased operating expenses were primarily attributable to the Company's efforts in exploring new business opportunities in order to grow its business, incurring charges for consultants to review alternative business strategies and associated legal fees. Additionally, in 1998, the Company incurred costs associated with the opening and the subsequent closing of a second call center facility in Margate, Florida. This call center was closed in January 1999, resulting in an accrual for the remaining lease payments of \$48,520. The Company also developed an Information Technology Department in order to upgrade all its systems for Y2K. These expenditures have positioned the Company for rapid growth in new business and technology areas. In addition, the Company incurred severance expenses related to the resignation of the former President and Chief Operating Officer of the Company.

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Interest and other income were \$245,246 in 1998, as compared to \$41,781 in 1997, representing an increase of \$203,465. The increase is primarily attributable to larger average cash balances available during 1998 which were invested in short-term cash equivalents.

Interest expense was \$2,800 in 1998, as compared to \$9,532 in 1997, representing an increase of \$6,732.

FPG Direct (Discontinued operations)

Management discontinued operations of the FPG Direct division in 1997 and has not participated in any new promotions since June 1997.

For the ended December 31, 1998, FPG Direct had no sales as compared to sales of \$2,500,097 in 1997. The cost of goods sold for the year ended December 31, 1997 was \$1,301,077, resulting in a gross profit of \$1,199,020 (48%). In 1997, FPG Direct incurred selling, general, and administrative expenses of \$2,277,156, and interest expense of \$32,934 resulting in a net loss of \$1,111,070. FPG Direct experienced a loss on disposition of assets of \$93,922 in 1998.

Liquidity and Capital Resources

As of December 31, 1998, the Company had cash and cash equivalents of \$2,782,180 as compared to \$3,453,864 as of December 31, 1997. Working capital of the Company as of December 31, 1998, was \$2,680,475 as compared to \$3,717,452 as

of December 31, 1997. The Company's operating activities used \$1,554,262 of cash in 1998 as compared to 1997, when the Company's operating activities used \$861,894 of cash. As discussed above, the Company experienced large increases in its operating costs in order to accommodate the growth of the Company as it explores and enters into new business.

The Company arranged for a short-term line of credit agreement with its bank, providing for financing up to \$750,000 through June 30, 1998. Effective October 16, 1997, the Company terminated this line of credit.

In April 1997, the Company relocated its corporate offices to a 12,000 square foot facility in Plainview, New York. The Company incurred significant expenditures representing moving costs, new furniture and equipment, and leasehold improvements. In April 1997, the Company obtained a term loan of \$150,000 from its bank to finance some of these costs. On October 16, 1997, the Company repaid the balance of the loan.

In April 1997, the Company raised \$400,000 through the private placement issuance of 266,667 shares at \$1.50 per share. Several of the Company's executives and employees accounted for a majority of the shares issued in the private placement. In August 1997 the Company raised an additional \$1,500,000 through the private placement issuance of 750,000 units at \$2.00 per unit, consisting of one share of common stock and a redeemable common stock purchase warrant at

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\$2.00 per share. A private investment group and one executive participated in this placement. In December 1997, the Company raised an additional \$2,330,813 through the private placement issuance of 581,250 units at \$4.01 per unit, consisting of one share of common stock and a redeemable common stock purchase warrant at \$5.75 per share. Additionally, in December, the Company issued a Notice of Redemption to the holders of the warrants issued as part of the August 1997 private placement. Thereafter, one holder, an executive in the Company, exercised his right to purchase 250,000 additional shares of common stock at \$2.00, permitting the Company to raise an additional \$400,000 in cash and a note from the executive for a \$100,000. This note was paid, in full, on March 6, 1998. Subsequently, in January 1998 the other warrant holder also exercised its right to purchase 500,000 additional shares of common stock at \$2.00, permitting the Company to raise an additional \$1,000,000. In December, 1998 a holder of a stock option exercised its right to purchase 100,000 shares of common stock at \$.70 per share, permitting the Company to raise an additional \$70,000 in cash.

The Company believes that its present cash position will enable the Company to continue to support its operations for the short and longer term.

Year 2000 Compliance

The Company has two computer systems and software products coded to accept only two digit entries to represent years. For example, the year "1998" would be represented by "98." These systems and products will need to be able to accept four digit entries to distinguish years beginning with 2000 from prior years. As a result, systems and products that do not accept four digit year entries will be replaced to comply with such "Year 2000" requirements. The Company believes that its internal systems are Year 2000 compliant or will be replaced in connection with previously planned changes to information systems prior to the need to comply with Year 2000 requirements. Expenses related to Year 2000 compliance amounted to approximately \$100,000 in 1998 and are expected to amount to approximately \$100,000 in 1999. The anticipated costs of any Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those anticipated. Specific factors that might cause such material differences include, but are not limited to the availability or cost of personnel trained in this area, the ability to locate and correct all relevant computer codes and similar uncertainties. In addition, there can be no assurance that Year 2000 compliance problems will not be revealed in the future which could have a material adverse affect on the Company's business, financial condition and results of operations. Many of the Company's customers and suppliers may be affected by Year 2000 issues that may require them to expend significant resources to modify or replace their existing systems. This may result in those customers having reduced funds to purchase the Company's products or in those suppliers experiencing difficulties in producing or shipping key components to the Company on a timely basis or at all.

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Forward Looking Statements - Cautionary Factors

Except for the historical information and statements contained in this Report, the matters and items set forth in this Report are forward looking statements that involve uncertainties and risks some of which are discussed at appropriate points in the Report and are also summarized as follows:

1. The Company has been able to assemble a network of independently owned and operated repair shops throughout the United States. These collision repair shops must maintain the high quality repairs standard that has enabled the

Company to continue to retain and attract new clients. The Company's inability to retain these quality repair shops and maintain their individually high repair standards could have a material adverse impact upon all of the Company's vehicle collision repair programs.

2. The Company, under the DARP, or NFS, under its fleet management business, or the Affinity Division, have clients that either individually control a large number of insureds, control large fleets, or a large number of participants in FPG programs such as Driver's Shield(R). The loss of any one insurance company, large fleet operator, or affinity group, terminating its relationship with the Company or NFS, could have an adverse impact on the continued growth of that business. The Company and NFS have addressed the issue of customer retention by implementing a policy of entering into long term contracts with its customers. In the past several years, this has materially improved the customer retention rate.
3. As the Company's proprietary programs gain more success, it is possible that the competition will attempt to copy these programs and incorporate them into their programs. This could lead to increased competitive pressures on those programs that are the most successful. The competition could result in decreased profit margins and/or the loss of certain customers.
4. The DARP concept is to enter into contractual commitments with auto insurers that will permit the Company to manage the insurer's claim management process. During this contractual period, the insurer may terminate the agreement during the trial period, and/or not offer for processing, a substantial number of claims of its entire claims experience. This situation could result in individual insurer's relationship not contributing to FPG's growth and profitability as originally expected.

Item 7. FINANCIAL STATEMENTS

The Company's financial statements and schedules appear at the end of this Report after Item 13.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 1998 AND 1997

CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Certified Public Accountants

Board of Directors
First Priority Group, Inc.
Hicksville, New York

We have audited the accompanying consolidated balance sheets of First Priority Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Priority Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Melville, New York
February 18, 1999

NUSSBAUM YATES & WOLPOW, P.C.

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1998 AND 1997

ASSETS

<TABLE>
<CAPTION>

| | 1998 | 1997 |
|---|-------------|-------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Current assets: | | |
| Cash and cash equivalents | \$2,782,180 | \$3,453,864 |
| Accounts receivable, less allowance for doubtful accounts of \$28,223 in 1998 and \$22,500 in 1997 | 1,711,644 | 1,604,266 |
| Note receivable, shareholder | - | 100,000 |
| Inventories | - | 61,642 |
| Prepaid expenses and other current assets | 66,207 | 139,276 |
| | ----- | ----- |
| Total current assets | 4,560,031 | 5,359,048 |
| Property and equipment, net | 601,424 | 457,310 |
| Security deposits and other assets | 107,972 | 41,328 |
| | ----- | ----- |
| Total assets | \$5,269,427 | \$5,857,686 |
| | ===== | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|-------------|-------------|
| Current liabilities: | | |
| Accounts payable | \$1,238,089 | \$1,254,628 |
| Accrued expenses and other current liabilities | 596,795 | 386,968 |
| Current portion of long-term debt | 44,672 | - |
| | ----- | ----- |
| Total current liabilities | 1,879,556 | 1,641,596 |
| | ----- | ----- |
| Long-term debt | 51,926 | - |
| | ----- | ----- |
| Shareholders' equity: | | |
| Common stock, \$.015 par value, authorized 20,000,000 shares; issued 8,598,467 shares in 1998 and 7,998,467 shares in 1997 | 128,977 | 119,977 |
| Preferred stock, \$.01 par value, authorized 1,000,000 shares; none issued or outstanding | - | - |
| Additional paid-in capital | 7,762,350 | 6,645,737 |
| Deficit | (4,463,382) | (2,459,624) |
| | ----- | ----- |
| Less common stock held in treasury, at cost, 266,667 shares | 3,427,945 | 4,306,090 |
| | 90,000 | 90,000 |
| | ----- | ----- |
| Total shareholders' equity | 3,337,945 | 4,216,090 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$5,269,427 | \$5,857,686 |
| | ===== | ===== |

</TABLE>

See notes to consolidated financial statements.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1998 AND 1997

<TABLE>
<CAPTION>

| 1998 | 1997 |
|-------|-------|
| ----- | ----- |

| <S> | <C> | <C> |
|--|----------------|----------------|
| Revenue | \$ 14,558,474 | \$ 13,558,640 |
| Cost of revenue (principally charges incurred at repair facilities for services) | 12,129,819 | 11,262,698 |
| Gross profit | 2,428,655 | 2,295,942 |
| Operating expenses: | | |
| Selling | 1,351,360 | 972,407 |
| General and administrative | 3,221,649 | 1,973,825 |
| Total operating expenses | 4,573,009 | 2,946,232 |
| | (2,144,354) | (650,290) |
| Other income (expense): | | |
| Interest and other income | 245,246 | 41,781 |
| Interest expense | (2,800) | (9,532) |
| Total other income | 242,446 | 32,249 |
| Loss from continuing operations before income taxes | (1,901,908) | (618,041) |
| Income taxes, all current | 7,928 | 2,381 |
| Loss from continuing operations | (1,909,836) | (620,422) |
| Discontinued operations: | | |
| Loss from operations of discontinued direct response marketing division, no income tax benefit | -- | (670,198) |
| Loss on disposal of direct response marketing division, no income tax benefit | (93,922) | (440,872) |
| | (93,922) | (1,111,070) |
| Net loss | (\$ 2,003,758) | (\$ 1,731,492) |
| Basic and diluted loss per share: | | |
| Continuing operations | (\$.23) | (\$.10) |
| Discontinued operations | (.01) | (.17) |
| Net loss | (\$.24) | (\$.27) |
| Weighted average number of common shares outstanding | 8,197,827 | 6,364,768 |

</TABLE>

See notes to consolidated financial statements.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998 AND 1997

<TABLE>
<CAPTION>

| | Common Stock | | Additional | |
|--------------------------|--------------|-----------|--------------------|--------------|
| | Shares | Amount | Paid-in Capital | Deficit |
| | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| Balance, January 1, 1997 | 6,150,550 | \$ 92,258 | \$1,942,643 | (\$ 728,132) |

| | | | | |
|--|-----------|-----------|-------------|---------------|
| Issuance of common stock in private placements | 1,597,917 | 23,969 | 4,206,844 | - |
| Exercise of warrants | 250,000 | 3,750 | 496,250 | - |
| Net loss | - | - | - | (1,731,492) |
| Balance, January 1, 1998 | 7,998,467 | 119,977 | 6,645,737 | (2,459,624) |
| Exercise of options | 100,000 | 1,500 | 68,500 | - |
| Exercise of warrants | 500,000 | 7,500 | 992,500 | - |
| Options granted for services | - | - | 55,613 | - |
| Net loss | - | - | - | (2,003,758) |
| Balance, December 31, 1998 | 8,598,467 | \$128,977 | \$7,762,350 | (\$4,463,382) |

<CAPTION>

| | Treasury Stock | | Total Shareholders' Equity |
|--|----------------|------------|----------------------------|
| | Shares | Amount | |
| <S> | <C> | <C> | <C> |
| Balance, January 1, 1997 | 266,667 | (\$90,000) | \$1,216,769 |
| Issuance of common stock in private placements | - | - | 4,230,813 |
| Exercise of warrants | - | - | 500,000 |
| Net loss | - | - | (1,731,492) |
| Balance, January 1, 1998 | 266,667 | (90,000) | 4,216,090 |
| Exercise of options | - | - | 70,000 |
| Exercise of warrants | - | - | 1,000,000 |
| Options granted for services | - | - | 55,613 |
| Net loss | - | - | (2,003,758) |
| Balance, December 31, 1998 | 266,667 | (\$90,000) | \$3,337,945 |

</TABLE>

See notes to consolidated financial statements.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1998 AND 1997

<TABLE>

<CAPTION>

| | 1998 | 1997 |
|---|---------------|---------------|
| <S> | <C> | <C> |
| Cash flows used in operating activities: | | |
| Net loss | (\$2,003,758) | (\$1,731,492) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 143,308 | 83,072 |
| Provision for bad debts | 16,723 | 39,000 |
| Options granted for services | 55,613 | - |
| Changes in assets and liabilities: | | |

| | | |
|--|-------------|-------------|
| Accounts receivable | (124,101) | 373,369 |
| Inventories | 61,642 | 256,756 |
| Prepaid expenses and other current assets | 73,069 | 182,622 |
| Security deposit and other assets | (66,644) | 5,985 |
| Accounts payable | (16,539) | (148,515) |
| Accrued expenses and other current liabilities | 306,425 | 77,309 |
| | ----- | ----- |
| Total adjustments | 449,496 | 869,598 |
| | ----- | ----- |
| Net cash used in operating activities | (1,554,262) | (861,894) |
| | ----- | ----- |
| Purchase of property and equipment and net cash used in investing activities | (287,422) | (398,558) |
| | ----- | ----- |
| Cash flows provided by financing activities: | | |
| Net repayments of borrowings under line of credit | - | (600,000) |
| Borrowing on equipment note- | | 150,000 |
| Principal payments on equipment note | - | (150,000) |
| Collection of shareholder note | 100,000 | - |
| Proceeds from issuance of common stock | 1,070,000 | 4,630,813 |
| | ----- | ----- |
| Net cash provided by financing activities | 1,170,000 | 4,030,813 |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | (671,684) | 2,770,361 |
| Cash and cash equivalents at beginning of year | 3,453,864 | 683,503 |
| | ----- | ----- |
| Cash and cash equivalents at end of year | \$2,782,180 | \$3,453,864 |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for income taxes | \$ 2,876 | \$ 3,762 |
| | ===== | ===== |
| Cash paid during the year for interest | \$ - | \$ 48,152 |
| | ===== | ===== |

Supplemental disclosure of non-cash financing activities:

During 1997, the Company received \$400,000 and a note of \$100,000 from a shareholder in connection with the exercise of 250,000 warrants for \$500,000. The note was paid during 1998.

</TABLE>

See notes to consolidated financial statements.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1998 AND 1997

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of First Priority Group, Inc. and its subsidiaries, National Fleet Service, Inc., American Automotive Trading Corp., and First Priority Group Leasing, Inc. (collectively referred to as the "Company") all of which are wholly owned. All material intercompany balances and transactions have been eliminated.

Inventories

Inventories, consisting of finished goods purchased for resale of the discontinued operation, are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are stated at cost. The Company provides depreciation for machinery and equipment and for furniture and fixtures by the straight-line method over the estimated useful lives of the

assets, principally five years. Leasehold improvements are amortized over the estimated useful lives or the remaining term of the lease, whichever is less.

Cash

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Direct-Response Advertising (Discontinued Operation)

The Company expenses the costs of advertising the first time the advertising takes place, except for direct-response advertising (see Note 15), which in 1996 was capitalized and amortized over its expected period of future benefits. Direct-response advertising consists primarily of advertising inserts mailed to customers that include order coupons for the Company's products. The capitalized costs of the advertising were generally amortized over a three or four-month period following the mail distribution date. Advertising expense was \$1,629,680 in 1997.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are used in accounting for income taxes.

Fair Value of Financial Instruments

o Cash and Cash Equivalents

The carrying amounts approximate fair value because of the short maturity of the instruments.

o Note Receivable, Shareholder

The carrying amount of the Company's note receivable, shareholder approximates fair value.

o Long-Term Debt

The carrying amount of the Company's long-term debt approximates fair value.

2. Description of Business, Revenue Recognition and Concentration of Credit Risk

Automotive Management

The Company is engaged in automotive management services, including fleet management, for major corporate clients throughout the United States. The Company offers computerized collision estimates and provides its clients with a cost-effective method for repairing their vehicle. The Company also arranges for repair of the vehicles through a nationwide network of independently owned contracted facilities.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

2. Description of Business, Revenue Recognition and Concentration of Credit Risk (Continued)

Automotive Management (Continued)

The Company also has a service called the Direct Appraisal Repair Program. The program provides automotive collision repair and appraisal services to insurance companies throughout the United States. The Company receives commissions from participating body shop vendors for referring clients of the insurance companies to them.

The Company recognizes revenue at the time of customer approval and completion of repair services. The Company warrants such services for varying periods ranging up to twelve months. Such warranty expense is borne by the repair facilities and has not been material to the Company.

Sales to one customer accounted for 10% of revenue in 1998, and sales to a different customer accounted for 10% of revenue in 1997.

The Company has no instruments with significant off-balance-sheet risk or concentration of credit risk.

Direct-Response Marketing (Discontinued Operation)

Effective September 1, 1996, the Company commenced marketing consumer goods through oil companies and retail department stores ("client") through direct mailing efforts throughout the United States, to customers who regularly use a credit card issued by the client companies. In the second quarter of 1997, the Company decided to discontinue this segment (see Note 15).

3. Due From Shareholder

In December 1997, the Company received \$400,000 and a note of \$100,000 from a shareholder in connection with the exercise of warrants (see Note 9). The note, which was paid in full during 1998, bore interest at 6% per annum and was secured by 250,000 shares of Company stock.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

4. Property and Equipment

| | 1998 | 1997 |
|-------------------------------|------------|-----------|
| | ----- | ----- |
| Machinery and equipment | \$ 717,912 | \$468,266 |
| Furniture and fixtures | 264,823 | 246,933 |
| Leasehold improvements | 19,886 | - |
| | ----- | ----- |
| | 1,002,621 | 715,199 |
| Less accumulated depreciation | 401,197 | 257,889 |
| | ----- | ----- |
| | \$ 601,424 | \$457,310 |
| | ===== | ===== |

5. Bank Debt

Line of Credit Financing

The Company had a line of credit with its bank in the amount of \$1,000,000, which was collateralized by substantially all assets of the Company, and the Company was required to maintain a compensating balance of \$250,000 in a certificate of deposit. The line bore interest at prime plus 1/2% and was cancelled in October, 1997.

Equipment Notes

In 1997, the Company borrowed \$150,000 from a bank to purchase equipment, furniture, fixtures and for relocation costs. The note was collateralized by substantially all assets of the Company. The note was interest bearing at a rate of 1/2% above prime and was repaid in October, 1997.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

6. Long-Term Debt

In August 1998, the Company agreed to pay severance to its former Co-Chairman and President in the amount of \$100,000 including imputed interest of 8.5% in quarterly installments of \$12,500 commencing March 31, 1999. This amount has been accrued and charged to operations in the year ended December 31, 1998.

7. Loss Per Share

Basic loss per share is computed by dividing the loss by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if common stock equivalents, such as stock options and warrants, were exercised.

