As filed with the Securities and Exchange Commission on October ___, 2000

Registration No. ___________

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM SB-2
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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FIRST PRIORITY GROUP, INC.
(Exact name of registrant as specified in its charter)

<TABLE>
<CAPTION>

| New York | 7699 | 11-2750412 |
|---|---|---|
| (State or other jurisdiction of incorporation or organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

</TABLE>

51 East Bethpage Road
Plainview, New York 11803
(516) 694-1010
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Barry Siegel
51 East Bethpage Road
Plainview, New York 11803
(516) 694-1010
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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COPIES TO:

| LAWRENCE A. MUENZ, ESQ. | SCOTT S. ROSENBLUM, ESQ. |
|---|---|
| Meritz & Muenz LLP | Kramer Levin Naftalis & Frankel LLP |
| Three Hughes Place | 919 Third Avenue |
| Dix Hills, New York 11746 | New York, New York 10022 |
| (631) 242-7384 | (212) 715-9100 |

Approximate date of commencement of proposed sale to the public: At such time or times as may be determined by the selling shareholders after this registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [X]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If the delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

<TABLE>
<CAPTION>

CALCULATION OF REGISTRATION FEE

| Title of Shares to be Registered | Number of Shares to be Registered | Proposed Maximum Offering Price Per Share | Proposed Maximum Aggregate Offering Price | Amount of Registration Fee |
|---|---|---|---|---|

| <S> | <C> | <C> | <C> | <C> | <C> |
|---|---|---|---|---|---|
| Common stock, par value $.015 per share | | 6,314,896 (1) | (2) | $ 10,000,000(3) | $2,640.00 |
| Common stock, par value $.015 per share | | 581,250 (4) | $0.78125 | $454,101.56 | $119.88 |

</TABLE>

(1) Includes 5,925,926 shares that, in good faith, we anticipate we would be required to issue to Suerez Enterprises Limited if we were to draw down the full $10,000,000 of financing available to us pursuant to a common stock purchase agreement with Suerez. Also includes warrants to purchase 68,970 shares that we issued to Suerez as an initial commitment fee under the common stock purchase agreement and warrants to purchase 320,000 shares of common stock that, in good faith, we anticipate we would be required to issue to Suerez and our placement agent, Ladenburg Thalmann & Co. Inc., if we were to draw down the full $10,000,000 under the common stock purchase agreement. The terms of the common stock purchase agreement are discussed in more detail beginning on page 18 of the prospectus underlying this registration statement.

(2) The price per common share will vary based on the volume-weighted average daily price of our common stock during any draw down period provided for in the common stock purchase agreement with Suerez. The purchase price will be equal to 90% of the volume-weighted average daily price for each trading day within any draw down pricing period. The agreement allows for up to 12 draws over a period of 12 months for amounts up to $5,000,000 per draw.

(3) Represents the maximum purchase price that Suerez Enterprises Limited is obligated to pay us under the common stock purchase agreement. The maximum net proceeds we can receive is $10,000,000 less a placement fee payable to our placement agent, Ladenburg Thalmann & Co. Inc. and $1,500 in escrow fees and expenses per draw down.

(4) These shares may be offered for sale and sold from time to time during the period the registration statement remains effective by or for the account of the selling shareholders listed under the section "Other Selling Shareholders" beginning on page 23 of the prospectus underlying this registration statement. The selling shareholders listed therein may acquire these shares upon the exercise of a warrant issued each selling shareholder pursuant to a private placement of our securities in December 1997. The exercise price of these warrants is $5.75. These warrants may be exercised until December 18, 2002.

(5) Estimated solely for the purposes of calculating the registration fee pursuant to Rule 457(c) under the Securities Act, based on the average of the high and low sales prices for our common stock reported on the Nasdaq SmallCap Market on Wednesday, October 18, 2000.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.



Dated __________, 2000

6,896,146 SHARES

FIRST PRIORITY GROUP, INC.

COMMON STOCK

Of the shares of common stock being registered for resale, 6,314,896 shares may be issued through a common stock purchase agreement with Suerez Enterprises Limited, as further described in this prospectus, while the remaining 581,250 shares are being offered by the remaining selling shareholders, subject to the exercise of warrants underlying those shares.

First Priority's common stock is traded on the Nasdaq SmallCap Market under the symbol "FPGP".

Investing in First Priority's common stock involves certain risks. See "Risk Factors" beginning on page 3.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer

to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The date of this Prospectus is ______, 2000.

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PROSPECTUS SUMMARY

This summary highlights the information we present more fully in the rest of this prospectus. You are encouraged to read the entire prospectus carefully.

First Priority Group, Inc.

We offer vehicle maintenance and repair management services, including collision and general repair programs, appraisal services, subrogation services, vehicle salvage, and vehicle rental services. We also administer automotive collision repair referral services for self-insured fleets, insurance companies, and affinity group members.

Our offices are located at 51 East Bethpage Road, Plainview, New York 11803 and our telephone number is (516) 694-1010.

The Offering

This prospectus covers up to 6,896,146 shares of our common stock that we expect will be issued and sold by the selling shareholders identified in this prospectus. The number of shares subject to this prospectus, if issued and outstanding on October 12, 2000, would represent approximately 40% out of our issued and outstanding common stock on that date.

Common Stock Purchase Agreement

On May 31, 2000, we entered into a common stock purchase agreement and related agreements with Suerez Enterprises Limited, a British Virgin Islands corporation, in which Suerez agreed to purchase from us from time to time during the 12 months following the effective date of the agreement, upon our request, up to $10,000,000 worth of shares of our common stock. (The effective date of the agreement is defined as the effective date of the registration statement of which this prospectus is a part.)

The common stock purchase agreement establishes what is sometimes referred to as an equity draw down facility. In general, the draw down facility operates as follows: we may request up to 12 draw downs from Suerez, each of which would require Suerez to purchase shares of our common stock worth a stated dollar amount, the minimum draw down being $250,000 and the maximum draw down being the lesser of:

- $5,000,000; and

o an amount equal to 20% of the product of:

(a) the average daily price of our common stock for the 22 trading days prior to the date of our draw down notice;

and

(b) 22 times the average trading volume of our common stock for the 45 trading days following the date of our draw down notice,

but in no event may the maximum draw down amount be less than $1,000,000 per month.

The number of shares that we issue with respect to any given draw down will be computed by dividing, for each of the 22 consecutive trading days following the date of our draw down notice, 1/22 of the draw down amount by 90% of the average daily price of our common stock on that trading day, and then adding together the amounts thus computed. If the average daily price on any given trading day is less than a "threshold price" that we specify, the draw down will be reduced by 1/22 and the drawn down pricing period will be shortened by eliminating that day.

In lieu of an initial minimum draw down commitment by us, we issued to Suerez a warrant to purchase 68,970 shares of common stock, a number computed by dividing $100,000 by the volume weighted average price of our common stock for the trading day immediately preceding the closing date of the common stock purchase agreement. In addition, once we have drawn down more than $5,000,000 in the aggregate, we are required to grant to Suerez at the time of the closing of any subsequent drawn down or partial draw down a warrant to purchase a number of shares equal to 4% of the draw down or partial draw down divided by the volume-weighted average price of our common stock for the trading day immediately preceding the date of each



closing of a draw down. Each warrant we issue will be immediately exercisable with respect to half of the shares and exercisable six months thereafter with respect to the remaining half of the shares. Each warrant will have a term of three years from the date of issuance, and a strike price equal to 150% of the volume-weighted average price of our common stock for the trading day immediately preceding the closing date for a draw down.

We also agreed with Suerez that we would file with the Securities and Exchange Commission a registration statement registering for resale under the Securities Act shares issued to Suerez pursuant to this transaction and shares issuable upon exercise of warrants issued to Suerez pursuant to this transaction. We have performed this obligation by filing the registration statement of which this prospectus is a part, and the shares being offered in this prospectus represent shares that we expect to issue to Suerez in connection with this transaction.

The per-share dollar amount Suerez pays for our common stock for each draw down includes a 10% discount to the average daily market price of our common stock for the 22-day period after our draw down request, weighted by trading volume. There will be deducted from each draw down an escrow agent fee of $1,500 and a placement fee payable to the placement agent, Ladenburg Thalmann & Co. Inc., which introduced us to Suerez, equal to 4% of the total amount of each draw down. Ladenburg Thalmann is a registered broker dealer.

December 1997 Private Placement

In December 1997, we raised $2,330,813 by issuing in a private placement, at $4.01 per unit, 581,250 units, each consisting of one share of common stock and a redeemable common stock purchase warrant with an exercise price of $5.75 per share. In connection with this private placement, we agreed to use our best efforts to register under the Securities Act of 1933 the shares and warrants comprising the units, as well as the shares underlying the warrants, and to do so within the six month following the day that our common stock is first traded on Nasdaq National Market System or the Nasdaq SmallCap Market. As two years have passed since this private placement, there is no need for us to register the shares included in the units and warrants, as they may be freely sold under Rule 144(k) promulgated under the Securities Act. The shares underlying the warrants included in the units are not, however, freely tradable, so we are including them the registration statement of which this prospectus is a part.

## RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the following risks relating to our business and our common stock, together with the other information described elsewhere in this prospectus. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our operations. If any of the following risks actually occur, our business, results of operations and financial condition could be materially affected, the trading price of our common stock could decline, and you might lose all or part of your investment.

Our Operations

We depend upon independently owned and operated repair shops to provide services to our clients.

We make available to our clients the services of a network of independently owned and operated repair shops. They are under contract to us, but those contracts are terminable at will by either side. Our business could suffer if a significant number of these repair shops leave our network or fail to provide the high quality of service our customers require.

A relatively small number of clients are responsible for a substantial portion of our business.

We have customers that control large fleets, a large number of insured drivers, or a large number of participants in our programs. One indication of this is that in 1999, one of our customers accounted for 10% of our business. Losing one of these major clients could hurt our business significantly.

We may not be indemnified for all losses resulting from our vehicle repair business.

We require that all repair shops in our network indemnify us from claims related to their negligent acts or breach of their agreement with us, maintain a specified amount of liability insurance coverage, and name us as an additional insured under their liability policy. In addition, we are covered by our own liability insurance policy. This coverage may not, however, cover all



liabilities to which we may be subject, and our business could suffer if we need to draw significant funds from operating revenue to pay claims that are not covered by insurance or are in excess of insurance coverage.

Our business would likely suffer if we lose senior management or other key personnel.

Our success depends to a significant extent on our retaining the services of our senior management and other key personnel, particularly Barry Siegel, our Chairman and Chief Executive Officer, and Gerald Zutler, our President and Chief Operating Officer. Our business would likely suffer if for any reason we failed to retain the services of Mr. Siegel or Mr. Zutler and failed to engage a suitable replacement.