<TABLE>

<CAPTION>

| | Loss (Numerator) | Shares (Denominator) | Per-Share Amount |
|----------------------------------|---------------------|-------------------------|---------------------|
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| 1998: | | | |
| ----- | | | |
| Basic and Diluted Loss Per Share | | | |
| Loss from continuing operations | (\$1,909,836) | 8,197,827 | (\$.23) |
| | ===== | ===== | ===== |
| 1997: | | | |
| ----- | | | |
| Basic and Diluted Loss Per Share | | | |
| Loss from continuing operations | (\$ 620,422) | 6,364,768 | (\$.10) |
| | ===== | ===== | ===== |

</TABLE>

In 1998 and 1997, options and warrants were anti-dilutive.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

8. Stock Options

Stock Compensation Plan

The Company accounts for its stock option plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation expense is recognized. In 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) for disclosure purposes; accordingly, no compensation expense has been recognized in the results of operations for its stock option plans as required by APB Opinion No. 25. The Company has two fixed option plans, the 1995 Stock Incentive Plan, and the 1987 Incentive Stock Option Plan. Under the plans, in the aggregate, the Company may grant options to its employees, directors and consultants for up to 7,000,000 shares of common stock. Under both plans, incentive stock options may be granted at no less than the fair market value of the Company's stock on the date of grant, and in the case of an optionee who owns directly or indirectly more than 10% of the outstanding voting stock ("an Affiliate"), 110% of the market price on the date of grant. The maximum term of an option is ten years, except, in regard to incentive stock options granted to an Affiliate, in which case the maximum term is five years.

For disclosure purposes, the fair value of each stock option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions used for stock options granted in 1998 and 1997, respectively: annual dividends of \$-0- for both years, expected volatility of 80% and 93%, risk-free interest rate of 5.02% and 6.08%, and expected life of five years for all grants. The weighted-average fair value of stock options granted in 1998 and 1997

was \$.83 and \$2.43, respectively.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

8. Stock Options (Continued)

Stock Compensation Plan (Continued)

Under the above model, the total value of stock options granted in 1998 and 1997 was \$1,044,745 and \$766,784, respectively, which would be amortized ratably on a pro forma basis over the related vesting periods, which range from thirty-six months to five years (not including performance-based stock options granted in 1998 and 1997, see below). Had compensation cost been determined based upon the fair value of the stock options at grant date consistent with the method of SFAS No. 123, the Company's loss from continuing operations and loss per share from continuing operations would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

| | 1998 | 1997 |
|--|---------------|-------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Loss from continuing operations: | | |
| As reported | (\$1,909,836) | (\$620,422) |
| Pro forma | (\$2,994,711) | (\$761,261) |
| Basic and diluted loss per share from continuing operations: | | |
| As reported | (\$.23) | (\$.10) |
| Pro forma | (\$.37) | (\$.12) |

</TABLE>

During 1998, the Company repriced certain options granted in 1997, representing the right to purchase 465,000 shares of common stock. The original 1997 grants gave the holders the right to purchase common stock at prices ranging from \$2.75 to \$6.84 per share. The options were repriced at prices ranging from \$1.75 to \$1.93 per share. In addition, during 1998, the Company repriced certain options granted at earlier dates in 1998, representing the right to purchase 1,095,000 shares of common stock. The original 1998 grants gave the holders the right to purchase common stock at prices ranging from \$5.13 to \$5.69 per share. The options were repriced at prices ranging from \$1.75 to \$1.93 per share. At the date of repricing, the new exercise price was equal to the fair market value of the shares (110% of the fair market value in the case of an affiliate).

The SFAS No. 123 method of accounting does not apply to options granted prior to January 1, 1995, and accordingly, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

8. Stock Options (Continued)

Performance-Based Stock Options

Under its 1995 Stock Incentive Plan, the Company had granted 2,125,000 options to certain key executives hired in 1997 and 1996 whose vesting is entirely contingent upon the future profits (as defined) for the division or subsidiary or commissions earned under the management of the related key executive. During 1998, the Company terminated an executive hired in 1996 who had been granted 500,000 of the above options, and cancelled 450,000 options granted to another executive. During 1997, the Company terminated three executives hired in 1996 who had been granted 1,000,000 of these options. Generally, for each \$10,000 of future profits of the related division or subsidiary, the key executive becomes vested and may exercise options equal to defined amounts of shares, ranging from 500 shares to 1,500 shares based upon the aggregate amount of future profit attained.

The Company believes that it is not possible to estimate any profits for the related divisions and subsidiaries and, therefore, cannot estimate as of December 31, 1998 the outcome of the performance condition. Accordingly, the pro forma amounts of net loss and loss per share described above do not include any pro forma compensation expense related to the performance-based stock options.

For disclosure purposes, the fair value of each performance-based stock option grant is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions for 1997 (none in 1998): annual dividends of \$-0-, expected volatility of 93%, risk-free interest rate of 6.08% and expected life of five years for all grants. The weighted-average fair value of the performance-based stock options granted in 1997 was \$1.50 (none in 1998)

On October 22, 1998, the Company repriced certain performance-based options granted in 1997, representing the right to purchase 150,000 shares of common stock. The original 1997 grants gave the holder the right to purchase common stock at \$2.00 per share. The options were repriced at \$1.75 per share. At the date of the repricing, the new exercise price was equal to the fair market value of the shares.

Non-Incentive Stock Option Agreements

The Company has non-incentive stock option agreements with five of its directors and/or officers.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

8. Stock Options (Continued)

Summary

Stock options transactions (other than performance-based stock options) are summarized as follows:

<TABLE>
<CAPTION>

| | Number of Shares | Exercise Price Range | Weighted- Average Exercise Price |
|--|------------------------|----------------------------|---|
| <S> | <C> | <C> | <C> |
| Options outstanding, January 1, 1997 | 3,915,000 | \$.06-2.00 | .81 |
| Options granted | 850,000 | 2.00-6.84 | 3.07 |
| Options expired/canceled | (1,000,000) | .75-2.00 | 1.38 |
| Options outstanding, December 31, 1997 | 3,765,000 | .06-6.84 | 1.17 |
| Options granted | 3,242,500 | 1.75-6.63 | 3.38 |
| Options expired/canceled | (3,630,000) | .06-6.84 | 2.79 |
| Options exercised | (100,000) | .70 | .70 |
| Options outstanding, December 31, 1998 | 3,277,500 | .12-5.00 | 1.57 |
| Options exercisable, December 31, 1997 | 1,566,667 | .06-2.75 | .55 |
| Options exercisable, December 31, 1998 | 1,552,500 | .12-5.00 | 1.36 |

</TABLE>

The following table summarizes information about the options outstanding at December 31, 1998 other than performance-based stock options:

<TABLE>
<CAPTION>

Options Outstanding

Options Exercisable

| Range of Exercise Prices | Number Outstanding | Weighted-Average Remaining Contractual Life (Years) | Weighted-Average Exercise Price | Number Outstanding | Weighted-Average Exercise Price |
|--------------------------|--------------------|---|---------------------------------|--------------------|---------------------------------|
| <S> | <C> | <C> | <C> | <C> | <C> |
| \$.12 - .22 | 450,000 | 1.46 | \$.19 | 362,500 | \$.19 |
| .75 - 1.56 | 765,000 | 1.93 | 1.17 | 743,334 | 1.18 |
| 1.75 - 2.25 | 1,837,500 | 3.65 | 1.80 | 288,333 | 1.80 |
| 2.75 - 5.00 | 225,000 | 4.14 | 3.77 | 158,333 | 4.08 |

</TABLE>

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

9. Common Stock and Stock Warrants

In April 1997, the Company raised \$400,000 through the private placement issuance of 266,667 shares of common stock at \$1.50 per share. Several of the Company's executives and employees accounted for a majority of the shares issued. In June 1997, the agreement was amended to provide for additional shares to the subscribers to bring the value of their investment to \$2.00 per share if the closing price on the anniversary date, April 1998, was less than \$2.00 per share. No additional shares became issuable on such date.

In August 1997, the Company raised \$1,500,000 through the private placement issuance of 750,000 units at \$2.00 per unit. Each unit consists of one share of common stock and a redeemable common stock purchase warrant at \$2.00 per share for a period of two years. The units were issued to an executive of the Company and a private investment group. In response to the Notice of Redemption issued by the Company, the executive exercised 250,000 shares of the warrants in December 1997 (see Note 3). Thereafter, in January 1998, the private investment group exercised 500,000 shares of the warrants.

In December, 1997, the Company raised \$2,330,813 through the private placement issuance of 581,250 units at \$4.01 per unit. Each unit consists of one share of common stock and a redeemable common stock purchase warrant at \$5.75 per share for a period of five years. Should the price of the Company's stock exceed \$11.50 per share for 20 consecutive trading days, the Company may request redemption of the warrants at a price of \$.01 per share. The warrant holders would then have 30 days in which to either exercise the warrant or accept the redemption offer. The Company has provided the investors with certain price protection, subject to certain conditions being met, which may require the Company to issue additional shares and warrants to these investors without receiving additional consideration. Subsequent to December 31, 1997, the price protection element of the above expired.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

9. Common Stock and Stock Warrants (Continued)

In connection with the 1995 issuance of 1,000,000 shares of its common stock, the Company issued warrants to purchase 850,000 shares of the Company's common stock. The warrants are all presently exercisable at prices ranging from \$.125 to \$.50 per share and these warrants expire in 2000. During the fiscal year ended December 31, 1998 and 1997, none of these warrants were exercised. In lieu of the payment of the exercise price in cash, the holders of these warrants have the right (but not the obligation) to convert the warrants, in whole or in part, into common stock as follows; upon exercise of the conversion rights of the warrant, the Company shall deliver to the holder that number of shares of common stock equal to the quotient obtained by dividing the remainder derived from subtracting (a) the exercise price multiplied by the number of shares of common stock being converted from (b) the market price of the common stock multiplied by the number of shares of common stock being converted, by the market price of the stock.

10. Preferred Stock Purchase Rights

The Company is authorized to issue 1,000,000 shares of preferred stock, \$.01 par, with rights and preferences as determined by the Board of Directors.

On December 28, 1998, the Board of Directors authorized the issuance of up to 200,000 shares of non redeemable Junior Participating Preferred Stock ("JPPS"). The JPPS shall rank junior to all other series of preferred stock (but senior to the common stock) with respect to payment of dividends, and any other distributions. Among other rights, the holders of the JPPS shall be entitled to receive, when and if declared, quarterly dividends per share equal to the greater of (a) \$100 and (b) the sum of 1,000 (subject to adjustment) times the aggregate per share of all cash and non cash dividends (other than dividends payable in common stock of the Company and other defined distributions). Each share of JPPS shall entitle the holders to voting rights equal to 1,000 votes per share. The holders of JPPS shall vote together with the common stock holders.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

10. Preferred Stock Purchase Rights (Continued)

On December 28, 1998, the Board of Directors also adopted a Rights Agreement ("the Agreement"). Under the agreement, each share of the Company's common stock carries with it one preferred share purchase right ("Rights"). The Rights themselves will at no time have voting power or pay dividends. The Rights become exercisable only if a person or group acquires (1) 20% or more of the Company's common stock (10% in the case of an Adverse Person as defined) (2) an additional 1% or more in the case of acquisitions by any shareholder with beneficial ownership of 20% or more on the record date (10% in the case of an Adverse Person as defined). (3) the tenth day after a person or group announces a tender offer to acquire 20% or more of the Company's common stock (10% in the case of an Adverse Person as defined). When exercisable, each Right entitles the holder to purchase one- one thousandth of a share of the JPPS at an exercise price of \$27.50 per one- one thousandth of a share, subject to adjustment.

11. Employee Benefit Plan

The Company has a 401(k) profit sharing plan for the benefit of all eligible employees as defined in the plan documents. The plan provides for voluntary employee salary contributions from 1% to 15% not to exceed the statutory limitation provided by the Internal Revenue Code. The Company may, at its discretion, match within prescribed limits, the contributions of the employees. Employer contributions to the plan amounted to \$9,632 and \$7,727 in 1998 and 1997.

12. Commitments and Contingency

Leases

The Company leases its executive office in Plainview, New York, expiring in March 2002 under a noncancelable operating lease which requires minimum annual rentals and certain other expenses including real estate taxes. Rent expense including real estate taxes for the years ended December 31, 1998 and 1997 aggregated \$253,531 and \$152,268, respectively.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

12. Commitments and Contingency (Continued)

Leases (Continued)

As of December 31, 1998, the Company's future minimum rental commitments are as follows:

| | |
|------|-----------|
| 1999 | \$177,100 |
| 2000 | 184,300 |
| 2001 | 191,600 |
| 2002 | 48,400 |
| | ----- |
| | \$601,400 |
| | ===== |

Employment Contracts

The Company has employment contracts with its two principal officers expiring during 2001. The agreements provide minimum annual salaries of \$300,000 to the Chief Executive Officer ("CEO") and \$150,000 to the President.

In consideration for several senior executives voluntarily temporarily reducing their salaries (without changing the terms of employment contracts), the Company granted stock options representing the right to purchase 145,000 shares of the Company's common stock at prices ranging from \$1.13 to \$1.24. Such temporary salary reduction amounts to approximately \$145,000 on an annualized basis, of which \$100,000 is attributable to the CEO. Such salary reductions can be terminated by the executives at any time without forfeiture of the options.

The CEO's employment contract provides that, in the event of termination of the employment of the officer within three years after a change in control of the Company, then the Company would be liable to pay a lump sum severance payment of three years' salary (average of last five years), less \$100, in addition to the cash value of any outstanding, but unexercised stock options. The President's employment contract provides that, in the event of termination of the employment of the officer within one year after a change in control of the Company, then the Company would be liable to pay a lump sum severance payment of two years' salary as determined on the date of termination or the date on which a change in control occurs, whichever is greater. In no event would the maximum amount payable exceed the amount deductible by the Company under the provisions of the Internal Revenue Code.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

13. Income Taxes

The Company accounts for income taxes on the liability method, as provided by Statement of Financial Accounting Standards 109, Accounting for Income Taxes.

At December 31, 1998, the Company has an operating loss carryforward of approximately \$4,000,000 which is available to offset future taxable income. A valuation allowance has been recognized to offset the full amount of the related deferred tax asset of approximately \$1,520,000 and \$770,000 at December 31, 1998 and 1997 due to the uncertainty of realizing the benefit of the loss carryforwards.

At December 31, 1998, the Company's net operating loss carryforwards are scheduled to expire as follows:

| | |
|-------------------------|-------------|
| Year ended December 31, | |
| 2002 | \$ 232,000 |
| 2003 | 24,000 |
| 2005 | 50,000 |
| 2008 | 36,000 |
| 2012 | 1,685,000 |
| 2013 | 1,973,000 |
| | ----- |
| | \$4,000,000 |
| | ===== |

The Company's effective income tax rate differs from the Federal statutory rate as follows:

| | | |
|------------------------|--------|--------|
| | 1998 | 1997 |
| | ----- | ----- |
| Federal statutory rate | 34.0% | 34.0% |
| Expected tax benefit | (34.0) | (34.0) |

| | | |
|--------------------|-------|-------|
| State income taxes | .4 | .1 |
| | ----- | ----- |
| | .4% | .1% |
| | ===== | ===== |

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

14. Advertising Expense

Advertising expense (other than from discontinued operations) amounted to \$125,873 and \$116,759 in 1998 and 1997.

15. Discontinued Operations

At June 30, 1997, the Company decided to discontinue its direct-response marketing division. Accordingly, the operating results of the division have been segregated from continuing operations and reported separately on the statement of operations. Net sales for discontinued operations were \$2,500,097 for 1997.

At the measurement date, the Company did not provide for any loss on disposal or anticipate any continuing losses from this division. Subsequent to the measurement date, the division reflected losses of \$93,922 and \$440,872 during the years ended December 31, 1998 and 1997 which are reflected as a disposal losses in the accompanying financial statements. As of December 31, 1998, there are no remaining assets or liabilities of this division.

16. Fourth Quarter Adjustments

During the fourth quarter of the year ended December 31, 1998, the Company recorded a severance agreement (see Note 6) and an accrual for consulting services of \$50,000, applicable to earlier periods in 1998.

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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1997

17. Contingency

On January 29, 1998, the Company terminated the employment of its chief financial and accounting officer, who had been employed by the Company since November 17, 1997 pursuant to an employment contract. The employment contract provided for a base salary of \$145,000 during the first year of the contract, \$152,250 during the next year of the contract and \$160,000 during the third year of the contract. The employment contract also provided for the employee to receive incentive compensation equal to 2% of annual pre-tax earnings of the Company, and health and other fringe benefits. Further, the employee was granted options to purchase 120,000 shares of common stock of the Company. Such options were cancelled upon the termination of employment. The employee has asserted a claim against the Company for at least \$1,000,000, including, but not limited to the remaining unpaid portion of the employment contract, and other losses sustained. The Company has served an answer denying liability and interposing a counterclaim to recover amounts previously paid to the former employer. The action is in the early discovery stages and counsel for the Company is unable to form an opinion as to the outcome of this matter, and the Company intends to vigorously defend the action.

The Company has not provided for any loss on this matter in the accompanying financial statements.

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Part III

Items 9 through 12 have been incorporated by reference from the

Company's definitive proxy statement or definitive information statement.

Item 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) List of Exhibits

- 3.1 Certificate of Incorporation of the Company, as amended, incorporated by reference to Exhibit 19.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1991.
- 3.2 Amendment to the Certificate of Incorporation incorporated by reference to Exhibit 3.1 of the Company's Form 10-QSB for the period ended September 30, 1996.
- 3.3. Amended and restated By-laws of the Company, incorporated by reference to Exhibit 4 to the Company's Current Report on Form 8-K dated December 28, 1998.
- 4 Shareholders Rights Agreement, dated as of December 28, 1998, between First Priority Group, Inc. and North American Transfer Co., as Rights Agent, together with Exhibits A, B and C attached thereto incorporated by reference to the Registrant's Registration Statement on Form 8-A filed on December 31, 1998.
- 10.1 The Company's 1995 Incentive Stock Plan incorporated by reference to Exhibit 10.1 of the Company's Form 10-QSB for the period ended September 30, 1996.
- 10.2 Lease Agreement dated December 6, 1996 between the Company and 51 East Bethpage Holding Corporation for lease of the Company's facilities in Plainview, New York incorporated by reference to Exhibit 10.3 of the Company's Form 10-QSB for the period ended June 30, 1997.
- 10.3 First Amendment to Lease Agreement dated July 14, 1997 amending the lease dated December 6, 1996 between the Company and 51 East Bethpage Holding Corporation incorporated by reference to Exhibit 10.4 of the Company's Form 10-QSB for the period ended June 30, 1997.

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- 10.4 Form of subscription agreement executed by subscribers to the Company's private placement dated August 26, 1997 incorporated by reference to Exhibit 10.1 of the Company's Form 10-QSB for the period ended September 30, 1997.
- 10.5 Form of warrant granted to subscribers to the Company's private placement dated August 26, 1997 incorporated by reference to Exhibit 10.2 of the Company's Form 10-QSB for the period ended September 30, 1997.
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Company's Form 10-KSB for the period ended December 31, 1997.

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- 10.21 Severance Agreement dated August 17, 1998 between the Company and Michael Karpoff filed herein.
- 13.1 Form 10-QSB for the quarter ending March 31, 1998 incorporated by reference dated and previously filed.

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- 13.2 Form 10-QSB for the quarter ending June 30, 1998 incorporated by reference and previously filed with the Commission..
- 13.3 Form 10-QSB for the quarter ending September 30, 1998 incorporated by reference and previously filed with the Commission..
- 21 List of subsidiaries filed herein.
- 27 Financial Data Schedule
- (b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K dated December 28, 1998 stating:

A. On December 28, 1998, the Board of Directors of First Priority Group, Inc. (the "Company") authorized the issuance of one preferred share purchase right (a "Right") for each outstanding share of common stock, par value \$0.015 per share (the "Common Stock"), of the Company. The description and terms of the Rights, and certain defined terms used herein, are set forth in a Rights Agreement (the "Rights Agreement") between the Company and North American Transfer Co. as Rights Agent (the "Rights Agent"), dated as of December 28, 1998 and filed as an exhibit to the Form 8-K.

B. On December 28, 1998, the Board of Directors of the Company also adopted the following amendments to the Company's By-laws:

(i) Article I Section 2 was amended to provide that shareholders shall have no right to call special meetings of shareholders.

(ii) Article I Section 3 was amended to require that a shareholder desiring to bring up business at an annual meeting so notify the Company not less than 60 days nor more than 90 days prior to the anniversary date of the immediately preceding annual meeting (the "Anniversary Date"), or if the annual meeting is scheduled to be held on a date more than 30 days before the Anniversary Date or more than 60 days after the Anniversary Date, not later than the close of business on the later of (A) the 75th day prior to the scheduled date of the annual meeting or (B) the 15th day following the day on which public announcement of the date of such annual meeting is made by the Company.

(iii) Article II Section 1 was amended to implement a classified board of directors. The directors will be classified, with respect to the term for which they hold office, into three classes, as nearly equal as possible. One class of directors (consisting of one director) shall be elected for a term expiring at the annual meeting to be held in 1999, another class (consisting of two directors) shall be elected for a term expiring at the annual meeting to be held in 2000, and another

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class (consisting of two directors) shall be elected for a term expiring at the annual meeting to be held in 2001.

(iv) Article II Section 2 was amended to require that shareholders desiring to nominate one or more candidates for election to the board of directors so notify the Company not less than 60 days nor more than 90 days prior to the Anniversary Date, or if the annual meeting is scheduled to be held on a date more than 30 days before the Anniversary Date or more than 60 days after the Anniversary Date, not later than the close of business on the later of (A) the 75th day prior to the scheduled date of the annual meeting or (B) the 15th day following the day on which public announcement of the date of such annual meeting is made by the Company.

(v) Article IX Section 1 was amended to require that the by-laws may only be amended or repealed by the shareholders by an affirmative vote of at least sixty-six and two-thirds percent (66-2/3%) of the total votes eligible to be cast on such amendment or repeal by holders of voting stock, voting together as a class.

The amendments relating to the classified board (clause (iii) above) and the shareholder super-majority provision (clause (v) above) are subject to shareholder approval, which the Company currently intends to seek at the next annual meeting of shareholders. The amended and restated By-laws are attached as an exhibit to the Form 8-K.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST PRIORITY GROUP, INC.

By: /s/ Barry Siegel

Barry Siegel
Chairman of the Board of Directors,
Treasurer, Secretary,
Chief Executive Officer,
Principal Accounting Officer

Date: April 14, 1999

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

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By: /s/ Barry Siegel

Barry Siegel
Chairman of the Board of Directors,
Treasurer, Secretary,
Chief Executive Officer,
Principal Accounting Officer

Date: April 14, 1999

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EMPLOYMENT AGREEMENT

AGREEMENT made as of October 9, 1998, by and between FIRST PRIORITY GROUP, INC., a New York corporation (hereinafter referred to as the "Company"), having an office at 51 East Bethpage Road, Plainview, New York 11803 and BARRY SIEGEL, residing at 8 Indian Well Court, Huntington, NY. 11743 (hereinafter referred to as the "Executive").

W I T N E S S E T H :

WHEREAS, the Company desires to engage the services of the Executive, and the Executive desires to render such services;

NOW, THEREFORE, in consideration of the premises, the parties agree as follows:

1. Employment. The Company hereby employs the Executive as Chairman of the Board of Directors, Chief Executive Officer, Secretary and Treasurer, and the Executive hereby accepts such employment, subject to the terms and conditions hereinafter set forth.

2. Term. The term of the Executive's employment hereunder shall commence on July 1, 1998 and shall continue to December 31, 2001. The Employment Agreement dated January 18, 1996, as amended, shall hereby be terminated on the date hereof.

3. Duties. The Executive agrees that the Executive will serve the Company on a full-time basis faithfully and to the best of his ability as the Chairman of the Board of Directors, Chief Executive Officer, Secretary and Treasurer of the Company, subject to the general supervision of the Board of Directors of the Company. The Executive agrees that the Executive will not, during the term of this Agreement, engage in any other business activity which interferes with the performance of his obligations under this Agreement. The Executive further agrees to serve as a director of the Company and/or of any parent, subsidiary or affiliate of the Company if the Executive is elected to such directorship.

Upon the Date of Termination, the Executive shall resign as an officer and director of the Company and any of its subsidiaries.

4. Compensation.

(a) In consideration of the services to be rendered by the Executive hereunder, including, without limitation, any services rendered by the Executive as director of the Company or of any parent, subsidiary or affiliate of the Company, the Company agrees to pay the Executive, and the Executive agrees to accept fixed compensation at the rate Three Hundred Thousand Dollars (\$300,000) per annum, subject to all required federal, state and local payroll deductions.

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(b) The Executive shall also be entitled to five weeks vacation, unlimited sick leave and fringe benefits in accordance with Company policies and plans in effect, from time to time, for Executive officers of the Company.

(c) The Executive shall participate in the Company's Corporate Compensation Program as approved and authorized by the Board of Directors of the Company, subject to amendment by the Board of Directors or the Compensation Committee of the Board of Directors of the Company ("Incentive Compensation"). The Executive shall not receive any Incentive Compensation should the Executive be terminated for Termination for Cause. Such Incentive Compensation for the particular fiscal year shall be paid to the Executive no later than upon the filing of the Company's Form 10-KSB, or equivalent form.

(d) Except as hereinafter provided in Section 5(a), the Company shall pay the Executive, for any period during which the Executive is unable fully to perform his duties because of physical or mental illness or incapacity, an amount equal to the fixed compensation due the Executive for such period less the aggregate amount of all income disability benefits which the Executive may receive or to which the Executive may be entitled under or by reason of (i) any group health and/or disability insurance plan provided by the Company; (ii) any applicable state disability law; (iii) the Federal Social Security Act; (iv) any applicable worker's compensation law or similar law; and (v) any plan towards which the Company or any parent, subsidiary or affiliate of the Company has contributed or for which it has made payroll deductions, such as group accident, health and/or disability policies.

(e) The Executive shall be granted a stock option under the Company's 1995 Incentive Stock Plan (the "Plan") with the right to purchase up to 400,000 shares of the Company's common stock (the "Stock Option"). The Stock Option shall be granted at a price equal to the closing price of the Company's common stock as quoted on The Nasdaq SmallCap Stock Market on the date hereof. The Stock Option shall become exercisable in one-third increments upon the first, second and third anniversary of the Stock Option grant. The Company will provide the Executive a Stock Option Contract for his signature which will set out the terms of the option. This Stock Option shall be subject to the terms of the Plan.

Notwithstanding anything to the contrary herein, should the Executive wish to exercise any stock option that: (a) was previously been granted to him, (b) is exercisable by the Executive, and (c) shall expire within three (3) months, then the Company shall provide the Executive its loan guaranty for monies borrowed by the Executive equal to the federal and/or state tax liability incurred by the Executive as a result of the exercise of such stock option(s), should the Executive not wish to, or be unable to sell such number of shares, issued pursuant to the exercise of such stock option, to pay the tax liability incurred from the exercise of such stock option. Each loan guaranty provided herein, shall continue for a term of at least one year, or such longer term: (x) until the common stock of the Company closes for at least ten consecutive trading days equal to or greater than seventy-five percent (75%) of the closing price of the common stock of the Company on the day on which the Executive exercised his stock option(s), or (y) as there is a sufficiently liquid market for the sale of that number of common stock shares of the Company equal in value to the loan amount plus accrued interest at a price equal to or greater than seventy-five percent (75%) of the closing price of the common stock of the Company on the day on which the Executive exercised his stock option(s), or (z) at the discretion of the Board of Directors.

5. Compensation Upon Termination.

Upon termination of the Executive's employment or during a period of Disability the Executive shall be entitled to the following benefits:

(a) Termination for Cause, Disability, Death or Retirement etc.

(i) If the Executive's employment shall be terminated by the Company for Termination for Cause, or by the Company or the Executive for Disability, or by either the Company or the Executive for Retirement, the Company shall pay to the Executive the Executive's full base salary through the Date of Termination at the rate in effect at the date that Notice of Termination is given, plus all other amounts to which the Executive is entitled under any compensation plan of the Company in effect on the date the payments are due, in addition to any other benefits set forth in this Agreement, and the Company shall have no further obligations to the Executive under this Agreement. If the Executive's employment shall be terminated by the Company for Death, the Company shall pay to the estate of the Executive the Executive's full base salary through the period of four (4) months following the Date of Termination at the rate in effect at the date that Notice of Termination is given, plus all other amounts to which the Executive is entitled under any compensation plan of the Company in effect on the date the payments are due, in addition to any other benefits set forth in this Agreement, and the Company shall have no further obligations to the Executive under this Agreement.

(ii) If the Executive's employment shall be terminated by the Executive for any reason other than for Termination for Cause, Death, Disability, Retirement or Good Reason after a Change in Control, the Company shall pay to the Executive the Executive's full base salary through the Term of this Agreement, or for one (1) year following the Date of Termination, whichever is less, at the rate in effect at the date that Notice of Termination is given, plus all other amounts to which the Executive is entitled under any compensation plan of the Company in effect on the date the payments are due, in addition to any other benefits set forth in this Agreement, and the Company shall have no further obligations to the Executive under this Agreement.

(b) Severance Benefits. If the Executive's employment shall be terminated by the Company within three (3) years after a Change in Control of the Company, for reasons other than for Termination for Cause, Retirement, Death or Disability, or terminated by the Executive for Good Reason within three (3) years after a Change in Control of the Company, then, subject to the limitations set forth in Subparagraph 5(d) below, the Executive shall be entitled to the benefits provided below:

(i) the Company shall pay the Executive the Executive's full base salary through the Date of Termination at the rate equal to the greater of the rate in effect on the date prior to the Change in Control and the rate in effect at the time Notice of Termination is given, plus all other amounts to which the Executive is entitled under any compensation plan of the Company in effect on the date, the payments are due, except as otherwise provided below;

(ii) in lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, except as provided in Paragraph 5(d) below, the Company shall pay as severance pay to the Executive a lump sum severance payment equal to 300% of an average annual amount actually paid by the Company or any parent or subsidiary of the Company to the Executive and included in the Executive's gross income for services rendered in each of the five

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prior calendar years (or shorter period during which the Executive shall have been employed by the Company or any parent or subsidiary of the Company), less \$100;

(iii) in consideration of the surrender on the Date of Termination of the then outstanding options ("Options") granted to the Executive, if any, under the stock option plans of the Company, or otherwise, for shares of common stock of the Company ("Company Shares"), except as provided in Paragraph 5(d) below, the Executive shall receive an amount in cash equal to the product of (A) the excess of, (x) in the case of options granted after the date of this Agreement that qualify as incentive stock options ("ISOs") under Section 422A of the Internal Revenue Code of 1986, as amended (the "Code"), the closing price on or nearest the Date of Termination of Company Shares as reported in the principal national securities exchange on which the Company's Shares are listed or admitted to trading or, if the Company Shares are not listed or admitted to trading on any national securities exchange, the last quoted price or, if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System ("NASDAQ") or such other system then in use, or, if on any such date the Company Shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker making a market in the Company Shares selected by the Board of Directors of the Company, and (y) in the case of all other Options, the higher of such closing price or the highest per share price for any Company Shares actually paid in connection with any Change in Control of the Company, over the per share exercise price of each Option held by the Executive (irrespective of whether or not such Option is then fully exercisable), times (B) the number of Company Shares covered by each such Option (irrespective of whether or not such Option is then fully exercisable). The parties hereto acknowledge and agree that the benefits afforded to the Executive under this Subparagraph (iii) do not, and shall not be deemed to, materially increase the benefits accruing to the Executive under any stock option plan under which any such Options are granted. Insofar as the Executive receives full payment under this Subparagraph (iii) with respect to the surrender of all such Options, such Options so surrendered shall be canceled upon the Executive's

receipt of such payment. However, if pursuant to the limitations set forth under Paragraph 5(d) below, the full amount described under this Subparagraph 5(b)(iii) cannot be paid, the number of Options which are canceled shall be reduced so that the ratio of the value of the canceled Options to the value of all such Options equals the ratio of the amount payable under this Subparagraph 5(b)(iii) after the application of the limitation described under Paragraph 5(d), to the amount that otherwise would have been paid under this Subparagraph 5(b)(iii) in the absence of such limitations. The Options canceled pursuant to the immediately preceding sentence shall be those Options providing the smallest "excess amounts" as determined under Subparagraph 5(b)(iii)(A). For those Options not surrendered and canceled pursuant to this subparagraph, the Company shall guaranty the Executive's loan for such amount as needed by the Executive to exercise those outstanding Options that may be exercised as they become exercisable by the Executive. Additionally, those stock options not surrendered and canceled as determined in this Subparagraph 5(b)(iii) shall hereinafter become fully exercisable for the remaining term of such stock option grant, regardless whether the Executive continues as an employee of the Company; and

(iv) The Company shall also pay to the Executive all legal fees and expenses incurred by the Executive as a result of such termination (including all such fees and expenses, if any, incurred in contesting or disputing any such termination or in seeking to obtain or enforce any

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right or benefit provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of Section 499 of the Code to any payment or benefit provided hereunder).

(c) Date Benefits Due. The payments provided for in Paragraph 5(b) above shall be made not later than the fifth day following the Date of Termination, provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 7872(f)(2) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive repayable on the fifth day after demand by the Company (together with interest at the rate provided in Section 7872(f)(2) of the Code).

(d) Reduction to Avoid Non-Deductibility. Any of the other provisions of this Agreement notwithstanding, if any payment to be made by the Company pursuant to this Agreement to the Executive or for the Executive's benefit (the "Payments") otherwise would not be deductible by the Company for Federal income tax purposes due to the provisions of the Code Section 280G, the aggregate present value (determined as of the date of the Change in Control) of the Payments shall be reduced (but not to a negative amount) to an amount expressed in the present value as of such date (the "Reduced Amount") that maximizes the present value of the Payments without causing any payment to be nondeductible by the Company due to the Code Section 280G. The determination of the Reduced Amount and the accompanying reduction in Payments shall be made by the independent certified public accountants for the Company. Any such decrease in Payments shall be applied to the amounts to be paid to the Executive or for the Executive's benefit hereunder in the following order but only to the extent such amounts would be taken into account in determining whether the Payments constitute "parachute payments" within the meaning of the Code Section 280G(b)(2)(A): (i) to decrease the amounts payable to the Executive pursuant to Subparagraph 5(b)(iii); (ii) to decrease the amounts payable to the Executive pursuant to Subparagraph 5(b)(ii); (iii) to decrease the amounts payable to the Executive pursuant to Section 5(j); (iv) to decrease the amounts payable to the Executive pursuant Subparagraph 5(b)(iv); and (v).to decrease the amounts payable to the Executive pursuant to Section 5(a)

(e) Determination of Reduced Amount. The determination of the Reduced Amount and of the reduction in the Payments shall be communicated to the Executive in writing by the Company. If the Executive does not agree with such determinations, the Executive may give written notice of such disagreement to the Board within five (5) days of the Executive's receipt of the determination,

and within fifteen (15) days after the Executive's notice of disagreement, the Executive shall deliver to the Board the Executive's calculation of the reduction in Payments. If the Executive fails to give notice of disagreement or to furnish the Executive's calculation in accordance with the provisions of the immediately preceding sentence, the Executive shall be conclusively deemed to have accepted the

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determinations made by the independent public accountants for the Company. If the accountants for the Company and the Executive's accountants are unable to agree upon the reduction of Payments within ten (10) days of the receipt of the Board of the Executive's calculation, the determination of the reduction in Payments shall be made by a third accounting firm picked by the Company's accountants and the Executive's accountants (the "Arbiter") whose determination shall be final and binding upon the Executive and the Company, except to the extent provided below. The Company shall withhold for income tax purposes all amounts that the Company's independent certified public accountants believe that the Company is required to withhold.

(f) Arbiter to Resolve Disputes. If the Arbiter's and the Company's accountant's fees shall be borne solely by the Company. The Executive's accountant's fees shall be borne by the Executive.

(g) Final Payment. As promptly as practicable after the final determination of the reduction in Payments, the Company shall pay to the Executive or for the Executive's benefit the amounts determined to be payable.

(h) IRS Ruling. In the event there is a final determination by the Internal Revenue Service or by a court of competent jurisdiction that any portion of the Payments are not deductible by the Company by reason of Section 280G, then the amount of the Payments that exceeds the amount deductible by the Company shall be deemed to be a loan by the Company to the Executive, which shall be repaid by the Executive five (5) days after delivery of a demand by the Company therefor together with interest from the date paid by the Company to the date repaid by the Executive at the rate provided for a demand loan in Section 7872(f)(2) of the Code.

(i) Interpretation. The provisions of this Section 4 shall be interpreted in a manner that will avoid the disallowance of a deduction to the Company pursuant to Section 280G and the imposition of excise taxes on the Executive under Section 4899 of the Code.

(j) Additional Fringe Benefits. If the Executive's employment shall be terminated by the Company other than for Termination for Cause, Retirement, Death or Disability or by the Executive within three years after a Change in Control of the Company for Good Reason, then for a three (3) year period after such termination, the Company shall arrange to provide the Executive with life, disability, and accident insurance benefits substantially similar to those that the Executive was receiving immediately prior to the Notice of Termination. In addition to the benefits set forth above, the Company shall reimburse the Executive for the cost of leasing, insuring and maintaining (including the cost of fuel) a luxury automobile of the Executive's choice similar to the Infiniti Q45 or the Lexus LS400, during the three (3) year period following the Executive's termination.

Benefits otherwise receivable by the Executive pursuant to this Paragraph 5(j) shall be reduced to the extent comparable benefits are otherwise received by the Executive during the three (3) year period following the Executive's termination and any such benefits otherwise received by the Executive shall be reported to the Company.

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(k) No Mitigation. The Executive shall not be required to mitigate the amount of any payment provided for in this Paragraph 5 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Paragraph 5 be reduced by any compensation earned by the Executive as the result of the Executive's employment by another employer, by any

retirement benefits, by offset against any amount claimed to be owing by the Executive to the Company, or otherwise, except as specifically provided in this Paragraph 5.

(l) The benefits provided in this Paragraph 5 shall replace benefits provided to the Executive other than in this Agreement only in the circumstances set forth herein, and under all other circumstances, the Executive's benefits will be determined in accordance with other agreements between the Company and the Executive and other plans, arrangements and programs of the Company in which the Executive participates.

(m) Notwithstanding anything in this Agreement, the Company shall arrange to provide the Executive and his immediate family with health insurance benefits substantially similar to those that the Executive was receiving, immediately prior to the Notice of Termination, for the remainder of his and his spouse's life.

6. Termination for Cause. Termination by the Company of the Executive's employment for cause (hereinafter referred to as "Termination for Cause"), shall mean termination upon (i) the willful and continued failure by the Executive to substantially perform the Executive's material duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such failure after the issuance by the Executive for Good Reason of a Notice of Termination (as the terms "Good Reason" and "Notice of Termination" are defined in this Agreement) after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the material duties that the Board believes that the Executive has not substantially performed, or (ii) the willful engaging by the Executive in conduct that is demonstrably and materially injurious to the Company, monetarily or otherwise. For purposes of this Paragraph 6, no act, or failure to act, on the Executive's part, shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's action or omission was in the best interest of the Company, or (iii) the conviction of the Executive of a felony, including the plea of nolo contendere, limited solely for a crime related to the business operations of the Company, or that results in the Executive being unable to substantially carry out his duties as set forth in this Agreement, or (iv) the commission of any act by the Executive against the Company that may be construed as the crime of embezzlement, larceny, and/or grand larceny. Any other provision in this paragraph to the contrary notwithstanding, the Executive shall not be deemed to have been terminated for Termination for Cause unless and until the Board duly adopts a resolution by the affirmative vote of no less than three-quarters (3/4) of the entire membership of the Board, at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board), finding that in the good faith opinion of the Board, the Executive was guilty of conduct described in Subparagraphs (i), (ii) or (iv) of this paragraph and

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specifying the particulars thereof in detail and a certified copy of such resolution is delivered to the Executive.