We may not be able to recruit and retain the personnel we need to succeed.

We may grow significantly over a short period of time, and if we do we will need to attract, retain, and motivate skilled managerial employees. For example, we do not currently have on our management team an expert on the insurance industry. If the part of our business that serves the insurance industry were to increase significantly, we would need to quickly hire such an expert and may be unable to do so. In addition, if our revenues were to increase significantly we would need to hire a treasurer or cash flow manager. Competition for such employees is fierce, and we may experience difficulty in hiring and retaining such employees. If we do not succeed in meeting our personnel needs, our business will suffer.

Senior management will be able to exercise significant control over our operations.

As of October 12, 2000, Barry Siegel, our Chairman of the Board and Chief Executive Officer, beneficially owned and controlled the vote of approximately 18.3% of the outstanding shares of our common stock. In addition, Barry J. Spiegel, a director and the President of our Affinity Group Services Division, beneficially owns and controls the vote of approximately 7.8% of the outstanding shares of our common stock. This concentration of ownership, which is not subject to any voting restrictions, could limit the price that investors might be willing to pay for common stock. In addition, Mr. Siegel and Mr. Speigel are in a position to impede transactions that may be desirable for other shareholders. For example, they could make it more difficult for anyone to take control of us.

The market price of our common stock could be adversely affected by future sales of substantial amounts of common stock by existing shareholders.

The market price of our common stock could be adversely affected by future sales of substantial amounts of common stock by existing shareholders. Michael Karpoff, a former director and employee of First Priority, jointly owns, together with Patricia Rothbardt, approximately 608,952 shares of our common stock. Mr. Karpoff individually owns an additional 100,000 shares of our common stock. Sale of those shares is subject to a lock-up agreement, which expires in or about December 2000, after which Mr. Karpoff and Ms. Rothbardt will be free to sell all their shares. Mr. Karpoff also holds options to purchase 400,000 shares of our common stock, which options will be exercisable within 60 days after the date of this prospectus. In addition Frances Giarraputo and Leonard Giarraputo (a former director) own approximately 191,000 and 100,000 shares, respectively. These shares are not subject to restrictions and may be sold at any time. Furthermore, Kirlin Holding Corp. and Kirlin Securities, Inc., a subsidiary of Kirlin Holding Corp. own approximately 800,000 and 321,217 shares,

respectively, of common stock, free of any restrictions.

Issuance of our reserved shares of common stock may dilute the equity interest of existing stockholders.

The issuance of our reserved shares under this propsectus will have the effect of diluting the equity interest of our existing stockholders and could have an adverse effect on the market price for our common stock. As of October 12, 2000, we had 6,896,146 shares of common stock reserved for possible future issuance upon, other things, the issuance of common stock under our common stock purchase agreement with Suerez Enterprises Limited and the conversion of outstanding warrants.

Under or common stock purchase agreement, the number of shares of common stock issued to Suerez is based on a formula tied to the market price of our common stock prior to a draw down. Accordingly, the issuance of some or all of the common stock under this prospectus and in accordance with the common stock purchase agreement could result in dilution of the per share value of our common stock held by current investors. The lower the average trading price of our common stock at the time of a draw down, the greater the number of shares of our common stock that will be issued. Accordingly, this causes a greater risk of dilution. The perceived risk of dilution may cause Suerez, as other stockholders, to sell their shares, which would contribute to the downward movement in the price of our common stock.



The addition of a substantial number of shares of our common stock into the market or by the registration of any other securities under the Securities Act may significantly and negatively affect the prevailing market price of our common stock. Furthermore, future sales of shares of our common stock issuance upon the exercise of outstanding warrants may have a depressive effect on the market price of the common stock, as these warrants would be more likely to be exercised at a time when the price of the common stock is in excess of the applicable exercise price.

Certain provisions of our articles of incorporation and by-laws could limit the price that investors are willing to pay for our common stock.

Our articles of incorporation and by-laws contain certain provisions that could make it more difficult for shareholders to effect certain corporate actions, and could make it more difficult for anyone to acquire control of us without negotiating with our board of directors. These provisions could limit the price that investors might be willing to pay in the future for our common stock.

If our common stock price continues to drop, we may be delisted from the Nasdaq SmallCap Market. This could eliminate the trading market for our common stock.

On October 12, 2000, the closing price of our common stock was $0.7812 per share. Under the rules of the Nasdaq SmallCap Market, one of the listing standards we need to maintain is a bid price for our common stock of at least $1.00 per share. If our common stock fails to maintain a minimum bid price greater than or equal to $1.00 over a period of thirty (30) consecutive trading days, our common stock may be delisted from the Nasdaq SmallCap Market, which would eliminate the only established trading market for shares of our common stock. Suerez can also terminate the common stock purchase agreement if we are delisted. Our issuing shares of common stock to Suerez, or the subsequent resale by Suerez of those shares, in either case at a discount to the market price, may reduce the trading price of our common stock to a level below the Nasdaq minimum bid price requirement.

## Risks Related to the Internet

Consumers may be reluctant to obtain auto collision managed care services over the Internet.

For our current business model to succeed, our clients and their insureds must be willing to obtain auto collision managed care services over the Internet. If they do not, our business will suffer. The market for on-line services of this sort, particularly over the Internet, is at an early stage of development and is evolving rapidly. We cannot be sure that a sufficiently broad base of consumers and businesses will adopt, and continue to use, the Internet as a medium by which to obtain auto collision managed care services, which have traditionally been provided over the telephone and person-to-person. If the market for auto collision managed care services over the Internet fails to develop, or develops more slowly than expected, our business would suffer.

Use of the Internet by consumers could grow more slowly or decline.

Our business will be adversely affected if use of the Internet by businesses and consumers, particularly those relating to the insurance industry, does not continue to grow. A number of factors may inhibit consumers from using the Internet. These include inadequate network infrastructure, security concerns, inconsistent quality of service, and a lack of cost-effective high-speed service. Even if Internet use grows, the Internet's infrastructure may not be able to support the demands placed on it by this growth and its performance and reliability may decline. In addition, many web sites have experienced service interruptions as a result of outages and other delays occurring throughout the Internet infrastructure. If these outages or delays

occur frequently in the future, use of the Internet, as well as use of our web site, could grow more slowly or decline.



Governmental regulation and taxation of the Internet is subject to change.

A number of legislative and regulatory proposals under consideration by federal, state, local and foreign governmental organizations may result in there being enacted laws concerning various aspects of the Internet, including online content, user privacy, access charges, liability for third-party activities, and jurisdictional issues. These laws could harm our business by increasing our cost of doing business or discouraging use of the Internet.

In addition, the tax treatment of the Internet and electronic commerce is currently unsettled. A number of proposals have been made that could result in Internet activities, including the sale of goods and services, being taxed. The U.S. Congress passed the Internet Tax Information Act, which places a three-year moratorium on new state and local taxes on Internet commerce. There may, however, be enacted in the future laws that change the federal, state or local tax treatment of the Internet in a way that is detrimental to our business.

Some local telephone carriers claim that the increasing popularity of the Internet has burdened the existing telecommunications infrastructure and that many areas with high Internet use are experiencing interruptions in telephone service. These carriers have petitioned the Federal Communications Commission to impose access fees on Internet service providers. If these access fees are imposed, the cost of communicating on the Internet could increase, and this could decrease the demand for our services and increase our cost of doing business.

Our Financial Condition and Need for Additional Funding

We may need additional capital in the future and additional financing may not be available.

We currently anticipate that our available cash resources combined with the maximum draw down under the common stock purchase agreement with Suerez Enterprises Limited will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months. In addition, business and economic conditions may not make it feasible to draw down under the common stock purchase agreement at every opportunity, and we are only allowed to request a draw down once every 22 trading days. We may need to raise additional capital to fund more rapid expansion, to develop new services and to enhance existing services to respond to competitive pressures, and to acquire complementary businesses or technologies.

Furthermore, the common stock purchase agreement with Suerez prohibits us from selling our securities for cash at a discount to market price until the earlier of 12 months from the effective date of the registration statement of which this prospectus is a part or the date that is 60 days after Suerez has purchased the maximum $10,000,000 worth of common stock from us under the common stock purchase agreement. There are certain exceptions to this limitation, which are described in more detail under the section "Restrictions on Future Financing" located on page 22 of this prospectus. This restriction could limit our ability to raise capital.

We may not be able to obtain additional financing on terms favorable to us, if at all. If adequate funds are not available or are not available on terms favorable to us, we may not be able to effectively execute our business plan.

USE OF PROCEEDS

We will not receive any proceeds from the sale by Suerez Enterprises Limited of shares that we issue Suerez under the common stock purchase agreement. We also will not receive any proceeds from the sale of shares by any other selling shareholder. We will, however, receive the sale price of any common stock we sell to Suerez under the common stock purchase agreement described in this prospectus and any cash exercise price paid by selling shareholders upon exercise of warrants issued pursuant to the common stock purchase agreement. We plan to use any such amounts for general working capital purposes.



MARKET FOR COMMON EQUITY

Our common stock is traded on the Nasdaq SmallCap Market. The following table shows the high and low closing prices for the periods indicated.

| | High | Low |
|---|---|---|
| 2000 | | |
| First Quarter | $5.4375 | $2.75 |
| Second Quarter | $4.25 | $1.2188 |

| | | |
|---|---|---|
| Third Quarter | $2.00 | $1.375 |
| 1999 | | |
| First Quarter | $3.50 | $1.125 |
| Second Quarter | $2.0625 | $1.375 |
| Third Quarter | $1.825 | $0.75 |
| Fourth Quarter | $3.00 | $0.75 |
| 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 |

As of October 12, 2000, the number of record holders of our common shares was approximately 342.

We have never paid dividends on our common stock and we are not expected to do so in the foreseeable future. Payment of dividends is within the discretion of our board of directors and would depend on, among other factors, our earnings, capital requirements and operating and financial condition.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This discussion includes "forward-looking" statements that reflect our current views with respect to future events and financial performance. We use words such as we "expect," "anticipate," "believe," and "intend" and similar expressions to identify forward-looking statements. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties inherent in future events, particularly those risks identified in the "Risk Factors" section of this prospectus, and should not unduly rely on these forward looking statements. We will not necessarily update the information in this discussion if any forward-looking statement later turns out to be inaccurate.

### Results of Operations

In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101 (SAB 101), we have determined that the portion of our business representing commission revenues from our subrogation and salvage services should be displayed in the financial statements on a net basis. It was our prior policy to report such revenues and related costs on a gross basis. Accordingly, the three and six months ended June 30, 1999 have been reclassified to reflect the net presentation. There was no effect on net loss or net cash flows used in operating activities from the reclassification. Revenues and direct costs for the three and six months ended June 30,1999 were reduced by $759,636 and $1,347,824, respectively.