7. Non-Disclosure of Confidential Information and Non- Competition

(a) The Executive acknowledges that the Executive has been informed that it is the policy of the Company to maintain as secret and confidential all information (i) relating to the products, processes, designs and/or systems used by the Company and (ii) relating to the customers and employees of the Company (all such information hereafter referred to as "confidential information"), and the Executive further acknowledges that such confidential information is of great value to the Company. The parties recognize that the services to be performed by the Executive are special and unique, and that by reason of his employment by the Company, the Executive has and will acquire confidential information as aforesaid. The parties confirm that it is reasonably necessary to protect the Company's goodwill, and accordingly the Executive does agree that the Executive will not directly or indirectly (except where authorized by the Board of Directors of the Company for the benefit of the Company):

A. At any time during his employment by the Company or after the Executive ceases to be employed by the Company, divulge to any persons, firms or corporations, other than the Company (hereinafter referred to collectively as "third parties"), or use or allow or cause or authorize any third parties to use, any such confidential information; and

B. At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, solicit or cause or authorize directly or indirectly to be solicited, for or on behalf of the Executive or third parties, any business from persons, firms, corporations or other entities who were at any time within one (1) year prior to the cessation of his employment hereunder, customers of the Company; and

C. At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, accept or cause or authorize directly or indirectly to be accepted, for or on behalf of the Executive or third parties, any business from any such customers of this Company; and

D. At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, solicit or cause or authorize directly or indirectly to be solicited for employment, for or on behalf of the Executive or third parties, any persons (excluding any individuals residing in the same immediate primary residence as the Executive, and/or the Executive's immediate family) who were at any time within one year prior to the cessation of his employment hereunder, employees of the Company; and

E. At any time during his employment by the Company and for a period of one year after the Executive ceases to be employed by the Company, employ or cause or authorize directly or indirectly to be employed, for or on behalf of the Executive or third parties, any such employees of the Company; and

F. At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, compete with the Company in any fashion or work for, advise, be a consultant to or an officer, director, agent or employee of or otherwise associate with any person, firm, corporation or other entity which is engaged in or plans to

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engage in a business or activity which competes with any business or activity engaged in by the Company, or which is under development or in a planning stage by the Company.

Notwithstanding the above, should the Executive not be receiving compensation from the Company either in a lump sum, or on a regular basis for a period at least equal to one (1) year, as set forth in this Agreement following his Date of Termination, then Subparagraphs 7(C), 7(E) and 7(F) shall be ineffective. Additionally, Subparagraphs 7(C), 7(D), and 7(E) shall be ineffective as it relates to the spouse of the Executive.

(b) The Executive agrees that, upon the expiration of his employment by the Company for any reason, the Executive shall forthwith deliver up to the Company any and all records, drawings, notebooks, keys and other documents and material, and copies thereof in his possession or under his control which is the property of the Company or which relate to any confidential information or any discoveries of the Company.

(c) The Executive agrees that any breach or threatened breach by the Executive of any provision of this Section 7 shall entitle the Company, in addition to any other legal remedies available to it, to enjoin such breach or threatened breach through any court of competent jurisdiction. The parties understand and intend that each restriction agreed to by the Executive hereinabove shall be construed as separable and divisible from every other restriction, and that the unenforceability, in whole or in part, of any restriction will not affect the enforceability of the remaining restrictions, and that one or more or all of such restrictions may be enforced in whole or in part as the circumstances warrant.

(d) For the purposes of this Section, the term "Company" shall mean and

include any and all subsidiaries, parents and affiliated corporations of the Company in existence from time to time.

8. Change in Control.

(a) Effectiveness of Change in Control Provisions. The terms set forth in this Paragraph 8, shall be effective should a Change in Control of the Company, as defined below, have occurred during the term of this Agreement, or during any extensions thereof, and shall continue in effect for a period of thirty-six (36) months beyond the month in which such Change in Control occurred. However, the definitions set forth in Subparagraph 8(c) shall apply throughout this Agreement.

(b) Change in Control. No benefits shall be payable hereunder unless an event as set forth below, shall have occurred (hereinafter called a "Change in Control"):

(i) Any person including any individual, firm, partnership or other entity, together with all Affiliates and Associates (as defined by ss.240.12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") of such person, directly or indirectly acquires securities of the Company's then outstanding securities representing twenty percent (20%) or more of the voting securities of the Company, such person being hereinafter referred to as an Acquiring Person; or, but excluding:

(A) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, or

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(B) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the Company, or

(C) the Company or any Subsidiary of the Company, is or becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act), or

(D) a person who acquires securities of the Company directly from the Company pursuant to a transaction that has been approved by a vote of at least a majority of the Incumbent Board, or

(ii) Individuals who, on the date hereof, constitute the Incumbent Board shall cease for any reason to constitute a majority of the Board; or

(iii) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such other surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(c) Definitions. For the purposes of this Agreement, the following terms shall mean:

(i) "Incumbent Board" shall mean the members of the Board, who were members of the Board prior to the date of this Agreement.

(ii) "Subsidiary" shall mean any corporation of which an amount of voting securities sufficient to elect at least a majority of the directors of such corporation is beneficially owned, directly or indirectly, by the Company, or is otherwise controlled by the Company.

(iii) "Good Reason" shall mean, without the Executive's express written consent, the occurrence of any of the following circumstances

unless, such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination, as defined in Paragraphs 8(c)(iv) and (v), respectively, given in respect thereof:

(A) the assignment to the Executive of any duties inconsistent with the Executive's status as Chairman of the Board, and/or Chief Executive Officer of the Company, or a substantial adverse alteration in the nature or status of the Executive's responsibilities from those in effect immediately prior to a Change in Control of the Company;

(B) a reduction by the Company in the Executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time, except for across-the-board salary reductions similarly affecting all senior executives of the Company and all senior executives of any person in control of the Company;

(C) the relocation of the Company's principal executive offices to a location which is not within the boundaries of New York, Queens, Nassau and Suffolk counties within the state of New York or the Company requiring the Executive to be based anywhere other than the Company's principal executive offices, except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations, or the adverse and substantial alteration of the office space or secretarial or support services provided to the Executive for the performance of the Executive's duties;

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(D) the failure by the Company, without the Executive's consent, to pay to the Executive any portion of the Executive's current compensation, except pursuant to an across-the-board compensation deferral similarly affecting all senior executives of the Company and all senior executives of any person in control of the Company, or the failure by the Company to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due;

(E) the failure by the Company to continue in effect any compensation plan in which the Executive participates that is material to the Executive's total compensation, including but not limited to the Company's Incentive Stock Option Plan, 401(k) plan, cafeteria or salary reduction plan, or any other or substitute plans adopted prior to a Change in Control of the Company, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive's participation relative to other participants, than the Executive's participation as it existed at the time of a Change in Control of the Company;

(F) unless such action is pursuant to an across-the-board reduction in benefits similarly affecting all senior executives of the Company and all senior executives of any person in control of the Company, the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, life insurance, automobile reimbursement, Company credit card, medical, health and accident, or disability plans, if any, in which the Executive was participating at the time of a Change in Control of the Company, or the taking of any action by the Company that would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of a Change in Control of the Company, or the failure by the Company to provide the Executive with the number of paid vacation or sick days to which the Executive is entitled under this Agreement at the time of a Change in Control of the Company;

(G) the failure of the Company to obtain a satisfaction agreement from any successor to assume and agree to perform this Agreement, as contemplated in Paragraph 5 hereof; or

(H) any purported termination of the Executive's employment that is not affected pursuant to a Notice of Termination satisfying

the requirements of Subparagraph 8(c)(iv) below (and, if applicable, the requirement of Paragraph 6 above); for purposes of this Agreement, no such purported termination shall be effective.

The Executive's right to terminate the Executive's employment pursuant to this paragraph shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of right with respect to, any circumstances constituting Good Reason hereunder.

(iv) "Notice of Termination" shall mean a notice that shall indicate the specific termination provision of 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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(v) "Date of Termination" shall mean (A) if employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided, that the Executive shall not return to the full-time performance of the Executive's duties during such thirty (30) day period), or (B) if employment is terminated due to Death of the Executive, upon receipt of Notice of Termination or (C) if employment is terminated pursuant to any other provision in this Agreement, the date specified in Notice of Termination (which, in the case of a termination pursuant to any provision of this Agreement other than for Disability and Death shall not be less than fifteen (15) nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).

Notwithstanding the above, provided, that if within fifteen (15) days after any Notice of Termination is given to the Executive or prior to the Date of Termination (as determined without regard to this provision) the Executive receiving such Notice of Termination notifies the Company that a dispute exists concerning such termination, that during the pendency of any such dispute, the Company will continue to pay the Executive his full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue the Executive as a participant in all compensation, benefit, and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given, until the dispute is finally resolved. However, should final resolution of the dispute result in the Notice of Termination being affirmed in the forum, as set forth in Paragraph 16, utilized for resolving said dispute, then the Executive shall be liable to the Company for all compensation, benefit, and insurance plans paid and/or provided to the Executive during the period that the Notice of Termination was in dispute.

Amounts paid under this subparagraph are prior to all other amounts due under this Agreement and shall not reduce any other amounts due under this Agreement, which other amounts shall be in addition to, and shall not be offset by, amounts due under this subparagraph.

Anything to the contrary herein notwithstanding, twenty-four hours after written notice to the Executive, the Company may relieve the Executive of authority to act on behalf of, or legally bind, the Company, provided, that any such action by the Company shall be without prejudice to the Executive's right to the compensation and benefits provided under this Agreement and the Executive's right to termination hereunder under such circumstances and with the compensation and benefits following such termination as provided in this Agreement.

(vi) "Disability"- If the Executive, due to physical or mental illness or incapacity, is unable fully to perform his duties herein for twelve (12) consecutive months.

(vii) "Death"- If the Executive shall die during the term of this Agreement.

(viii) "Retirement"- Shall mean termination in accordance with the Company's retirement policy, if any, including early retirement, generally applicable to its salaried employees or in accordance with any retirement arrangement established with the Executive's consent with respect to

the Executive.

(d) Termination Following Change in Control. If any of the events described in Paragraph 8(b) hereof constituting a Change in Control of the Company shall have occurred, the Executive shall be entitled to the benefits provided in Paragraph 5 hereof upon the subsequent termination of the Executive's employment during the term of this Agreement unless such termination is (i) because of the Executive's Death, Disability or Retirement, (ii) by the Company for Termination for Cause, or (iii) by the Executive for Good Reason within three years after a Change in Control shall have occurred.

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(e) Notice of Termination. Any purported termination of the Executive's employment by the Company or by the Executive shall be communicated by written Notice of Termination to the other party hereto in accordance with Paragraph 15 hereof.

9. Successors; Binding Agreement.

(a) Assumption by Successor. The Company shall 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 be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled hereunder if the Executive terminates the Executive's employment for Good Reason following a Change in Control of the Company, except that for purposes of implementing this paragraph, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law, or otherwise.

(b) Successors. Neither this Agreement nor any right or interest hereunder shall be assignable by the Executive (except by will or intestate succession) or any successor to the Executive's interest, nor shall it be subject to attachment, execution, pledge or hypothecation, but this Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representative, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to the Executive hereunder if the Executive 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 is no such designee, to the Executive's estate.

10. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Board. No waiver by either party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party that are not set forth in this Agreement. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Paragraph 5 shall survive the expiration of the term of this Agreement.

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11. Severance and Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of

any other provision of this Agreement, which shall remain in full force and effect.

12. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

13. Entire Agreement. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof, supersedes any prior agreement between the parties, and may not be changed or terminated orally. No change, termination or attempted waiver of any of the provisions hereof shall be binding unless in writing and signed by the party to be bound; provided, however, that the Executive's compensation and benefits may be increased at any time by the Company without in any way affecting any of the other terms and conditions of this Agreement, which in all other respects shall remain in full force and effect.

14. Negotiated Agreement. This Agreement has been negotiated and shall not be construed against the party responsible for drafting all or parts of this Agreement.

15. Notices. For the purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered personally or received by United States registered or certified mail, return receipt requested, postage prepaid, or by nationally recognized overnight delivery service providing for a signed return receipt, addressed to the Executive at the Executive's home address set forth in the Company's records and to the Company at the address set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Board with a copy to counsel to the Company, at Muenz & Meritz, P.C., 3 Hughes Place, Dix Hills, New York 11746, Attention: Lawrence A. Muenz, Esq., or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

16. Governing Law and Resolution of Disputes. All matters concerning the validity and interpretation of and performance under this Agreement shall be governed by the laws of the State of New York. Any dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Garden City, New York, in accordance with the rules of the American Arbitration Association ("AAA") then in effect. Any judgment rendered by the arbitrator as above provided shall be final and binding on the parties hereto for all purposes and may be entered in any court having jurisdiction; provided, however, that the Executive shall be entitled to seek specific performance of the Executive's right to be paid following termination for any reason during the pendency of any dispute or controversy arising under or in connection with this Agreement. The Company share bear the total cost of filing fees for the initial Demand of Arbitration, as well as all charges billed by the AAA, regardless of which party shall commence the action. The Company shall

bear the cost of the Executive's legal fees regarding any dispute or controversy arising under or in connection with this Agreement.

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

FIRST PRIORITY GROUP, INC.

By:_____

Dated:_____

Title:_____

BARRY SIEGEL

By:_____

Dated:_____

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the "Agreement") dated October 2, 1998 by and between First Priority Group, Inc., a New York corporation with an address at 51 East Bethpage Road, Plainview, New York 11803 (the "Company"), and Barry J. Spiegel, residing at 300 East 75th Street, Apartment 29M, New York, New York 10021 (the "Employee").

W I T N E S S E T H

WHEREAS, the Company desires that Employee be employed by it and render services to it, and Employee is willing to be so employed and to render such services to the Company, all on the terms and subject to the conditions contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment

Subject to and upon the terms and conditions contained in this Agreement, the Company hereby employs Employee, for the period set forth in Paragraph 2 (subject to the terms and conditions of this Agreement), to render the services to the Company, its affiliates and/or subsidiaries described in Paragraph 3 of this Agreement.

2. Term

The Company and the Employee hereby agree to terminate the Employment Agreement dated September 3, 1996 on the date hereof. Additionally, the Company and the Employee agree to terminate all previously granted and unexercisable stock options. However, the Employee shall retain the right to purchase up to 50,000 shares of Common Stock at \$.75 per share pursuant to the 1995 Incentive Stock Plan Stock Option Contract dated March 3, 1997. The Employee's term of employment under this Agreement shall commence on July 1, 1998 (the "Commencement Date") and shall continue for a period of thirty-six months (36) months, terminating on June 30, 2001

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(the "Expiration Date"), unless earlier terminated under the terms and conditions herein (the "Employment Term").

3. Duties

(a) Employee's responsibilities shall be to manage and direct the Company's Affinity Services Division of the Company, as shall from time to time be designated by the Chief Executive Officer ("CEO") of the Company. Employee shall be based in Nassau or Suffolk counties during the Employment Term and shall have the title of President of the Affinity Services Division.

(b) Employee agrees to abide by all By-Laws and policies of the Company promulgated from time to time by the Company.

4. Exclusive-Services, Best Efforts and Acknowledgment

Employee shall devote his entire working time, attention, best efforts and ability exclusively to the service of the Company, its affiliates and subsidiaries during the term of this Agreement. The Company and the Employee acknowledge that the Affinity Services Division shall only offer its services in the form of programs that require outside parties to bear the sole cost of sales marketing, distribution, printing and fulfillment, without the Company incurring any such costs. The Company shall provide the service and bear the costs associated with the benefits that are normally offered to the end users of such

affinity programs. The parties agree to develop an annual budget for the Affinity Services Division that conforms to the program expense format set forth above.

5. Compensation

(a) Base Salary. Commencing on the Commencement Date, the Employee shall receive an annual salary, payable pursuant to the Company's normal payroll procedures in place from time to time, during the Employment Term, in the amount of One Hundred Thirty Thousand Dollars (\$130,000), subject to all required federal, state and local payroll deductions. The Employee's Base Salary may be increased upon the recommendation of the CEO and the approval of the Board of Directors.

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(b) Incentive Compensation. The Employee shall participate in the Company's Corporate Compensation Program as approved and authorized by the Board of Directors of the Company, subject to amendment by the Board of Directors or the Compensation Committee of the Board of Directors of the Company.

(c) The Employee shall be granted a stock option under the Company's 1995 Incentive Stock Plan (the "Plan") with the right to purchase up to 250,000 shares of the Company's common stock (the "Stock Option"). The Stock Option shall be granted at a price equal to the closing price of the Company's common stock as quoted on The Nasdaq SmallCap Stock Market on the Commencement Date. The Stock Option shall become exercisable in one-third increments upon the first, second and third anniversary of the Stock Option grant. The Company will provide the Employee a Stock Option Contract for his signature which will set out the terms of the option. This Stock Option shall be subject to the terms of the Plan. Additionally, should a Change in Control, as hereinafter defined, occur, only to the extent that the Company does not lose any deductions that would be otherwise be deductible under Section 280G of the Internal Revenue Code, the Employee's Stock Option shall become fully exercisable.

6. Business Expenses

Employee shall be reimbursed for only those business expenses incurred by him (a) which are reasonable and necessary for Employee to perform his duties under this Agreement in accordance with policies established from time to time by the Company, and (b) for which Employee has submitted vouchers and/or receipts. The Employee shall be issued a corporate credit card that he shall use solely for business expenses which are reasonable and necessary for the Employee to perform his duties under this Agreement in accordance with policies established from time to time by the Company

7. Employee Benefits

During the Employment Term, Employee shall participate, to the extent he is eligible under the terms and conditions thereof, in any health, life, disability insurance, or 401(k) plan, or other employee benefit plans maintained by Employer (but nothing herein shall obligate the Company to establish or maintain any such benefit plan).

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The Employee shall be reimbursed \$500 per month for a car allowance.

8. Vacation and Sick Leave

Employee shall be entitled to three (3) weeks of paid vacation per annum during the Employment Term, to be taken at such times as may be mutually agreed upon by the Company and Employee. The Employee shall be entitled to one (1) week of paid sick leave per annum during the Employment Term.

9. Death and Disability

(a) The Employment Term shall terminate on the date of Employee's death, in which event Employee's salary payable pursuant to Paragraph 5 and any accrued vacation, through the date of Employee's death, shall be paid to his estate. Employee's estate will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 9(a).

(b) If during the Employment Term, Employee, because of physical or mental illness or incapacity, shall become substantially unable to perform the duties and services required of him under this Agreement for a period of forty-five (45) consecutive days or ninety (90) days in the aggregate in any one calendar year, the Company may, upon at least ten (10) days' prior written notice given at any time after the expiration of such 45 or 90-day period, as the case may be, to Employee of its intention to do so, terminate this Agreement as of such date as may be set forth in the notice. In case of such termination, Employee shall be entitled to receive his salary payable pursuant to Paragraph 5 through the date of termination. Employee will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 9(b).

10. Termination

(a) The Company may terminate the employment of Employee For Cause (as hereinafter defined). Upon such termination, the Company shall be released from any and all further obligations under this Agreement, except that the Company shall be obligated to pay Employee the unpaid prorated salary pursuant to Paragraph 5 earned

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or accrued and any other benefits normally paid and/provided to the Employee up through the day on which Employee is terminated.

(b) The Company may terminate the employment of Employee Without Cause (as hereinafter defined). Upon such termination, the Company shall be released from any and all further obligations under this Agreement, except that the Company shall be obligated to pay Employee the unpaid prorated salary pursuant to Paragraph 5 earned or accrued and any other benefits normally paid and/provided to the Employee up through the day on which Employee is terminated, in addition to the lesser of (i) Base Salary and other employee benefits, as set forth in Paragraph 7, for a twelve (12) month period from the date employment is terminated, or (ii) the Base Salary and other employee benefits that would have been paid the Employee from the date employment is terminated through the Expiration Date.

(c) As used herein, the term "For Cause" shall mean:

(i) any material breach of this Agreement by Employee that, in the case of a breach that may be cured or remedied, is not cured or remedied to the reasonable satisfaction of the Company within 30 days after notice is given by the Company to Employee, setting forth in reasonable detail the nature of such breach;

(ii) Employee's failure to perform his duties and services hereunder to the reasonable satisfaction of the CEO of the Company that, in the case of any such failure that may be cured or remedied, is not cured or remedied to the reasonable satisfaction of the Company within 30 days after notice is given by the Company to Employee, setting forth in reasonable detail the nature of such failure;

(iii) any material act, or material failure to act, by Employee in bad faith and to the material detriment of the Company; or

(iv) commission by Employee of a material act involving moral turpitude, dishonesty, unethical business conduct, or any other conduct which significantly impairs the reputation of the Company, its subsidiaries or affiliates.

(v) the conviction of the Employee of a felony, including the plea of nolo contendere

(vi) the Affinity Services Division does not achieve net income of at least (x) \$500,000 in the year ending on December 31, 1999, (y) \$750,000 in the year ending on December 31, 2000, or (z) \$1 million in the year ending December 31, 2001.

(d) As used herein, the term "Without Cause" shall mean:

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(i) Termination by the Company of the Employee's employment for any reason other than For Cause, Death or Disability.

11. Disclosure of Information and Restrictive Covenant

(a) Employee acknowledges that, by his employment, he has been and will be in a confidential relationship with the Company and will have access to confidential information and trade secrets of the Company, its subsidiaries and affiliates, including, but not limited to, confidential information or trade secrets belonging or relating to the Company, its subsidiaries, affiliates, customers and/or clients or proprietary processes or procedures of the Company, its subsidiaries, affiliates, customers and/or clients. Proprietary processes and procedures shall include, but shall not be limited to, all information which is known only to employees of the Company, its respective subsidiaries and affiliates or others in a confidential relationship with the Company or its respective subsidiaries and affiliates which relates to business matters. Confidential information and trade secrets include, but are not limited to, customer and client lists, price lists, marketing and sales strategies and procedures, operational and equipment techniques, business plans and systems, quality control procedures and systems, special projects and technological research, including projects, research and reports for any entity or client or any project, research, report or the like concerning sales or manufacturing or new technology, employee compensation plans and any other information relating thereto, and any other records, files, drawings, inventions, discoveries, applications or processes which are not in the public domain (all the foregoing shall be referred to herein as the "Confidential Information"). Employee agrees that in consideration of the execution of this Agreement by the Company, he will not use, or disclose to any third party, any of the Confidential Information, other than as required to perform his services hereunder or as directed or authorized by the Company's Board of Directors or President.

(b)

(i) Employee will not, at any time prior to the Expiration Date, or if the Employee's employment shall terminate prior to the Expiration Date, then for a period of one (1) year after the Employee ceases to be employed by the Company, engage in or participate in any business activity, including, but not limited to, acting as a director, officer, employee, agent, independent contractor, partner, consultant, licensor or licensee, franchiser or franchisee, proprietor, syndicate member, or shareholder that

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operates a business or activity which competes with any business or activity engaged in by the Company.

(ii) Any time during his employment by the Company or after the Employee ceases to be employed by the Company, divulge to any persons, firms or corporations, other than the Company (hereinafter referred to collectively as "third parties"), or use or allow or cause or authorize any third parties to use, any such Confidential Information; and

(iii) At any time during his employment by the Company and for a period of one (1) year after the Employee ceases to be employed by the Company, solicit or cause or authorize directly or indirectly to be solicited, for or on behalf of the Employee or third parties, any business from persons, firms, corporations or other entities who were at any time within one (1) year prior to the cessation of his employment hereunder, customers of the Company; and

(iv) At any time during his employment by the Company and for a period of one (1) year after the Employee ceases to be employed by the Company, accept or cause or authorize directly or indirectly to be accepted, for or on behalf of the Employee or third parties, any business from any such customers of this Company; and

(v) At any time during his employment by the Company and for a period of one (1) year after the Employee ceases to be employed by the Company, solicit or cause or authorize directly or indirectly to be solicited for employment, for or on behalf of the Employee or third parties, any persons who were at any time within one year prior to the cessation of his employment hereunder, employees of the Company; and

(vi) At any time during his employment by the Company and for a period of one year after the Employee ceases to be employed by the Company, employ or cause or authorize directly or indirectly to be employed, for or on behalf of the Employee or third parties, any such employees of the Company; and

(vii) At any time during his employment by the Company and for a period of one (1) year after the Employee ceases to be employed by the Company, compete with the Company in any fashion or work for, advise, be a consultant to or an officer, director, agent or employee of or otherwise associate with any person, firm, corporation or other entity which is engaged in or plans to engage in a business or activity which competes with any business or activity engaged in by the Company, or which is under development or in a planning stage by the Company.

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(viii) Notwithstanding anything to the contrary, the Employee may engage in any business activity he so wishes as long as: (A) this business activity did not directly compete with any business of the Company prior to the Employee joining or entering into this business activity, (B) the Employee does not assist this business activity to develop a business that competes with any business of the Company that existed, or was in the planning stages, at the time that the Employee's employment terminated with the Company, or (c) the Employee shall not serve in a management capacity whereby a subsidiary, division or business unit reports directly or indirectly to him and engages in a business activity that competes with any business of the Company that existed, or was in the planning stages, at the time that the Employee's employment terminated with the Company.

(c) Employee will not induce or persuade other employees of the Company to join him in any activity prohibited by Paragraph 11 or 12.

(d) This Paragraph 11 and Paragraph 12, 13 and 14 shall survive the expiration or termination of the Agreement for any reason.

(e) It is expressly agreed by Employee that the nature and scope of each of the provisions set forth in Paragraphs 11 and 12 are reasonable and necessary. If, for any reason, any aspect of these provisions as they apply to Employee is determined by a court of competent jurisdiction to be unreasonable or unenforceable, the provisions shall only be modified to the minimum extent required to make the provisions reasonable and/or enforceable, as the case may be. Employee acknowledges and agrees that his services are of a unique character and expressly grants to the Company or any subsidiary, successor or assignee of the Company, the right to enforce the provisions above through the use of all remedies available at law or in equity, including, but not limited to, injunctive relief.

12. Company Property

(a) Any patents, inventions, discoveries, applications, processes or designs, devised, planned, applied, created, discovered or invented by Employee in the course of Employee's employment under this Agreement and which pertain to any aspect of the Company's or its respective subsidiaries' or affiliates' businesses shall be the sole and absolute property of the Company, and Employee shall make prompt

report thereof to the Company and promptly execute any and all documents reasonably requested to assure the Company the full and complete ownership thereof.

(b) All records, files, lists, including computer generated lists, drawings, documents, equipment and similar items relating to the Company's business which Employee shall prepare or receive from the Company shall remain the Company's sole and exclusive property. Upon termination of the Employment Term, or, if earlier, upon demand by the Company, Employee shall promptly return to the Company all property of the Company in his possession. Employee further represents that he will not copy or cause to be copied, print out or cause to be printed out any software, documents or other materials originating with or belonging to the Company. Employee covenants that, upon termination of his employment with the Company, he will not retain in his possession any such software, documents or other materials.

13. Remedy

It is mutually understood and agreed that Employee's services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this Agreement by Employee, including, but not limited to, the breach of the nondisclosure, non-solicitation and non-compete clauses under Paragraphs 11 and 12 hereof, the Company shall be entitled to equitable relief by way of injunction or otherwise in addition to damages the Company may be entitled to recover. Nothing herein shall be deemed to restrict any remedy available to Employee for breach of the Agreement by the Company.

14. Representations and Warranties of Employee and the Company

(a) In order to induce the Company to enter into this Agreement, Employee hereby represents and warrants to the Company as follows: (i) Employee has the legal capacity and unrestricted right to execute and deliver this Agreement once to perform all of his obligations hereunder: (ii) the execution and delivery of this Agreement by Employee and the performance of his obligations hereunder will not violate or be in conflict with any fiduciary or other duty, instrument, agreement, document, arrangement or other understanding to which Employee is a party or by

which he is or may be bound or subject; and (iii) Employee is not a party to any instrument, agreement, document, arrangement or other understanding with any person (other than the Company) requiring or restricting the use or disclosure of any confidential information or the provision of any employment, consulting or other services.

(b) The Company hereby represents and warrants to Employee, as follows: (i) the execution, delivery, and performance of this Agreement has been duly authorized by all necessary corporate action of the Company; and (ii) this Agreement constitutes the valid and binding obligation of the Company, enforceable in accordance with its terms, except that such enforcement may be subject to any bankruptcy, insolvency, reorganization, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally.

15. Notices

All notices given hereunder shall be in writing and shall be deemed effectively given when mailed, if sent by registered or certified mail, return receipt requested, addressed to Employee at his address set forth on the first page of this Agreement, and to the Company at its address set forth on the first page of this Agreement, Attention: Barry Siegel, Chairman of the Board, with a copy to Muenz & Meritz, P.C., Three Hughes Place, Dix Hills, New York 11746, Attention: Lawrence A. Muenz, or at such address as such party shall have designated by a notice given in accordance with this Paragraph 15, or when actually received by the party for whom intended, if sent by any other means.

16. Entire Agreement

This Agreement constitutes the entire understanding of the parties with respect to its subject matter and no change, alteration or modification hereof may be made except in writing signed by the parties hereto. Any prior or other agreements, promises, negotiations or representations not expressly set forth in this Agreement are of no force or effect.

17. Severability

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If any provision of this Agreement shall be unenforceable under any applicable law, then notwithstanding such unenforceability, the remainder of this Agreement shall continue in full force and effect.

18. Waivers, Modifications, Etc.

No amendment, modification or waiver of any provision of this Agreement shall be effective unless the same shall be in writing and signed by each of the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

19. Assignment

Neither this Agreement. nor any of Employee's rights, powers, duties or obligations hereunder, may be assigned by Employee. This Agreement shall be binding upon and inure to the benefit of Employee and his heirs and legal representatives and the Company and its successors and assigns. Successors of the Company shall include, without limitation, any corporation or corporations acquiring, directly or indirectly, all or substantially all of the assets of the Company, whether by merger, consolidation, purchase, lease or otherwise, and such successor shall thereafter be deemed "the Company" for the purpose hereof.

20. Applicable Law

This Agreement shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of New York and shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflicts of law rules thereof. Nothing contained in this Agreement shall be construed so as to require the commission of any act contrary to law, and whenever there is any conflict between any provision of this Agreement and any statute, law, ordinance, order or regulation, contrary to which the parties hereto have no legal right to contract, the latter shall prevail, but in such event any provision of this Agreement so affected shall be curtailed and limited only to the extent necessary to bring it within the legal requirements.

21. Jurisdiction and Venue

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It is hereby irrevocably agreed that all actions, suits or proceedings between the Company and Employee arising out of, in connection with or relating to this Agreement shall be exclusively heard and determined in, and the parties do hereby irrevocably submit to the exclusive jurisdiction of, the Supreme Court of the State of New York for Nassau or Suffolk County or the United States District Court for the Eastern District of New York. The parties also agree that a final judgment in any such action, suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The parties hereby unconditionally waive any objection which either of them may now or hereafter have to the venue of any such action, suit or proceeding brought in any of the aforesaid courts, and waive any claim that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

22. Full Understanding

Employee represents and agrees that he fully understands his right to discuss all aspects of this Agreement with his private attorney, that to the

extent, if any, that he desired, he availed himself of this right, that he has carefully read and fully understands all of the provisions of this Agreement, that he is competent to execute this Agreement. that his agreement to execute this Agreement has not been obtained by any duress and that he freely and voluntarily enters into it, and that he has read this document in its entirety and fully understands the meaning, intent and consequences of this document which is that it constitutes an agreement of employment.

23. Definitions

A Change in Control shall have occurred if:

- (a) Any person including any individual, firm, partnership or other entity, together with all Affiliates and Associates (as defined by ss.240.12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") of such person, directly or indirectly acquires securities of the Company's then outstanding securities representing Twenty percent (20%) or more of the voting securities of the Company, such person being hereinafter referred to as an Acquiring Person; or, but excluding:

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- (i) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, or
 - (ii) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the Company, or
 - (iii) the Company or any Subsidiary of the Company, is or becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act), or
 - (iv) a person who acquires securities of the Company directly from the Company pursuant to a transaction that has been approved by a vote of at least a majority of the Incumbent Board, or
- (b) Individuals who, on the date hereof, constitute the Incumbent Board shall cease for any reason to constitute a majority of the Board; or
 - (c) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such other surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

4. Definitions. For the purposes of this Contract, the following terms shall mean:

- (i) "Incumbent Board" shall mean the members of the Board, who were members of the Board prior to the date of this Agreement.
- (ii) "Subsidiary" shall mean any corporation of which an amount of voting securities sufficient to elect at least a majority of the directors of such corporation is beneficially owned, directly or indirectly,

by the Company, or is otherwise controlled
by the Company.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as
of the date written below.

FIRST PRIORITY GROUP, INC.

BARRY J. SPIEGEL

By: _____

By: _____

Title: _____

Dated: _____

Dated: _____

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EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the "Agreement") dated December 14, 1998 by and between First Priority Group, Inc., a New York corporation with an address at 51 East Bethpage Road, Plainview, New York 11803 (the "Company"), and LISA SIEGEL, residing at 8 Indian Well Court, Huntington, NY. 11743 (hereinafter referred to as the "Executive").

W I T N E S S E T H

WHEREAS, the Company desires that Executive be employed by it and render services to it, and Executive is willing to be so employed and to render such services to the Company, all on the terms and subject to the conditions contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment

Subject to and upon the terms and conditions contained in this Agreement, the Company hereby employs Executive, for the period set forth in Paragraph 2 (subject to the terms and conditions of this Agreement), to render the services to the Company, its affiliates and/or subsidiaries described in Paragraph 3.

2. Term

The Executive's term of employment under this Agreement shall commence on July 1, 1998 (the "Commencement Date") and shall continue for a period of thirty-six months (36) months, terminating on June 30, 2001 (the "Expiration Date"), unless earlier terminated under the terms and conditions herein (the "Employment Term").

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3. Duties

(a) Executive's responsibilities shall be to manage and direct the operational affairs of the Company as shall from time to time be designated by the Chief Operating Officer ("COO") of the Company. Executive shall be based in Nassau or Suffolk counties during the Employment Term and shall have the title of Vice President Administration.

(b) Executive agrees to abide by all By-Laws and policies of the Company promulgated from time to time by the Company.

4. Exclusive-Services and Best Efforts

Executive shall devote his entire working time, attention, best efforts and ability exclusively to the service of the Company, its affiliates and subsidiaries during the term of this Agreement.

5. Compensation

(a) Base Salary. Commencing on the Commencement Date, the Executive shall receive an annual salary, payable pursuant to the Company's normal payroll procedures in place from time to time, during the Employment Term, in the amount of Eighty-five Thousand Dollars (\$85,000), subject to all required federal, state and local payroll deductions. The Executive's Base Salary may be increased upon the recommendation of the COO, the Chief Executive and the approval of the Board of Directors.

(b) Incentive Compensation. The Executive shall participate in the Company's Corporate Compensation Program as approved and authorized by the Board of Directors of the Company, subject to amendment by the Board of Directors or the Compensation Committee of the Board of Directors of the Company.

(c) The Executive shall be granted a stock option under the Company's 1995 Incentive Stock Plan (the "Plan") with the right to purchase up to 100,000 shares of the Company's common stock (the "Stock Option"). The Stock Option shall be granted at a price equal to the closing price of the Company's common stock as quoted on The Nasdaq SmallCap Stock Market on the date hereof. The Stock Option

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shall become exercisable in one-third increments upon the first, second and third anniversary of the Stock Option grant. However, following a Change in Control, as hereinafter defined, all stock options previously granted the Executive shall become fully exercisable for the remaining term of such stock option grant, regardless whether the Executive continues as an employee of the Company. The Company will provide the Executive a Stock Option Contract for his signature which will set out the terms of the option. This Stock Option shall be subject to the terms of the Plan.

6. Business Expenses

Executive shall be reimbursed for only those business expenses incurred by him (a) which are reasonable and necessary for Executive to perform his duties under this Agreement in accordance with policies established from time to time by the Company, and (b) for which Executive has submitted vouchers and/or receipts. The Executive shall be issued a corporate credit card that he shall use solely for business expenses which are reasonable and necessary for the Executive to perform his duties under this Agreement in accordance with policies established from time to time by the Company

7. Executive Benefits

During the Employment Term, Executive shall participate, to the extent he is eligible under the terms and conditions thereof, in any health, life, disability insurance, or 401(k) plan, or other employee benefit plans maintained by Employer (but nothing herein shall obligate the Company to establish or maintain any such benefit plan). Executive will not be covered under the Company's health insurance until the Executive has been employed by the Company for more than ninety (90) days. The Executive shall be reimbursed for any payments he must make to continue his health insurance under the COBRA benefits offered by his former employer, until the Executive is covered under the Company's health insurance plan.

The Company shall pay the Executive a monthly automobile allowance of Four Hundred Dollars (\$400).

8. Vacation and Sick Leave

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Executive shall be entitled to three (3) weeks of vacation per annum during the Employment Term, to be taken at such times as may be mutually agreed upon by the Company and Executive. The Executive shall be entitled to one (1) week of sick leave per annum during the Employment Term.

9. Death and Disability

(a) The Employment Term shall terminate on the date of Executive's death, in which event Executive's salary payable pursuant to Paragraph 5 and any accrued vacation, through the date of Executive's death, shall be paid to his estate. Executive's estate will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 9(a).

(b) If during the Employment Term, Executive, because of

physical or mental illness or incapacity, shall become substantially unable to perform the duties and services required of him under this Agreement for a period of forty-five (45) consecutive days or ninety (90) days in the aggregate in any one calendar year, the Company may, upon at least ten (10) days' prior written notice given at any time after the expiration of such 45 or 90-day period, as the case may be, to Executive of its intention to do so, terminate this Agreement as of such date as may be set forth in the notice. In case of such termination, Executive shall be entitled to receive his salary payable pursuant to Paragraph 5 through the date of termination. Executive will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 9(b).

10. Termination

(a) The Company may terminate the employment of Executive For Cause (as hereinafter defined). Upon such termination, the Company shall be released from any and all further obligations under this Agreement, except that the Company shall be obligated to pay Executive the unpaid prorated salary pursuant to Paragraph 5 earned or accrued up through the day on which Executive is terminated.

(b) The Company may terminate the employment of Executive Without Cause (as hereinafter defined). Upon such termination, the Company shall be

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released from any and all further obligations under this Agreement, except that the Company shall be obligated to pay Executive the unpaid prorated salary pursuant to Paragraph 5 earned or accrued up through the day on which Executive is terminated, in addition to the lesser of (i) Base Salary and other employee benefits, as set forth in Paragraph 7, for a twelve (12) month period from the date employment is terminated, or (ii) the Base Salary and other employee benefits that would have been paid the Executive from the date employment is terminated through the Expiration Date.

(c) As used herein, the term "For Cause" shall mean:

(i) any material breach of this Agreement by Executive that, in the case of a breach that may be cured or remedied, is not cured or remedied to the reasonable satisfaction of the Company within 30 days after notice is given by the Company to Executive, setting forth in reasonable detail the nature of such breach;

(ii) Executive's failure to perform his duties and services hereunder to the reasonable satisfaction of the COO or the Chief Executive Officer of the Company that, in the case of any such failure that may be cured or remedied, is not cured or remedied to the reasonable satisfaction of the Company within 30 days after notice is given by the Company to Executive, setting forth in reasonable detail the nature of such failure;

(iii) any material act, or material failure to act, by Executive in bad faith and to the material detriment of the Company; or

(iv) commission by Executive of a material act involving moral turpitude, dishonesty, unethical business conduct, or any other conduct which significantly impairs the reputation of the Company, its subsidiaries or affiliates.

(v) the conviction of the Executive of a felony, including the plea of nolo contendere

(d) As used herein, the term "Without Cause" shall mean:

(i) Termination by the Company of the Executive's employment for any reason other than For Cause, Death or Disability.

11. Disclosure of Information and Restrictive Covenant

(a) Executive acknowledges that, by his employment, he has

been and will be in a confidential relationship with the Company and will have access to confidential information and trade secrets of the Company, its subsidiaries and affiliates, including,

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but not limited to, confidential information or trade secrets belonging or relating to the Company, its subsidiaries, affiliates, customers and/or clients or proprietary processes or procedures of the Company, its subsidiaries, affiliates, customers and/or clients. Proprietary processes and procedures shall include, but shall not be limited to, all information which is known only to employees of the Company, its respective subsidiaries and affiliates or others in a confidential relationship with the Company or its respective subsidiaries and affiliates which relates to business matters. Confidential information and trade secrets include, but are not limited to, customer and client lists, price lists, marketing and sales strategies and procedures, operational and equipment techniques, business plans and systems, quality control procedures and systems, special projects and technological research, including projects, research and reports for any entity or client or any project, research, report or the like concerning sales or manufacturing or new technology, employee compensation plans and any other information relating thereto, and any other records, files, drawings, inventions, discoveries, applications or processes which are not in the public domain (all the foregoing shall be referred to herein as the "Confidential Information"). Executive agrees that in consideration of the execution of this Agreement by the Company, he will not use, or disclose to any third party, any of the Confidential Information, other than as required to perform his services hereunder or as directed or authorized by the Company's Board of Directors or President.

(b)

(i) Executive will not, at any time prior to the Expiration Date, or if the Executive's employment shall terminate prior to the Expiration Date, then for a period of one (1) year after the Executive ceases to be employed by the Company, engage in or participate in any business activity, including, but not limited to, acting as a director, officer, employee, agent, independent contractor, partner, consultant, licensor or licensee, franchiser or franchisee, proprietor, syndicate member, or shareholder that operates a business or activity which competes with any business or activity engaged in by the Company.