Revenues were $3,411,034 for the three months ended June 30, 2000, as compared to $3,322,612 for the same period in 1999, representing an increase of $88,422 or 2.7%. The direct costs of services related to such revenue (principally charges from automotive repair facilities) were $2,433,484 for the three months ended June 30, 2000, as compared to $2,564,971 for the same period in 1999, representing a decrease of $131,487 or 5.1%. For the six months ended June 30, 2000 revenues from services were $6,652,078 as compared to $6,313,030 for the same period in 1999, representing an increase of $339,048 or 5.4%. The direct cost of services related to such revenue was $4,703,513 and $4,902,269 for the six months ended June 30, 2000 and 1999, respectively, resulting in a decrease of $198,756 or 4.1%.



The gross profit percentage increased 5.9% to 28.7% from 22.8% for the three months ended June 30, 2000 and 1999. For the six months ended June 30, 2000, gross profit increased 7% to 29.3% from 22.3% for the same period in 1999. Revenues decreased by $206,877 for our collision repair and fleet management services, including subrogation and salvage commissions representing a decrease of 6.5% for the three months ended June 30, 2000, as compared to the same three months of 1999. Revenues from collision repair and fleet management services for the six months ended June 30, 2000 decreased $251,958 or 4.1% to $5,773,751 as compared to $6,025,709 for the same period in 1999. The decrease in revenues for collision repair and fleet management services reflect a continuing nationwide decline in per capita accident rates. For the three months ended June 30, 2000 Affinity Services sales increased $295,299 or 184.6% to $455,257 as compared to $159,958 for the same period in 1999. Affinity Services sales for the six months ended June 30, 2000 were $878,327 as compared to $287,321 for the same period in 1999 representing an increase of $591,006 or 205.7% reflecting the increased membership enrollment. The increased gross profit percentage is a result of the increased affinity sales, which has a lower cost of revenue than the other programs.

Total operating expenses were $990,537 for the three months ended June 30,2000, as compared to $916,020 for the three months ended June 30, 1999, representing an increase of $74,517 or 8.1%. For the six months ended June 30,2000, total operating expenses increased $89,625 or 4.9% to $1,910,636 as compared to $1,821,011 for the same period of 1999. The increase in operating expenses is mainly attributable to the additional personnel necessary for the

start-up of operations of driversshield.com and increases in Affinity Services.

Investment and other income was $29,690 and $64,887 for the three and six months ended June 30, 2000, as compared to $35,175 and $79,104 for the same periods in 1999, representing a decrease of $5,485 and $14,217, respectively. The decrease is primarily attributable to lower average investment balances available during the periods.

As a result of the foregoing, the net income for the three and six months ended June 30, 2000 was $14,178 ($.00 per share) and $98,116 (.01 per share) as compared to a net loss of $123,204 ($.01 per share) and $331,146 ($.04 per share) for the comparable periods in 1999.

Liquidity and Capital Resources

As of June 30, 2000, we had cash and cash equivalents of $1,146,604. We also hold 78,377 shares of Salomon Smith Barney Adjustable Rate Government Income Fund securities valued at $759,476 at June 30, 2000. As of June 30, 2000, our working capital was $1,896,187. Our operating activities provided $377,261 of cash for the six months ended June 30, 2000 as compared to 1999, when our operating activities used $261,322 of cash. This is primarily a result of the increase in net income for 2000.

We believe that our present cash position will enable us to continue to support our operations for the next 12 months.

DESCRIPTION OF BUSINESS

We are a New York corporation formed on June 28, 1985. Our offices are located at 51 East Bethpage Road, Plainview, New York 11803 and our telephone number is (516) 694-1010.

Nature of Services

We offer vehicle maintenance and repair management services, including collision and general repair programs, appraisal services, subrogation services, vehicle salvage, and vehicle rental services. We also administer automotive collision repair referral services for self-insured fleets, insurance companies, and affinity group members.

Our wholly-owned subsidiary, National Fleet Service, Inc., conducts our fleet management business. We also provide various affinity programs for all types of businesses.

Fleet Management Services. We have entered into contractual arrangements with over 2,000 independently owned and operated repair shops throughout the U.S., as well as with national chains of automobile repair shops, to provide repair services for vehicles of our fleet management clients. The automotive repair shops that we have under contract can handle, on a per-incident basis, any repair that our fleet management clients may need. Because we have made arrangements with a large number of repair shops, whenever a client needs to repair a vehicle, the chances are excellent that a local repair shop will be available to perform the necessary work. We are primarily called upon to arrange for collision and glass replacement repairs, although we also arrange for more general repairs.



If a vehicle needs repair, the driver need only call our toll free telephone number. Our comprehensive proprietary management system and customized computer software allows us to direct the driver to a local repair shop that would be able to perform the needed repair. Our staff closely oversees and manages all aspects of the repair process. When a repair is completed, the repair shop forwards the bill to us, and we in turn bill the client. Our services spare the client or driver and the repair shop from having to negotiate a price for the work performed.

As part of our fleet management services, we also offer our clients computerized appraisal services, and salvage and subrogation services. We also offer vehicle rentals, which permit clients to avoid driver down-time while a vehicle is being repaired. We have also created a complete line of customized reports, with features that allow risk managers to thoroughly assess all variables concerning collision-related expense incurred by a given fleet of vehicles. These systems, which are unique to us, were the main reason that in 1995 Inc. Magazine and MCI named us one of the nation's best-run service companies.

Affinity Group Programs. Our affinity group programs consist of a series of comprehensive vehicle-related services made available for sale to consumers through affinity groups (such as the members of a particular professional association, for example the American Bar Association, or the alumni of a particular university), financial institutions, and other businesses and organizations. These programs may be used as re-enrollment incentives or membership premiums, or resold at a profit. Each service may be sold individually, or a variety of services can be bundled together as a high-value package. The following are some of our affinity group programs:

- Driver's Shield.(R) This is our premium program; it consists of the Collision Damage Repair Program, the Driver Discount Program, and the Auto Service Hotline, as well an auto buying service, legal defense

reimbursement, and custom trip routing services. The individual components may be sold separately.

- o Collision Damage Repair Program. This is *our corporate collision program as modified to suit consumer needs. Drivers participating in this program have access to our proprietary network of collision repair shops. Additionally, First Priority's customer service department will supervise the entire process from expediting estimates and repairs to troubleshooting any problems or difficulties that may occur.

- o Driver Discount Program. This program offers drivers discounts of up to 40% off automotive-related services in thousands of premium auto chain facilities throughout the nation. These discounts apply to virtually all routine maintenance costs, including oil changes, brakes, transmissions, mufflers, shocks, tires, and glass. An option available under this program is 24-hour emergency roadside assistance for drivers anywhere in the U.S.

- o Auto Service Hotline. This program provides drivers with their own repair specialist who will help them determine how best to repair a vehicle and, if necessary, will provide them with a referral to one of thousands of independently-owned auto repair shops. Drivers who use the repair shop to which they are referred will receive a 10% discount off the cost of the repairs and an enhanced nationwide warranty. In addition, drivers are offered rental replacement cars at preferred rates, and the rental cars are delivered to and picked up from the driver's home or office.

driversshield.com. In April 1999, we established a new Internet enterprise, driversshield.com Corp., as a wholly owned subsidiary. We intend that driversshield.com will be the first to offer insurance companies a complete solution to managing customer relationships, and it will do so by combining our Affinity Group programs and collision repair management services into an Internet based strategy. This new business is focusing on capturing a significant share of the North American market for managed automotive care. As our first step in this direction, we have inaugurated a website, http://www.driversshield.com, that aims to make management of collision repairs more efficient by facilitating the gathering and distribution of information required to launch the repair process. Via the website, insurance carriers will be able to enter initial vehicle claim information and select an automobile collision repair shop from our network of over 2,400 shops across the country, and the insurance carrier and the insured will be able to track repairs until they are complete.

In November 1999, driversshield.com entered into an agreement with Electronic Data Systems Corporation, or "EDS," providing that EDS will develop and host the website commencing September 15, 1999 through December 31, 2003. Additionally, EDS will assist us in offering the Internet-based automobile collision managed care program to those of EDS's customers that are in the auto insurance business. driversshield.com will pay no more than $350,000 for the initial development costs of the website. Once the website is operational, driversshield.com will retain the entire net revenue, less cost of sales, until it has recovered the fees paid to EDS for the website development. Thereafter, EDS will receive the entire net revenue until it has recovered the development costs in excess of $350,000, if any, up to $80,000. Thereafter, for the remainder of the first year of the agreement, driversshield.com will pay EDS 30% of the net revenue, while in years two, three and four, EDS will receive 35%, 42%, and 42%, respectively, of net revenue. Throughout the term of the agreement, EDS will at no extra cost host and maintain



the website, process all transactions, maintain, secure and update all database functions, design, develop, and build a repair-management call center, secure all transmissions over the website, upgrade the site for additional functionality, handle all accounting functions, fulfill customer material. and introduce electronic data interchange throughout the repair facility network. We have guaranteed to EDS that driversshield.com will perform its obligations under the agreement.

The driversshield.com website officially went on line on May 31, 2000. In June 2000, driversshield.com signed its first two clients, one a major mid-west insurance company, the other a well-known nationwide towing company. We have already installed driversshield.com's at one of the insurer's offices. By year-end, we will have installed the system at our insurer's remaining offices.

In July 2000, driversshield.com signed an agreement with United Financial Adjusting Company. The agreement provides that United Financial will become the exclusive agent to market driversshield.com's services to the insurance industry marketplace. United Financial, based in Cleveland, Ohio, specializes in providing claims management services, software and e-commerce business applications to the property and casualty insurance industry and to self-insured corporations. United Financial and its subsidiaries serve over 500 insurance clients in the U.S. and Canada and have over 300 employees and 650 franchised offices throughout the U.S. and Canada.

Sales and Marketing

Our fleet management clients are usually companies that have a large number of vehicles on the road over a broad geographical area. Some of our fleet

management clients include IBM, Hershey Foods, Coca-Cola, Time Warner, Media One, and Cablevision. Our affinity program clients are organizations and affinity groups. Through our affinity programs, we have established relationships with Providian Financial, Assurant Group (part of the Fortis group), Aon, Protective Life, Priceline.com and other prestigious credit card, financial organizations and web sites. The driversshield.com clients are property and casualty insurance companies.

Sales activities are performed by our own personnel and also by outside agencies retained by us. We seek to make sales through referrals, cold canvassing of appropriate prospects, direct mailings, and attendance at trade shows.

Since we deal with a large number of independently-owned repair facilities, we are often able to offer our fleet management clients a program that it tailored to suit their vehicle repair needs. We believe that this flexibility is a cornerstone of our marketing activities and will be the principal factor driving any increase in our client base.