(ii) Any time during his employment by the Company or after the Executive ceases to be employed by the Company, divulge to any persons, firms or corporations, other than the Company (hereinafter referred to collectively as "third parties"), or use or allow or cause or authorize any third parties to use, any such Confidential Information; and

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(iii) At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, solicit or cause or authorize directly or indirectly to be solicited, for or on behalf of the Executive or third parties, any business from persons, firms, corporations or other entities who were at any time within one (1) year prior to the cessation of his employment hereunder, customers of the Company; and

(iv) At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, accept or cause or authorize directly or indirectly to be accepted, for or on behalf of the Executive or third parties, any business from any such customers of this Company; and

(v) At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, solicit or cause or authorize directly or indirectly to be solicited for employment, for or on behalf of the Executive or third parties, any persons who were at any time within one year prior to the cessation of his employment hereunder, employees of the Company; and

(vi) At any time during his employment by the Company and for a period of one year after the Executive ceases to be employed by the

Company, employ or cause or authorize directly or indirectly to be employed, for or on behalf of the Executive or third parties, any such employees of the Company; and

(vii) At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, compete with the Company in any fashion or work for, advise, be a consultant to or an officer, director, agent or employee of or otherwise associate with any person, firm, corporation or other entity which is engaged in or plans to engage in a business or activity which competes with any business or activity engaged in by the Company, or which is under development or in a planning stage by the Company.

(c) Executive will not induce or persuade other employees of the Company to join him in any activity prohibited by Paragraph 11 or 12.

(d) This Paragraph 11 and Paragraph 12, 13 and 14 shall survive the expiration or termination of the Agreement for any reason. Additionally, Subparagraphs 11(b)(v) and 11(b)(vi) shall be ineffective as it relates to the spouse of the Executive.

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(e) It is expressly agreed by Executive that the nature and scope of each of the provisions set forth in Paragraphs 11 and 12 are reasonable and necessary. If, for any reason, any aspect of these provisions as they apply to Executive is determined by a court of competent jurisdiction to be unreasonable or unenforceable, the provisions shall only be modified to the minimum extent required to make the provisions reasonable and/or enforceable, as the case may be. Executive acknowledges and agrees that his services are of a unique character and expressly grants to the Company or any subsidiary, successor or assignee of the Company, the right to enforce the provisions above through the use of all remedies available at law or in equity, including, but not limited to, injunctive relief.

12. Company Property

(a) Any patents, inventions, discoveries, applications, processes or designs, devised, planned, applied, created, discovered or invented by Executive in the course of Executive's employment under this Agreement and which pertain to any aspect of the Company's or its respective subsidiaries' or affiliates' businesses shall be the sole and absolute property of the Company, and Executive shall make prompt report thereof to the Company and promptly execute any and all documents reasonably requested to assure the Company the full and complete ownership thereof.

(b) All records, files, lists, including computer generated lists, drawings, documents, equipment and similar items relating to the Company's business which Executive shall prepare or receive from the Company shall remain the Company's sole and exclusive property. Upon termination of the Employment Term, or, if earlier, upon demand by the Company, Executive shall promptly return to the Company all property of the Company in his possession. Executive further represents that he will not copy or cause to be copied, print out or cause to be printed out any software, documents or other materials originating with or belonging to the Company. Executive covenants that, upon termination of his employment with the Company, he will not retain in his possession any such software, documents or other materials.

13. Remedy

It is mutually understood and agreed that Executive's services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar

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value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this Agreement by Executive, including, but not limited to, the breach of the nondisclosure, non-solicitation and non-compete clauses under Paragraphs 11 and 12 hereof, the Company shall be entitled to equitable relief by way of

injunction or otherwise in addition to damages the Company may be entitled to recover. Nothing herein shall be deemed to restrict any remedy available to Executive for breach of the Agreement by the Company.

14. Representations and Warranties of Executive and the Company

(a) In order to induce the Company to enter into this Agreement, Executive hereby represents and warrants to the Company as follows: (i) Executive has the legal capacity and unrestricted right to execute and deliver this Agreement once to perform all of his obligations hereunder: (ii) the execution and delivery of this Agreement by Executive and the performance of his obligations hereunder will not violate or be in conflict with any fiduciary or other duty, instrument, agreement, document, arrangement or other understanding to which Executive is a party or by which he is or may be bound or subject; and (iii) Executive is not a party to any instrument, agreement, document, arrangement or other understanding with any person (other than the Company) requiring or restricting the use or disclosure of any confidential information or the provision of any employment, consulting or other services.

(b) The Company hereby represents and warrants to Executive, as follows: (i) the execution, delivery, and performance of this Agreement has been duly authorized by all necessary corporate action of the Company; and (ii) this Agreement constitutes the valid and binding obligation of the Company, enforceable in accordance with its terms, except that such enforcement may be subject to any bankruptcy, insolvency, reorganization, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally.

15. Notices

All notices given hereunder shall be in writing and shall be deemed effectively given when mailed, if sent by registered or certified mail, return receipt requested, addressed to Executive at his address set forth on the first page of this Agreement,

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and to the Company at its address set forth on the first page of this Agreement, Attention: Barry Siegel, Chairman of the Board, with a copy to Muenz & Meritz, P.C., Three Hughes Place, Dix Hills, New York 11746, Attention: Lawrence A. Muenz, or at such address as such party shall have designated by a notice given in accordance with this Paragraph 15, or when actually received by the party for whom intended, if sent by any other means.

16. Entire Agreement

This Agreement constitutes the entire understanding of the parties with respect to its subject matter and no change, alteration or modification hereof may be made except in writing signed by the parties hereto. Any prior or other agreements, promises, negotiations or representations not expressly set forth in this Agreement are of no force or effect.

17. Severability

If any provision of this Agreement shall be unenforceable under any applicable law, then notwithstanding such unenforceability, the remainder of this Agreement shall continue in full force and effect.

18. Waivers, Modifications, Etc.

No amendment, modification or waiver of any provision of this Agreement shall be effective unless the same shall be in writing and signed by each of the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

19. Assignment

Neither this Agreement, nor any of Executive's rights, powers, duties or obligations hereunder, may be assigned by Executive. This Agreement shall be binding upon and inure to the benefit of Executive and his heirs and legal representatives and the Company and its successors and assigns. Successors of the Company shall include, without limitation, any corporation or corporations

acquiring, directly or indirectly, all or substantially all of the assets of the Company, whether by

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merger, consolidation, purchase, lease or otherwise, and such successor shall thereafter be deemed "the Company" for the purpose hereof.

20. Applicable Law

This Agreement shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of New York and shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflicts of law rules thereof. Nothing contained in this Agreement shall be construed so as to require the commission of any act contrary to law, and whenever there is any conflict between any provision of this Agreement and any statute, law, ordinance, order or regulation, contrary to which the parties hereto have no legal right to contract, the latter shall prevail, but in such event any provision of this Agreement so affected shall be curtailed and limited only to the extent necessary to bring it within the legal requirements.

21. Jurisdiction and Venue

It is hereby irrevocably agreed that all actions, suits or proceedings between the Company and Executive arising out of, in connection with or relating to this Agreement shall be exclusively heard and determined in, and the parties do hereby irrevocably submit to the exclusive jurisdiction of, the Supreme Court of the State of New York for Nassau or Suffolk County or the United States District Court for the Eastern District of New York. The parties also agree that a final judgment in any such action, suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The parties hereby unconditionally waive any objection which either of them may now or hereafter have to the venue of any such action, suit or proceeding brought in any of the aforesaid courts, and waive any claim that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

22. Full Understanding

Executive represents and agrees that he fully understands his right to discuss all aspects of this Agreement with his private attorney, that to the extent, if any, that he desired, he availed himself of this right, that he has carefully read and fully

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understands all of the provisions of this Agreement, that he is competent to execute this Agreement. that his agreement to execute this Agreement has not been obtained by any duress and that he freely and voluntarily enters into it, and that he has read this document in its entirety and fully understands the meaning, intent and consequences of this document which is that it constitutes an agreement of employment.

23. Severance

(a) Severance Benefits. If the Executive's employment shall be terminated by the Company within one (1) year after a Change in Control of the Company, for reasons other than for Termination for Cause, Retirement, Death or Disability, or terminated by the Executive for Good Reason within one (1) year after a Change in Control of the Company, then, subject to the limitations set forth in Subparagraph 23(c) below, the Executive shall be entitled to the benefits provided below:

(i) the Company shall pay the Executive the Executive's full base salary through the Date of Termination at the rate equal to the greater of the rate in effect on the date prior to the Change in Control and the rate in effect at the time Notice of Termination is given, plus all other amounts to which the Executive is entitled under any compensation plan of the Company in effect on the date, the payments are due, except as otherwise provided below;

(ii) in lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, except as provided in Paragraph 23(c) below, the Company shall pay as severance pay to the Executive a lump sum severance payment equal to 200% of the Executive's annual salary as determined on the Date of Termination or the date on which a Change in Control occurs, whichever is greater;

(b) Date Benefits Due. The payments provided for in Paragraph 23(a) above shall be made not later than the fifth day following the Date of Termination, provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 7872(f)(2) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a

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loan by the Company to the Executive repayable on the fifth day after demand by the Company (together with interest at the rate provided in Section 7872(f)(2) of the Code).

(c) Reduction to Avoid Non-Deductibility. Any of the other provisions of this Agreement notwithstanding, if any payment to be made by the Company pursuant to this Agreement to the Executive or for the Executive's benefit (the "Payments") otherwise would not be deductible by the Company for Federal income tax purposes due to the provisions of the Code Section 280G, the aggregate present value (determined as of the date of the Change in Control) of the Payments shall be reduced (but not to a negative amount) to an amount expressed in the present value as of such date (the "Reduced Amount") that maximizes the present value of the Payments without causing any payment to be nondeductible by the Company due to the Code Section 280G. The determination of the Reduced Amount and the accompanying reduction in Payments shall be made by the independent certified public accountants for the Company. Any such decrease in Payments shall be applied to the amounts to be paid to the Executive or for the Executive's benefit hereunder in the following order but only to the extent such amounts would be taken into account in determining whether the Payments constitute "parachute payments" within the meaning of the Code Section 280G(b)(2)(A): (i) to decrease the amounts payable to the Executive pursuant to Subparagraph 5(c); (ii) to decrease the amounts payable to the Executive pursuant to Subparagraph 23(a)(ii);

(d) Determination of Reduced Amount. The determination of the Reduced Amount and of the reduction in the Payments shall be communicated to the Executive in writing by the Company. If the Executive does not agree with such determinations, the Executive may give written notice of such disagreement to the Board within five (5) days of the Executive's receipt of the determination, and within fifteen (15) days after the Executive's notice of disagreement, the Executive shall deliver to the Board the Executive's calculation of the reduction in Payments. If the Executive fails to give notice of disagreement or to furnish the Executive's calculation in accordance with the provisions of the immediately preceding sentence, the Executive shall be conclusively deemed to have accepted the determinations made by the independent public accountants for the Company. If the accountants for the Company and the Executive's accountants are unable to agree upon the reduction of Payments within ten (10) days of the receipt of the Board of the Executive's calculation, the determination of the reduction in Payments shall be made by a third accounting firm picked by the Company's accountants and the Executive's

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accountants (the "Arbiter") whose determination shall be final and binding upon the Executive and the Company, except to the extent provided below. The Company shall withhold for income tax purposes all amounts that the Company's independent certified public accountants believe that the Company is required to withhold.

(e) Arbiter to Resolve Disputes. The Arbiter's and the

Company's accountant's fees shall be borne solely by the Company. The Executive's accountant's fees shall be borne by the Executive.

(f) Final Payment. As promptly as practicable after the final determination of the reduction in Payments, the Company shall pay to the Executive or for the Executive's benefit the amounts determined to be payable.

(g) IRS Ruling. In the event there is a final determination by the Internal Revenue Service or by a court of competent jurisdiction that any portion of the Payments are not deductible by the Company by reason of Section 280G, then the amount of the Payments that exceeds the amount deductible by the Company shall be deemed to be a loan by the Company to the Executive, which shall be repaid by the Executive five (5) days after delivery of a demand by the Company therefor together with interest from the date paid by the Company to the date repaid by the Executive at the rate provided for a demand loan in Section 7872(f)(2) of the Code.

(h) Interpretation. The provisions of this Paragraph 23 shall be interpreted in a manner that will avoid the disallowance of a deduction to the Company pursuant to Section 280G and the imposition of excise taxes on the Executive under Section 4899 of the Code.

(i) Definitions. For the purposes of this Agreement, the following terms shall mean:

(i) "Incumbent Board" shall mean the members of the Board, who were members of the Board prior to the date of this Agreement.

(ii) "Subsidiary" shall mean any corporation of which an amount of voting securities sufficient to elect at least a majority of the directors of such corporation is beneficially owned, directly or indirectly, by the Company, or is otherwise controlled by the Company.

(iii) "Good Reason" shall mean, without the Executive's express written consent, the occurrence of any of the following circumstances unless, such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination, as defined in Paragraphs 23(i)(iv) and (v), respectively, given in respect thereof:

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(A) the assignment to the Executive of any duties inconsistent with the Executive's status as President and/or Chief Operating Officer of the Company, or a substantial adverse alteration in the nature or status of the Executive's responsibilities from those in effect immediately prior to a Change in Control of the Company;

(B) a reduction by the Company in the Executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time, except for across-the-board salary reductions similarly affecting all senior executives of the Company and all senior executives of any person in control of the Company;

(C) the relocation of the Company's principal executive offices to a location which is not within the boundaries of New York, Queens, Nassau and Suffolk counties within the State of New York or the Company requiring the Executive to be based anywhere other than the Company's principal executive offices, except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations, or the adverse and substantial alteration of the office space or secretarial or support services provided to the Executive for the performance of the Executive's duties;

(D) the failure by the Company, without the Executive's consent, to pay to the Executive any portion of the Executive's current compensation, except pursuant to an across-the-board compensation deferral similarly affecting all senior executives of the Company and all senior executives of any person in control of the Company, or the failure by the Company to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due;

(E) the failure by the Company to continue in effect any compensation plan in which the Executive participates that is material to the Executive's total compensation, including but not limited to the Company's Incentive Stock Option Plan, 401(k) plan, cafeteria or salary reduction plan, or any other or substitute plans adopted prior to a Change in Control of the Company, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive's participation relative to other participants, than the Executive's participation as it existed at the time of a Change in Control of the Company;

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(F) unless such action is pursuant to an across-the-board reduction in benefits similarly affecting all senior executives of the Company and all senior executives of any person in control of the Company, the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, life insurance, automobile reimbursement, Company credit card, medical, health and accident, or disability plans, if any, in which the Executive was participating at the time of a Change in Control of the Company, or the taking of any action by the Company that would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of a Change in Control of the Company, or the failure by the Company to provide the Executive with the number of paid vacation or sick days to which the Executive is entitled under this Agreement at the time of a Change in Control of the Company;

(G) the failure of the Company to obtain a satisfaction agreement from any successor to assume and agree to perform this Agreement, as contemplated in Paragraph 5 hereof; or

(H) any purported termination of the Executive's employment that is not affected pursuant to a Notice of Termination satisfying the requirements of Subparagraph 8(c)(iv) below (and, if applicable, the requirement of Paragraph 6 above); for purposes of this Agreement, no such purported termination shall be effective.

The Executive's right to terminate the Executive's employment pursuant to this paragraph shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of right with respect to, any circumstances constituting Good Reason hereunder.

(iv) "Notice of Termination" shall mean a notice that shall indicate the specific termination provision of 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.

(v) "Date of Termination" shall mean (A) if employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided, that the Executive shall not return to the full-time performance of the Executive's duties during such thirty (30) day period), or (B) if employment is terminated due to Death of the Executive, upon receipt of Notice of Termination or (C) if employment is terminated pursuant to any other provision in this Agreement, the date specified in

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Notice of Termination (which, in the case of a termination pursuant to any provision of this Agreement other than for Disability and Death shall not be less than fifteen (15) nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).

Notwithstanding the above, provided, that if within fifteen (15) days after any Notice of Termination is given to the Executive or prior to the Date of Termination (as determined without regard to this provision)

the Executive receiving such Notice of Termination notifies the Company that a dispute exists concerning such termination, that during the pendency of any such dispute, the Company will continue to pay the Executive his full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue the Executive as a participant in all compensation, benefit, and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given, until the dispute is finally resolved. However, should final resolution of the dispute result in the Notice of Termination being affirmed in the forum, as set forth in Paragraph 21, utilized for resolving said dispute, then the Executive shall be liable to the Company for all compensation, benefit, and insurance plans paid and/or provided to the Executive during the period that the Notice of Termination was in dispute.

Amounts paid under this subparagraph are prior to all other amounts due under this Agreement and shall not reduce any other amounts due under this Agreement, which other amounts shall be in addition to, and shall not be offset by, amounts due under this subparagraph.

Anything to the contrary herein notwithstanding, twenty-four hours after written notice to the Executive, the Company may relieve the Executive of authority to act on behalf of, or legally bind, the Company, provided, that any such action by the Company shall be without prejudice to the Executive's right to the compensation and benefits provided under this Agreement and the Executive's right to termination hereunder under such circumstances and with the compensation and benefits following such termination as provided in this Agreement.

(vi) "Disability"- If the Executive, due to physical or mental illness or incapacity, is unable fully to perform his duties herein for twelve (12) consecutive months.

(vii) "Death"- If the Executive shall die during the term of this Agreement.

(viii) "'Retirement"- Shall mean termination in accordance with the Company's retirement policy, if any, including early retirement, generally applicable to

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its salaried employees or in accordance with any retirement arrangement established with the Executive's consent with respect to the Executive.

(ix) "Change in Control"- . No benefits shall be payable hereunder unless an event as set forth below, shall have occurred (hereinafter called a "Change in Control"):

(a) Any person including any individual, firm, partnership or other entity, together with all Affiliates and Associates (as defined by ss.240.12b-2 of the regulations promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") of such person, directly or indirectly acquires securities of the Company's then outstanding securities representing twenty percent (20%) or more of the voting securities of the Company, such person being hereinafter referred to as an Acquiring Person; or, but excluding:

(A) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, or

(B) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the Company, or

(C) the Company or any Subsidiary of the Company, is or becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act), or

(D) a person who acquires securities of the Company directly from the Company pursuant to a transaction that has been approved by a vote of at least a majority of the Incumbent Board, or

(b) Individuals who, on the date hereof, constitute the Incumbent Board shall cease for any reason to constitute a majority of the Board; or

(c) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such other surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

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24. Legal Fees

The Company shall bear the cost of the Executive's legal fees regarding any dispute or controversy arising under or in connection with this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date written below.

FIRST PRIORITY GROUP, INC.

Lisa Siegel

By: _____

By: _____

Title: _____

Dated: _____

Dated: _____

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EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the "Agreement") dated October 8, 1998 by and between First Priority Group, Inc., a New York corporation with an address at 51 East Bethpage Road, Plainview, New York 11803 (the "Company"), and Gerald M. Zutler, residing at 32 Lincoln Road North, Plainview, New York 11803 (the "Executive").

W I T N E S S E T H

WHEREAS, the Company desires that Executive be employed by it and render services to it, and Executive is willing to be so employed and to render such services to the Company, all on the terms and subject to the conditions contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment

Subject to and upon the terms and conditions contained in this Agreement, the Company hereby employs Executive, for the period set forth in Paragraph 2 (subject to the terms and conditions of this Agreement), to render the services to the Company, its affiliates and/or subsidiaries described in Paragraph 3.

2. Term

The Company and the Executive hereby agree to terminate the Employment Agreement dated March 23, 1998 on the date hereof. Additionally, the Company and the Executive agree to terminate all previously granted and unexercised stock options. The Executive's term of employment under this Agreement shall commence on July 1, 1998 (the "Commencement Date") and shall continue for a period of thirty-six months (36) months, terminating on June 30, 2001 (the "Expiration Date"), unless earlier terminated under the terms and conditions herein (the "Employment Term").

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3. Duties

(a) Executive's responsibilities shall be to manage and direct the operational affairs of the Company as shall from time to time be designated by the Chief Executive Officer ("CEO") of the Company. Executive shall be based in Nassau or Suffolk counties during the Employment Term and shall have the title of President and Chief Operating Officer.

(b) Executive agrees to abide by all By-Laws and policies of the Company promulgated from time to time by the Company.

4. Exclusive-Services and Best Efforts

Executive shall devote his entire working time, attention, best efforts and ability exclusively to the service of the Company, its affiliates and subsidiaries during the term of this Agreement.

5. Compensation

(a) Base Salary. Commencing on the Commencement Date, the Executive shall receive an annual salary, payable pursuant to the Company's normal payroll procedures in place from time to time, during the Employment Term, in the amount of One Hundred Fifty Thousand Dollars (\$150,000), subject to all required federal, state and local payroll deductions. The Executive's Base Salary may be increased upon the recommendation of the CEO and the approval of the Board of Directors.

(b) Incentive Compensation. The Executive shall participate in the Company's Corporate Compensation Program as approved and authorized by the Board of Directors of the Company, subject to amendment by the Board of Directors or the Compensation Committee of the Board of Directors of the Company.

(c) The Executive shall be granted a stock option under the Company's 1995 Incentive Stock Plan (the "Plan") with the right to purchase up to 300,000 shares of the Company's common stock (the "Stock Option"). The Stock Option shall be granted at a price equal to the closing price of the Company's common stock as quoted on The Nasdaq SmallCap Stock Market on the Commencement Date. The Stock Option shall become exercisable in one-third increments upon the first, second

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and third anniversary of the Stock Option grant. However, following a Change in Control, as hereinafter defined, all stock options previously granted the Executive shall become fully exercisable for the remaining term of such stock option grant, regardless whether the Executive continues as an employee of the Company. The Company will provide the Executive a Stock Option Contract for his signature which will set out the terms of the option. This Stock Option shall be subject to the terms of the Plan.

6. Business Expenses

Executive shall be reimbursed for only those business expenses incurred by him (a) which are reasonable and necessary for Executive to perform his duties under this Agreement in accordance with policies established from time to time by the Company, and (b) for which Executive has submitted vouchers and/or receipts. The Executive shall be issued a corporate credit card that he shall use solely for business expenses which are reasonable and necessary for the Executive to perform his duties under this Agreement in accordance with policies established from time to time by the Company

7. Executive Benefits

During the Employment Term, Executive shall participate, to the extent he is eligible under the terms and conditions thereof, in any health, life, disability insurance, or 401(k) plan, or other employee benefit plans maintained by Employer (but nothing herein shall obligate the Company to establish or maintain any such benefit plan). Executive will not be covered under the Company's health insurance until the Executive has been employed by the Company for more than ninety (90) days. The Executive shall be reimbursed for any payments he must make to continue his health insurance under the COBRA benefits offered by his former employer, until the Executive is covered under the Company's health insurance plan.

The Company shall pay the Executive a monthly automobile allowance of Six Hundred Dollars (\$600).

8. Vacation and Sick Leave

Executive shall be entitled to three (3) weeks of vacation per annum during the Employment Term, to be taken at such times as may be mutually agreed upon by the

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Company and Executive. The Executive shall be entitled to one (1) week of sick leave per annum during the Employment Term.

9. Death and Disability

(a) The Employment Term shall terminate on the date of Executive's death, in which event Executive's salary payable pursuant to Paragraph 5 and any accrued vacation, through the date of Executive's death, shall be paid to his

estate. Executive's estate will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 9(a).

(b) If during the Employment Term, Executive, because of physical or mental illness or incapacity, shall become substantially unable to perform the duties and services required of him under this Agreement for a period of forty-five (45) consecutive days or ninety (90) days in the aggregate in any one calendar year, the Company may, upon at least ten (10) days' prior written notice given at any time after the expiration of such 45 or 90-day period, as the case may be, to Executive of its intention to do so, terminate this Agreement as of such date as may be set forth in the notice. In case of such termination, Executive shall be entitled to receive his salary payable pursuant to Paragraph 5 through the date of termination. Executive will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 9(b).

10. Termination

(a) The Company may terminate the employment of Executive For Cause (as hereinafter defined). Upon such termination, the Company shall be released from any and all further obligations under this Agreement, except that the Company shall be obligated to pay Executive the unpaid prorated salary pursuant to Paragraph 5 earned or accrued up through the day on which Executive is terminated.

(b) The Company may terminate the employment of Executive Without Cause (as hereinafter defined). Upon such termination, the Company shall be released from any and all further obligations under this Agreement, except that the Company shall be obligated to pay Executive the unpaid prorated salary pursuant to Paragraph 5 earned or accrued up through the day on which Executive is terminated,

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in addition to the lesser of (i) Base Salary and other employee benefits, as set forth in Paragraph 7, for a twelve (12) month period from the date employment is terminated, or (ii) the Base Salary and other employee benefits that would have been paid the Executive from the date employment is terminated through the Expiration Date.

(c) As used herein, the term "For Cause" shall mean:

(i) any material breach of this Agreement by Executive that, in the case of a breach that may be cured or remedied, is not cured or remedied to the reasonable satisfaction of the Company within 30 days after notice is given by the Company to Executive, setting forth in reasonable detail the nature of such breach;

(ii) Executive's failure to perform his duties and services hereunder to the reasonable satisfaction of the CEO of the Company that, in the case of any such failure that may be cured or remedied, is not cured or remedied to the reasonable satisfaction of the Company within 30 days after notice is given by the Company to Executive, setting forth in reasonable detail the nature of such failure;

(iii) any material act, or material failure to act, by Executive in bad faith and to the material detriment of the Company; or

(iv) commission by Executive of a material act involving moral turpitude, dishonesty, unethical business conduct, or any other conduct which significantly impairs the reputation of the Company, its subsidiaries or affiliates.

(v) the conviction of the Executive of a felony, including the plea of nolo contendere

(d) As used herein, the term "Without Cause" shall mean: (i) Termination by the Company of the Executive's employment for any reason other than For Cause, Death or Disability.

11. Disclosure of Information and Restrictive Covenant

(a) Executive acknowledges that, by his employment, he has been and will be in a confidential relationship with the Company and will have access to confidential information and trade secrets of the Company, its subsidiaries and affiliates, including, but not limited to, confidential information or trade secrets belonging or relating to the Company, its subsidiaries, affiliates, customers and/or clients or proprietary processes or procedures of the Company, its subsidiaries, affiliates, customers and/or clients. Proprietary processes and procedures shall include, but shall not be limited to, all

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information which is known only to employees of the Company, its respective subsidiaries and affiliates or others in a confidential relationship with the Company or its respective subsidiaries and affiliates which relates to business matters. Confidential information and trade secrets include, but are not limited to, customer and client lists, price lists, marketing and sales strategies and procedures, operational and equipment techniques, business plans and systems, quality control procedures and systems, special projects and technological research, including projects, research and reports for any entity or client or any project, research, report or the like concerning sales or manufacturing or new technology, employee compensation plans and any other information relating thereto, and any other records, files, drawings, inventions, discoveries, applications or processes which are not in the public domain (all the foregoing shall be referred to herein as the "Confidential Information"). Executive agrees that in consideration of the execution of this Agreement by the Company, he will not use, or disclose to any third party, any of the Confidential Information, other than as required to perform his services hereunder or as directed or authorized by the Company's Board of Directors or President.

(b)

(i) Executive will not, at any time prior to the Expiration Date, or if the Executive's employment shall terminate prior to the Expiration Date, then for a period of one (1) year after the Executive ceases to be employed by the Company, engage in or participate in any business activity, including, but not limited to, acting as a director, officer, employee, agent, independent contractor, partner, consultant, licensor or licensee, franchiser or franchisee, proprietor, syndicate member, or shareholder that operates a business or activity which competes with any business or activity engaged in by the Company.

(ii) Any time during his employment by the Company or after the Executive ceases to be employed by the Company, divulge to any persons, firms or corporations, other than the Company (hereinafter referred to collectively as "third parties"), or use or allow or cause or authorize any third parties to use, any such Confidential Information; and

(iii) At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, solicit or cause or authorize directly or indirectly to be solicited, for or on behalf of the Executive or third parties, any business from persons, firms, corporations or other

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entities who were at any time within one (1) year prior to the cessation of his employment hereunder, customers of the Company; and

(iv) At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, accept or cause or authorize directly or indirectly to be accepted, for or on behalf of the Executive or third parties, any business from any such customers of this Company; and

(v) At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company,

solicit or cause or authorize directly or indirectly to be solicited for employment, for or on behalf of the Executive or third parties, any persons who were at any time within one year prior to the cessation of his employment hereunder, employees of the Company; and

(vi) At any time during his employment by the Company and for a period of one year after the Executive ceases to be employed by the Company, employ or cause or authorize directly or indirectly to be employed, for or on behalf of the Executive or third parties, any such employees of the Company; and

(vii) At any time during his employment by the Company and for a period of one (1) year after the Executive ceases to be employed by the Company, compete with the Company in any fashion or work for, advise, be a consultant to or an officer, director, agent or employee of or otherwise associate with any person, firm, corporation or other entity which is engaged in or plans to engage in a business or activity which competes with any business or activity engaged in by the Company, or which is under development or in a planning stage by the Company.

(c) Executive will not induce or persuade other employees of the Company to join him in any activity prohibited by Paragraph 11 or 12.

(d) This Paragraph 11 and Paragraph 12, 13 and 14 shall survive the expiration or termination of the Agreement for any reason.

(e) It is expressly agreed by Executive that the nature and scope of each of the provisions set forth in Paragraphs 11 and 12 are reasonable and necessary. If, for any reason, any aspect of these provisions as they apply to Executive is determined by a court of competent jurisdiction to be unreasonable or unenforceable, the provisions shall only be modified to the minimum extent required to make the

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provisions reasonable and/or enforceable, as the case may be. Executive acknowledges and agrees that his services are of a unique character and expressly grants to the Company or any subsidiary, successor or assignee of the Company, the right to enforce the provisions above through the use of all remedies available at law or in equity, including, but not limited to, injunctive relief.

12. Company Property

(a) Any patents, inventions, discoveries, applications, processes or designs, devised, planned, applied, created, discovered or invented by Executive in the course of Executive's employment under this Agreement and which pertain to any aspect of the Company's or its respective subsidiaries' or affiliates' businesses shall be the sole and absolute property of the Company, and Executive shall make prompt report thereof to the Company and promptly execute any and all documents reasonably requested to assure the Company the full and complete ownership thereof.

(b) All records, files, lists, including computer generated lists, drawings, documents, equipment and similar items relating to the Company's business which Executive shall prepare or receive from the Company shall remain the Company's sole and exclusive property. Upon termination of the Employment Term, or, if earlier, upon demand by the Company, Executive shall promptly return to the Company all property of the Company in his possession. Executive further represents that he will not copy or cause to be copied, print out or cause to be printed out any software, documents or other materials originating with or belonging to the Company. Executive covenants that, upon termination of his employment with the Company, he will not retain in his possession any such software, documents or other materials.

13. Remedy

It is mutually understood and agreed that Executive's services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this

Agreement by Executive, including, but not limited to, the breach of the nondisclosure, non-solicitation and non-compete clauses under Paragraphs 11 and 12 hereof, the Company shall be entitled to equitable relief by way of injunction or otherwise in

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addition to damages the Company may be entitled to recover. Nothing herein shall be deemed to restrict any remedy available to Executive for breach of the Agreement by the Company.

14. Representations and Warranties of Executive and the Company

(a) In order to induce the Company to enter into this Agreement, Executive hereby represents and warrants to the Company as follows: (i) Executive has the legal capacity and unrestricted right to execute and deliver this Agreement once to perform all of his obligations hereunder: (ii) the execution and delivery of this Agreement by Executive and the performance of his obligations hereunder will not violate or be in conflict with any fiduciary or other duty, instrument, agreement, document, arrangement or other understanding to which Executive is a party or by which he is or may be bound or subject; and (iii) Executive is not a party to any instrument, agreement, document, arrangement or other understanding with any person (other than the Company) requiring or restricting the use or disclosure of any confidential information or the provision of any employment, consulting or other services.

(b) The Company hereby represents and warrants to Executive, as follows: (i) the execution, delivery, and performance of this Agreement has been duly authorized by all necessary corporate action of the Company; and (ii) this Agreement constitutes the valid and binding obligation of the Company, enforceable in accordance with its terms, except that such enforcement may be subject to any bankruptcy, insolvency, reorganization, fraudulent transfer or other laws, now or hereafter in effect, relating to or limiting creditors' rights generally.

15. Notices

All notices given hereunder shall be in writing and shall be deemed effectively given when mailed, if sent by registered or certified mail, return receipt requested, addressed to Executive at his address set forth on the first page of this Agreement, and to the Company at its address set forth on the first page of this Agreement, Attention: Barry Siegel, Chairman of the Board, with a copy to Muenz & Meritz, P.C., Three Hughes Place, Dix Hills, New York 11746, Attention: Lawrence A. Muenz, or at such address as such party shall have designated by a notice given in accordance

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with this Paragraph 15, or when actually received by the party for whom intended, if sent by any other means.

16. Entire Agreement

This Agreement constitutes the entire understanding of the parties with respect to its subject matter and no change, alteration or modification hereof may be made except in writing signed by the parties hereto. Any prior or other agreements, promises, negotiations or representations not expressly set forth in this Agreement are of no force or effect.

17. Severability

If any provision of this Agreement shall be unenforceable under any applicable law, then notwithstanding such unenforceability, the remainder of this Agreement shall continue in full force and effect.

18. Waivers, Modifications, Etc.

No amendment, modification or waiver of any provision of this Agreement

shall be effective unless the same shall be in writing and signed by each of the parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

19. Assignment

Neither this Agreement. nor any of Executive's rights, powers, duties or obligations hereunder, may be assigned by Executive. This Agreement shall be binding upon and inure to the benefit of Executive and his heirs and legal representatives and the Company and its successors and assigns. Successors of the Company shall include, without limitation, any corporation or corporations acquiring, directly or indirectly, all or substantially all of the assets of the Company, whether by merger, consolidation, purchase, lease or otherwise, and such successor shall thereafter be deemed "the Company" for the purpose hereof.

20. Applicable Law

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This Agreement shall be deemed to have been made, drafted, negotiated and the transactions contemplated hereby consummated and fully performed in the State of New York and shall be governed by and construed in accordance with the laws of the State of New York, without regard to the conflicts of law rules thereof. Nothing contained in this Agreement shall be construed so as to require the commission of any act contrary to law, and whenever there is any conflict between any provision of this Agreement and any statute, law, ordinance, order or regulation, contrary to which the parties hereto have no legal right to contract, the latter shall prevail, but in such event any provision of this Agreement so affected shall be curtailed and limited only to the extent necessary to bring it within the legal requirements.

21. Jurisdiction and Venue

It is hereby irrevocably agreed that all actions, suits or proceedings between the Company and Executive arising out of, in connection with or relating to this Agreement shall be exclusively heard and determined in, and the parties do hereby irrevocably submit to the exclusive jurisdiction of, the Supreme Court of the State of New York for Nassau or Suffolk County or the United States District Court for the Eastern District of New York. The parties also agree that a final judgment in any such action, suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The parties hereby unconditionally waive any objection which either of them may now or hereafter have to the venue of any such action, suit or proceeding brought in any of the aforesaid courts, and waive any claim that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

22. Full Understanding

Executive represents and agrees that he fully understands his right to discuss all aspects of this Agreement with his private attorney, that to the extent, if any, that he desired, he availed himself of this right, that he has carefully read and fully understands all of the provisions of this Agreement, that he is competent to execute this Agreement. that his agreement to execute this Agreement has not been obtained by any duress and that he freely and voluntarily enters into it, and that he has read this document in its entirety and fully understands the meaning, intent and consequences of this document which is that it constitutes an agreement of employment.

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23. Severance

(a) Severance Benefits. If the Executive's employment shall be terminated by the Company within one (1) year after a Change in Control of the Company, for reasons other than for Termination for Cause, Retirement, Death or Disability, or terminated by the Executive for Good Reason within one (1) year

after a Change in Control of the Company, then, subject to the limitations set forth in Subparagraph 23(c) below, the Executive shall be entitled to the benefits provided below:

(i) the Company shall pay the Executive the Executive's full base salary through the Date of Termination at the rate equal to the greater of the rate in effect on the date prior to the Change in Control and the rate in effect at the time Notice of Termination is given, plus all other amounts to which the Executive is entitled under any compensation plan of the Company in effect on the date, the payments are due, except as otherwise provided below;

(ii) in lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination, except as provided in Paragraph 23(c) below, the Company shall pay as severance pay to the Executive a lump sum severance payment equal to 200% of the Executive's annual salary as determined on the Date of Termination or the date on which a Change in Control occurs, whichever is greater;

(b) Date Benefits Due. The payments provided for in Paragraph 23(a) above shall be made not later than the fifth day following the Date of Termination, provided, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Company, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 7872(f) (2) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive repayable on the fifth day after demand by the Company (together with interest at the rate provided in Section 7872(f) (2) of the Code).

(c) Reduction to Avoid Non-Deductibility. Any of the other provisions of this Agreement notwithstanding, if any payment to be made by the Company pursuant to this Agreement to the Executive or for the Executive's benefit (the "Payments")

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otherwise would not be deductible by the Company for Federal income tax purposes due to the provisions of the Code Section 280G, the aggregate present value (determined as of the date of the Change in Control) of the Payments shall be reduced (but not to a negative amount) to an amount expressed in the present value as of such date (the "Reduced Amount") that maximizes the present value of the Payments without causing any payment to be nondeductible by the Company due to the Code Section 280G. The determination of the Reduced Amount and the accompanying reduction in Payments shall be made by the independent certified public accountants for the Company. Any such decrease in Payments shall be applied to the amounts to be paid to the Executive or for the Executive's benefit hereunder in the following order but only to the extent such amounts would be taken into account in determining whether the Payments constitute "parachute payments" within the meaning of the Code Section 280G(b) (2) (A): (i) to decrease the amounts payable to the Executive pursuant to Subparagraph 5(c); (ii) to decrease the amounts payable to the Executive pursuant to Subparagraph 23(a) (ii);

(d) Determination of Reduced Amount. The determination of the Reduced Amount and of the reduction in the Payments shall be communicated to the Executive in writing by the Company. If the Executive does not agree with such determinations, the Executive may give written notice of such disagreement to the Board within five (5) days of the Executive's receipt of the determination, and within fifteen (15) days after the Executive's notice of disagreement, the Executive shall deliver to the Board the Executive's calculation of the reduction in Payments. If the Executive fails to give notice of disagreement or to furnish the Executive's calculation in accordance with the provisions of the immediately preceding sentence, the Executive shall be conclusively deemed to have accepted the determinations made by the independent public accountants for the Company. If the accountants for the Company and the Executive's accountants are unable to agree upon the reduction of Payments within ten (10) days of the receipt of the Board of the Executive's calculation, the determination of the

reduction in Payments shall be made by a third accounting firm picked by the Company's accountants and the Executive's accountants (the "Arbiter") whose determination shall be final and binding upon the Executive and the Company, except to the extent provided below. The Company shall withhold for income tax purposes all amounts that the Company's independent certified public accountants believe that the Company is required to withhold.

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(e) Arbiter to Resolve Disputes. The Arbiter's and the Company's accountant's fees shall be borne solely by the Company. The Executive's accountant's fees shall be borne by the Executive.

(f) Final Payment. As promptly as practicable after the final determination of the reduction in Payments, the Company shall pay to the Executive or for the Executive's benefit the amounts determined to be payable.

(g) IRS Ruling. In the event there is a final determination by the Internal Revenue Service or by a court of competent jurisdiction that any portion of the Payments are not deductible by the Company by reason of Section 280G, then the amount of the Payments that exceeds the amount deductible by the Company shall be deemed to be a loan by the Company to the Executive, which shall be repaid by the Executive five (5) days after delivery of a demand by the Company therefor together with interest from the date paid by the Company to the date repaid by the Executive at the rate provided for a demand loan in Section 7872(f)(2) of the Code.

(h) Interpretation. The provisions of this Paragraph 23 shall be interpreted in a manner that will avoid the disallowance of a deduction to the Company pursuant to Section 280G and the imposition of excise taxes on the Executive under Section 4899 of the Code.

(i) Definitions. For the purposes of this Agreement, the following terms shall mean:

(i) "Incumbent Board" shall mean the members of the Board, who were members of the Board prior to the date of this Agreement.