In 1999 and 1998, one customer accounted for approximately 10% of our revenue.

Employees

At the end of 1999, we employed 35 full-time employees and three part time employees. None of our employees are governed by a union contract. We believe that our employee relationships are satisfactory.

Competition

Fleet Management Services. Some leasing companies offer fleet management services, but most offer such services only to fleets leased by them. There are other companies that, like us, offer fleet management services independent of a fleet leasing arrangement. These companies include PHH Corporation, GE Capital Auto Lease PLC, a subsidiary of GE Capital Corp., Salex Holding Corporation, and The CEI Group. Due to the wide range in size of our competitors, it is difficult for us to determine our competitive position within the fleet management industry.

Affinity Group Programs. Although there are several companies providing various types of auto club programs, we believe that there are only two other companies offering a program providing services similar to those offered by First Priority's Affinity Group division. These are Cendant Corporation (which offers the Autoadvantage program) and American Information Company, Inc. (which offers the CarClub program).



driversshield.com. We are aware of three other companies that offer automotive collision repair services to insurance companies. Two of those companies are, like us, in the fleet management business, while the other is a developer of software for vehicle valuation. We believe that our services for insurance companies are superior to those offered by these other companies. We believe there are three other companies that may offer similar web-site based services, including The CEI Group, Consolidated Service Corporation, and E-autoclaims.com, Inc.

## MANAGEMENT

Executive Officer and Directors

Each member of our board of directors serves for staggered three-year terms and until his or her successor is duly elected and qualified. Our executive officers and directors are as follows:

| Name | Age | Position |
|---|---|---|
| Barry Siegel............................ | 49 | Chairman of the Board, Treasurer, Secretary, Chief Executive Officer and Principal Accounting Officer |
| Barry J.Spiegel.......................... | 51 | Director, President of Affinity Services Division |
| Gerald M.Zutler.......................... | 62 | President and Chief Operating Officer |
| Kenneth J.Friedman....................... | 57 | Director |
| R. Frank Mena............................ | 42 | Director |

Barry Siegel has served as one of our directors and our Secretary since we were incorporated. He has served as our Treasurer since January 1998, as our Chief Executive Officer and Chairman of the Board since November 1997. Previously, he served as our Chairman of the Board, Co-Chief Executive Officer,

Treasurer, and Secretary from August 1997 through November 1997. From October 1987 through August 1997, he served as our Co-Chairman of the Board, Co-Chief Executive Officer, Treasurer, and Secretary. He has served for more than five years as Treasurer and Secretary of National Fleet Service, Inc., one of our wholly-owned subsidiaries.

Barry J. Spiegel has served as President of our Affinity Services Division since September 1996. He served as President of American International Insurance Associates, Inc. from January 1996 through August 1996. For more than five years prior to August 1996, Mr. Spiegel served as Senior Vice President at American Bankers Insurance Group, Inc.

Gerald M. Zutler has served as our President and Chief Operating Officer since March 1998. Between 1997 and 1998, Mr. Zutler was a private consultant. From 1993 through 1996, Mr. Zutler was President of Lockheed Martin Canada.

Kenneth J. Friedman has served as a director of First Priority since October 1998. Mr. Friedman has for more than five years served as President of the Primary Group, Inc., an executive search consultant.

R. Frank Mena has served as our director since May 1999. Mr. Mena is both a technologist and developer by background. He was a founder, Executive Vice President and Chief Technology Officer of Cheyenne Software. He currently acts as a consultant in the computer systems industry.

Compensation of Directors

We do not pay our directors for serving on our board. Our 1995 Stock Incentive Plan does, however, provide that when they are elected to the board and every anniversary thereafter as long as they serve, our non-employee directors are to be granted non-statutory stock options to purchase 15,000 shares of our stock.

Executive Compensation

The following table summarizes the compensation we paid or compensation accrued for services rendered for the years ended December 31, 1997, 1998, and 1999, for our Chief Executive Officer and each of the other most highly compensated executive officers who earned more than $100,000 in salary and bonus for the year ended December 31, 1999:



<TABLE>
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Summary Compensation Table

| | | Annual Compensation | | |
|---|---|---|---|---|
| Name and Position(s) | Year | Salary ($) | Securities Underlying Options (#) | Bonus ($) |
| Barry Siegel..................................... | 1999 | $215,385 | 1,100,000 | $0 |
| Chairman of the Board of Directors, | 1998 | $279,423 | 500,000 | $0 |
| Treasurer, Secretary and Chief Executive Officer | 1997 | $198,846 | 100,000 | $0 |
| Gerald Zutler.................................... | 1999 | $137,211 | 415,000 | $0 |
| President | 1998 | $98,340 | 0 | $0 |
| | 1997 | $0 | 0 | $0 |
| Barry J. Spiegel................................. | 1999 | $104,249 | 330,000 | $0 |
| President, Affinity Services Division | 1998 | $104,499 | 250,000 | $0 |
| | 1997 | $89,730 | 0 | $0 |

</TABLE>

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

We are party to an employment agreement with Barry Siegel that commenced on July 1, 1998, and expires on December 31, 2001. Mr. Siegel's annual salary is $300,000. His employment agreement provides that following a change of control (as defined in the agreement), we will be required to pay Mr. Siegel (1) a severance payment of 300% of his average annual salary for the past five years, less $100, (2) the cash value of his outstanding but unexercised stock options, and (3) other perquisites should he be terminated for various reasons specified in the agreement. The agreement specifies that in no event will any severance payments exceed the amount we may deduct under the provisions of the Internal Revenue Code.