(ii) "Subsidiary" shall mean any corporation of which an amount of voting securities sufficient to elect at least a majority of the directors of such corporation is beneficially owned, directly or indirectly, by the Company, or is otherwise controlled by the Company.

(iii) "Good Reason" shall mean, without the Executive's express written consent, the occurrence of any of the following circumstances unless, such circumstances are fully corrected prior to the Date of Termination specified in the Notice of Termination, as defined in Paragraphs 23(i)(iv) and (v), respectively, given in respect thereof:

(A) the assignment to the Executive of any duties inconsistent with the Executive's status as President and/or Chief Operating Officer of the Company, or a substantial adverse alteration in the nature or status of the

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Executive's responsibilities from those in effect immediately prior to a Change in Control of the Company;

(B) a reduction by the Company in the Executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time, except for across-the-board salary reductions similarly affecting all senior executives of the Company and all senior executives of any person in control of the Company;

(C) the relocation of the Company's principal executive offices to a location which is not within the boundaries of New York, Queens, Nassau and Suffolk counties within the State of New York or the Company requiring the

Executive to be based anywhere other than the Company's principal executive offices, except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations, or the adverse and substantial alteration of the office space or secretarial or support services provided to the Executive for the performance of the Executive's duties;

(D) the failure by the Company, without the Executive's consent, to pay to the Executive any portion of the Executive's current compensation, except pursuant to an across-the-board compensation deferral similarly affecting all senior executives of the Company and all senior executives of any person in control of the Company, or the failure by the Company to pay to the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due;

(E) the failure by the Company to continue in effect any compensation plan in which the Executive participates that is material to the Executive's total compensation, including but not limited to the Company's Incentive Stock Option Plan, 401(k) plan, cafeteria or salary reduction plan, or any other or substitute plans adopted prior to a Change in Control of the Company, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Executive's participation relative to other participants, than the Executive's participation as it existed at the time of a Change in Control of the Company;

(F) unless such action is pursuant to an across-the-board reduction in benefits similarly affecting all senior executives of the Company and all senior executives of any person in control of the Company, the failure by the Company

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to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, life insurance, automobile reimbursement, Company credit card, medical, health and accident, or disability plans, if any, in which the Executive was participating at the time of a Change in Control of the Company, or the taking of any action by the Company that would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed by the Executive at the time of a Change in Control of the Company, or the failure by the Company to provide the Executive with the number of paid vacation or sick days to which the Executive is entitled under this Agreement at the time of a Change in Control of the Company;

(G) the failure of the Company to obtain a satisfaction agreement from any successor to assume and agree to perform this Agreement, as contemplated in Paragraph 5 hereof; or

(H) any purported termination of the Executive's employment that is not affected pursuant to a Notice of Termination satisfying the requirements of Subparagraph 8(c)(iv) below (and, if applicable, the requirement of Paragraph 6 above); for purposes of this Agreement, no such purported termination shall be effective.

The Executive's right to terminate the Executive's employment pursuant to this paragraph shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of right with respect to, any circumstances constituting Good Reason hereunder.

(iv) "Notice of Termination" shall mean a notice that shall indicate the specific termination provision of 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.

(v) "Date of Termination" shall mean (A) if employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided, that the Executive shall not return to the full-time performance of the Executive's duties during such thirty (30) day period), or (B) if employment is terminated due to Death of the Executive, upon receipt of Notice of Termination or (C) if employment is terminated pursuant to any other provision in this Agreement, the date specified in Notice of Termination (which, in the case of a termination pursuant to any provision of this Agreement other than for Disability and Death shall not be less than fifteen (15)

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nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).

Notwithstanding the above, provided, that if within fifteen (15) days after any Notice of Termination is given to the Executive or prior to the Date of Termination (as determined without regard to this provision) the Executive receiving such Notice of Termination notifies the Company that a dispute exists concerning such termination, that during the pendency of any such dispute, the Company will continue to pay the Executive his full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue the Executive as a participant in all compensation, benefit, and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given, until the dispute is finally resolved. However, should final resolution of the dispute result in the Notice of Termination being affirmed in the forum, as set forth in Paragraph 21, utilized for resolving said dispute, then the Executive shall be liable to the Company for all compensation, benefit, and insurance plans paid and/or provided to the Executive during the period that the Notice of Termination was in dispute.

Amounts paid under this subparagraph are prior to all other amounts due under this Agreement and shall not reduce any other amounts due under this Agreement, which other amounts shall be in addition to, and shall not be offset by, amounts due under this subparagraph.

Anything to the contrary herein notwithstanding, twenty-four hours after written notice to the Executive, the Company may relieve the Executive of authority to act on behalf of, or legally bind, the Company, provided, that any such action by the Company shall be without prejudice to the Executive's right to the compensation and benefits provided under this Agreement and the Executive's right to termination hereunder under such circumstances and with the compensation and benefits following such termination as provided in this Agreement.

(vi) "Disability"- If the Executive, due to physical or mental illness or incapacity, is unable fully to perform his duties herein for twelve (12) consecutive months.

(vii) "Death"- If the Executive shall die during the term of this Agreement.

(viii) "Retirement"- Shall mean termination in accordance with the Company's retirement policy, if any, including early retirement, generally applicable to its salaried employees or in accordance with any retirement arrangement established with the Executive's consent with respect to the Executive.

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(ix) "Change in Control"- . No benefits shall be payable hereunder unless an event as set forth below, shall have occurred (hereinafter called a "Change in Control"):

(a) Any person including any individual, firm, partnership or other entity, together with all Affiliates and Associates (as defined by ss.240.12b-2

of the regulations promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") of such person, directly or indirectly acquires securities of the Company's then outstanding securities representing twenty percent (20%) or more of the voting securities of the Company, such person being hereinafter referred to as an Acquiring Person; or, but excluding:

(A) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, or

(B) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the Company, or

(C) the Company or any Subsidiary of the Company, is or becomes the Beneficial Owner (as defined in Rule 13d-3 under the Exchange Act), or (D) a person who acquires securities of the Company directly from the Company pursuant to a transaction that has been approved by a vote of at least a majority of the Incumbent Board, or

(b) Individuals who, on the date hereof, constitute the Incumbent Board shall cease for any reason to constitute a majority of the Board; or

(c) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of the Company or such other surviving entity outstanding immediately after such merger or consolidation, or the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

24. Legal Fees

The Company shall bear the cost of the Executive's legal fees regarding any dispute or controversy arising under or in connection with this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date written below.

FIRST PRIORITY GROUP, INC.

GERALD M. ZUTLER

By: _____

By: _____

Title: _____

Dated: _____

Dated: _____

Exhibit 10.21

Severance Agreement

This Severance Agreement (the "Severance Agreement") dated August 17, 1998 between First Priority Group, Inc., a New York corporation with offices at 51 East Bethpage Road, Plainview, New York 11803 (the "Company") and MICHAEL KARPOFF, an individual residing at 32 Gramercy Park South, New York, NY. 10003 (hereinafter referred to as the "Executive").

W I T N E S S E T H

WHEREAS, the Company and the Executive wish not to renew the employment agreement of the Executive; and

WHEREAS, the Company agrees to make severance payments to the Executive; and

WHEREAS, the Company wishes to limit the sale of the Executive's holdings in the common stock of the Company; and

WHEREAS, the Executive agrees to accept the severance payment; NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Effective December 31, 2000, the Executive's employment with the Company shall terminate (the "Termination Date"). While the Company has no established policy with regard to severance and the Executive acknowledges that the payment of any severance is at the Company's discretion, the Company will, on the terms and conditions as set forth herein, provide the Executive with total payments of One Hundred Thousand Dollars (\$100,000) (the "Severance Payment") due and payable quarterly in equal installments of Twelve Thousand and Five Hundred Dollars (\$12,500) (the "Quarterly Severance Payment"), subject to normal payroll withholdings,

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commencing on March 31, 1999, with additional payments due and payable on June 30, 1999, September 30, 1999, December 31, 1999, March 31, 2000, June 30, 2000, September 30, 2000, and December 31, 2000.

Additionally, the Company agrees to maintain the Executive's present health insurance through December 31, 1998, and to the extent that his stock options remain exercisable, the Executive shall have the right to exercise all stock options previously granted to him through the Termination Date and such additional period of time as provided for in each stock option agreement following the termination of employment.

2. During the period commencing on the date hereof and ending on December 31, 2000 (the "Severance Period"), the Executive shall have no obligation to report to work and have no defined employment duties and/or responsibilities. During the Severance Period, the Executive agrees that he will make himself available, upon reasonable notice to the Executive, from time to time as the Company reasonably requests, to permit employees, agents or advisors of the Company to consult with the Executive on business matters.

The Company agrees to unconditionally make The Severance Payment contemplated herein subject only to Paragraphs 4 and 10 of this Severance Agreement and Paragraph 7 of the Employment Agreement, to the extent that such restricted business activity is related to automotive products and/or services. The Severance Payment will be paid irrespective of whether the Executive has accepted employment with another company.

3. Effective on the date hereof, the Company and the Executive agree to the

termination of the Employment Agreement dated January 18, 1996, as amended (the "Employment Agreement") with all rights and obligations of both parties terminating on the date hereof, except for Paragraph 7 of the Employment Agreement, which shall survive the termination of the Employment Agreement. Additionally, the Executive agrees to resign from the Board of Directors and as an officer of the Company and any of its subsidiaries on the date hereof. Such resignation from the Board of Directors of the Company shall be for "without cause".

4. The Executive confirms that the Severance Payment constitutes good and valuable consideration. In consideration of the Severance Payment, the Executive

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hereby agrees that following the date hereof, after expiration of the Consideration Period and the Recision Period, he shall execute a release substantially in the form as attached as Exhibit A (the "Release"). Execution of this Release shall be a condition precedent to the Executive receiving any portion of the Severance Payment set forth herein.

5. The Company agrees from the date hereof not to make any disparaging statements concerning the Executive. The Executive also agrees not to make any disparaging statements concerning the Company or any of its officers, directors, employees or any of the Company's affiliated companies or their officers, directors and employees.

6. The Release provides for the waiver by the Executive of his/her rights or claims under the Age Discrimination in Employment Act of 1967, as amended ("ADEA"), and the waiver of these rights or claims are in exchange for consideration that was not due the Executive by law and/or contract.

7. The Executive will not at any time (i) testify or give evidence in any forum concerning the Executive's employment with the Company, unless the Executive is: (i) required by law to do so, or (ii) requested to do so in writing by an authorized official of the Company.

8. The Executive agrees not sell or transfer any of his holdings, or those held jointly with another, in the common stock of the Company ("Common Stock"), presently held or acquired after the date hereof, through December 31, 2000 except as set forth below:

(a) For the period commencing on the date hereof through December 31, 2000, but no earlier than January 1, 1999, for any twelve (12) month period, the Executive may not sell: (i) more than 35,000 shares of Common Stock, or (ii) more than the number of shares of Common Stock having an aggregate value, on the date of sale, of One Hundred Twenty-five Thousand Dollars (\$125,000), whichever is greater.

(b) To the extent that Barry Siegel is able to sell a portion of his holdings in the Common Stock, the Executive shall be notified and permitted to sell his holdings to the same purchaser to the extent that Barry Siegel, the Executive and all other sellers sharing such sale rights, shall sell their Common Stock on an equal pro rata basis.

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(c) To the extent that the Executive transfers shares of Common Stock to the Company in lieu of payment of the exercise price for the exercise of stock options held by the Executive.

(d) To the extent that all shareholders of the Company are offered an opportunity to sell, transfer or exchange their shares of Common Stock.

(e) As permitted by the Board of Directors of the Company.

(f) To the extent that the Executive transfers shares of Common Stock in a private sale, as long as the transferee shall be bound by the same restrictions

of transfer as set forth above.

(g) Notwithstanding the above, the Executive shall be able to sell to Gerald M. Zutler Common Stock valued at \$100,000 within sixty (60) days of the date hereof, which sale shall not affect the limitation in Subparagraph 8(a).

For the period commencing on the date hereof through December 31, 2000, the Executive agrees to deliver all stock certificates representing ownership in the Common Stock, including those shares held in street name or issued pursuant to the exercise of a stock option, to the Company's counsel so that a restrictive legend may be placed upon the certificate in substantially the form as set forth below

(A) for one certificate of 35,000 shares of Common Stock:

The shares represented by this certificate shall be restricted from transfer pursuant to the Agreement dated August 17, 1998 between the Company and Michael Karpoff (the "Agreement") which restriction shall expire on December 31, 1998. Such restriction shall not be removed without an opinion of counsel of the Company that such restriction has lapsed or is permitted pursuant to this Agreement.

(B) for all other certificates of Common Stock:

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The shares represented by this certificate shall be restricted from transfer pursuant to the Agreement dated August 17, 1998 between the Company and Michael Karpoff (the "Agreement") which restriction shall expire on December 31, 2000. Such restriction shall not be removed without an opinion of counsel of the Company that such restriction has lapsed or is permitted pursuant to this Agreement.

Following the placement of the restrictive legend upon the certificate, the certificate shall be returned to the previous holder.

9. The Executive agrees to return forthwith to the Company all Company property, if any, in the Executive's possession, including but not limited to, any and all account records, checks, credit cards, papers, presentations, plans, documents, files, price lists, product information, drawings, financial statements, notes, whatsoever, including all photocopies thereof, at the time of executing this Agreement.

10. The Executive agrees that for the period in which the Executive is receiving the Severance Payment and for one year thereafter, the Executive agrees not to engage in or participate in any business activity, including, but not limited to, acting as a director, officer, employee, agent, independent contractor, partner, consultant, licensor or licensee, franchiser or franchisee, proprietor, syndicate member, or shareholder that operates in any business of the Company, or its subsidiaries, or in any business that was planned by the Company or its subsidiaries prior to the Termination Date, to the extent such business is related to automotive products and/or services.

11. It is hereby irrevocably agreed that all actions, suits or proceedings between or among the parties hereto, or any of them, arising out of, in connection with or relating to this Agreement shall be exclusively heard and determined in, and the parties do hereby irrevocably submit to the exclusive jurisdiction of, the Supreme Court of the State of New York for Nassau County or the United States District Court for the

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Eastern District of New York. The parties also agree that a final judgment in any such action, suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by

law. The parties hereby unconditionally waive any objection which any of them may now or hereafter have to the venue of any such action, suit or proceeding brought in any of the aforesaid courts, and waive any claim that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

12. It is mutually understood and agreed that in the event of any breach of this Severance Agreement by the Company or the Executive, either party shall be entitled to equitable relief by way of injunction or otherwise, in addition to money damages that the aggrieved party may be entitled to recover. In the event that either party to this Agreement shall commence any action against the other and such action results in a final judgement being rendered by a court of competent jurisdiction, the prevailing party shall have their legal fees and disbursements necessary for the prosecution or defense of such action paid by the non-prevailing party.

13. Any notice, request, or other communication given hereunder shall be in writing and if given by the Executive to the Company shall be sent by certified or registered mail, postage prepaid, addressed to the Company and if given by the Company to the Executive, shall be sent by certified or registered mail, postage prepaid, addressed to the Executive. In each instance, the proper mailing address shall be to: (i) the Company, at 51 East Bethpage Road, Plainview, New York 11803, Attention: Barry Siegel, with a copy to Lawrence A. Muenz, Esq., Muenz & Meritz, P.C., 3 Hughes Place, Dix Hills, New York 11746, and (ii) the Executive, at 32 Gramercy Park South, New York, NY. 10003, with a copy to Eric J. Lobenfeld, Esq., Chadbourne & Parke, 30 Rockefeller Plaza, New York, New York 10112.

14. This Agreement sets forth the entire agreement between the Executive and the Company concerning the above subject matter and supersedes any and all other agreements between us, whether written or oral, on the subject matter. The terms of this Agreement may not be changed or modified except by an instrument in writing duly signed by the Executive and by an authorized representative of the Company.

15. This Agreement shall be governed by and construed under the laws of the State of New York.

16. If any portion of this Agreement is held invalid or unenforceable by a court of competent jurisdiction or any governmental agency, that portion only shall be deemed deleted as though it had never been included herein, but the remainder of this Agreement shall remain in full force and effect. However, if the Release portion of the Agreement is held invalid or unenforceable by a court of competent jurisdiction or any governmental agency, any payments accepted and retained by the Executive under this Agreement shall be returned immediately to the Company.

Agreed and Accepted:

First Priority Group, Inc.

Michael Karpoff

By: _____

By: _____

Name: _____

Date: _____

Title: _____

Date: _____

CONSULT WITH A LAWYER BEFORE SIGNING THIS AGREEMENT. BY SIGNING THIS AGREEMENT YOU GIVE UP AND WAIVE IMPORTANT LEGAL RIGHTS.

This Severance Agreement (the "Severance Agreement") dated August 17, 1998 between First Priority Group, Inc., a New York corporation with offices at 51 East Bethpage Road, Plainview, New York 11803 (the "Company") and MICHAEL KARPOFF, an individual residing at 32 Gramercy Park South, New York, NY. 10003 (hereinafter referred to as the "Executive").

1. This Exhibit A (the "Release") shall be considered an integral part of the Severance Agreement and hereby incorporated by reference. The Executive confirms that the Severance Payment constitutes good and valuable consideration. In consideration of the Severance Payment, the Executive hereby releases the Company, any subsidiaries or affiliated companies, and their respective past and present officers, directors, agents and employees ("Released Parties") from all claims (other than claims for payments provided for under this Release), causes of action or liabilities of any kind and nature whatsoever that may have arisen up through the date of this Release, including but not limited to all claims, causes of action or liabilities arising from the Executive's employment with the Company; Worker's Compensation or disability claims under state or local law; claims of discrimination under Title VII of the Civil Rights Act of 1991, including the Equal Employment Opportunity Act of 1972; the Age Discrimination in Employment Act of 1967, as amended ("ADEA"); the Americans with Disabilities Act of 1990; the National Labor Relations Act, as amended; the Employee Retirement Income Security Act of 1974, as amended; the Worker Adjustment and Retraining Notification Act of 1988; 42 U.S.C. ss.1981; and state or local law, rules or regulations, claims relating to wages and hours under the Fair Labor Standards Act, and regulations or equivalent state or local wage and hour laws and regulations, and claims under any express or implied contract, tortious conduct, libel, slander or defamation.

The Executive intends to waive and release any rights the Executive may have under these and other laws, but the Executive does not intend to, nor is the Executive waiving any rights or claims that may arise under the Age

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Discrimination in Employment Act of 1967, as amended ("ADEA") after the date that the Executive signs this

Agreement

2. This Release provides for the waiver by the Executive of his/her rights or claims under the ADEA, and the waiver of these rights or claims are in exchange for consideration that was not due the Executive by law and/or contract.

3. The Executive represents that the Executive has not filed any complaints or charges against the Released Parties with any local, state or federal agency or court, and that Executive will not at any time hereafter file any complaints or charges arising from the Executive's termination, nor, has the Executive or will the Executive contact any local, state or federal agency regarding the activities of the Company in operating its business. Should any such agency or court assume jurisdiction of any such complaint or charge, or commence any investigation or inquiry concerning the business practices of the Company, the Executive will immediately request such agency or court not to exercise such jurisdiction and will in no event participate personally or otherwise in any such proceeding, nor voluntarily respond to any agency inquiries without being compelled to respond under applicable law.

4. The Executive was given a copy of this Release on _____. The Executive has had an opportunity to consult with an attorney before signing this Release and was given a period of at least twenty-one (21) days, or _____ to consider this Release (the "Consideration Period").

The Executive has seven (7) days to revoke this Release after the Executive

signs it. This Release will not become effective or enforceable until seven (7) days after the Company has received the Executive's signed copy of this Release.

Please write the following in the space provided below, if it is true and correct:

The Executive has read this Release and the Executive understands all of its terms. The Executive hereby enters into and signs this Release knowingly and voluntarily, with full knowledge of what it means.

Agreed and Accepted:

First Priority Group, Inc.

Michael Karpoff

By: _____

By: _____

Name: _____

Date: _____

Title: _____

Date: _____

Exhibit 21

List of Subsidiaries

| Subsidiary | State of Incorporation |
|------------------------------|------------------------|
| National Fleet Service, Inc. | New York State |
| Driver's Shield, Inc. | New York |
| FPG Acquisition Corp. | Arizona |

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