We are party to an employment agreement with Gerald M. Zutler that commenced on July 1, 1998, and expires on June 30, 2001. Mr. Zutler's annual salary is $150,000. His employment agreement contains a change in control provision that mirrors that in Mr. Siegel's employment agreement, except that the applicable percentage for severance payment purposes is 200%. Mr. Zutler also participates in our Corporate Compensation Program.

We are party to an employment agreement with Barry J. Spiegel that commenced on July 1, 1998, and expires on June 30, 2001. Mr. Spiegel's annual salary is $130,000 per annum. Mr. Spiegel also participates in our Corporate Compensation Program. His employment agreement provides that following a change in control (as defined in the agreement), all stock options previously granted to him will immediately become fully exercisable.

In early 1999, each of the above-mentioned executives voluntarily agreed to a reduction in his annual salary, with the other terms of his employment agreement remaining unaffected. Mr. Siegel's salary was reduced by $100,000, Mr. Zutler's by $15,000, and Mr. Spiegel's by $30,000. In consideration for these salary reductions, we granted Mr. Siegel, Mr. Zutler, and Mr. Spiegel options to purchase 100,000, 15,000, and 30,000 shares of our common stock, respectively. In 2000 the salaries of the above-mentioned executives were returned to their original levels.

Stock Options

We have awarded the following options under our 1995 Incentive Stock Plan stock option plan during the last fiscal year to the executive officers named in the summary compensation table:



<TABLE>
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OPTION/SAR GRANTS IN LAST FISCAL YEAR

(Individual Grants)

| Name | Number of Securities Underlying Options/SARs Granted | % of Total Options/SARs Granted to Employees in Fiscal Year | Exercise of Base Price ($/Share) | Expiration Date |
|---|---|---|---|---|
| Barry Siegel | 300,000 (1) | 12.4% | $0.825 | 9/30/00 |
| | 100,000 (1) | 4.1% | $0.825 | 9/7/02 |
| | 200,000 (1) | 8.2% | $0.825 | 3/4/04 |
| | 400,000 (1) | 16.5% | $0.825 | 10/8/03 |
| | 100,000 (1) | 4.1% | $0.825 | 3/4/04 |
| Gerald M. Zutler | 300,000 (1) | 12.4% | $0.75 | 6/30/03 |
| | 100,000 (1) | 4.1% | $1.25 | 11/23/04 |
| | 15,000 (1) | 0.6% | $0.75 | 3/4/04 |
| Barry J. Spiegel | 250,000 (1) | 10.3% | $0.75 | 6/30/03 |
| | 50,000 (1) | 2.1% | $0.75 | 8/18/01 |
| | 30,000 (1) | 1.2% | $0.75 | 3/4/04 |

</TABLE>

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(1) Options terminated and re-granted at new exercise price.

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AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FY-END OPTION/SAR VALUE TABLE

| Name | Shares Acquired on Exercise (#) | Value Realized ($) | Number of Securities Underlying Unexercised Options/SARs at FY-End (Exercised/Unexercised) | Value of Unexercised In-the-Money Options/SARs at FY-End (Exercisable/Unexercisable) |
|---|---|---|---|---|
| Barry Siegel | None | None | 899,999/300,001 | $1,506,382/$503,617 |
| Gerald M. Zutler | None | None | 215,000/200,000 | $376,250/$350,000 |
| Barry J. Spiegel | None | None | 163,333/166,167 | $285,832/$290,792 |

</TABLE>

DESCRIPTION OF PROPERTY

In December 1996, we entered into a lease for approximately 12,000 square feet of new office space at 51 East Bethpage Road, Plainview, New York 11803. We relocated to this space in April 1997. This lease expires on March 31, 2002. Management believes that this property is adequately covered by insurance. We have leased to a sublessee a portion of these premises under a sublease that expired in June 2000 and is currently being renewed on a month-to-month basis.

PRINCIPAL SHAREHOLDERS

The following table provides information about the beneficial ownership of our common stock as of October 12, 2000. We have listed each person who

beneficially owns more than 5% of our outstanding common stock, each of our directors and executive officers identified in the summary compensation table, and all directors and executive officers as a group. Unless otherwise indicated, each of the listed shareholders has sole voting and investment power with respect to the shares beneficially owned.



<TABLE>
<CAPTION>

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Owner | Percentage of Common Stock (1) |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Common Stock | Anthony J. Kirincic<br>c/o Kirlin Holding Corp.<br>6901 Jericho Turnpike<br>Syosset, NY 11791 | 1,184,967 (2) | 11.4% |
| Common Stock | David O. Lindner<br>c/o Kirlin Holding Corp.<br>6901 Jericho Turnpike<br>Syosset, NY 11791 | 1,184,967 (2) | 11.4% |
| Common Stock | Kirlin Holding Corp.<br>6901 Jericho Turnpike<br>Syosset, NY 11791 | 1,121,217 (3) | 10.8% |
| Common Stock | Kirlin Securities, Inc.<br>6901 Jericho Turnpike<br>Syosset, NY 11791 | 1,121,217 (3) | 10.8% |
| Common Stock | The Golddonet Group<br>221 Main Street, Suite 250<br>San Francisco, CA 94105 | 845,000 (4) | 8.1% |
| Common Stock | Michael Karpoff and<br>Patricia Rothbardt<br>32 Gramercy Park South<br>New York, NY 10010 | 1,117,333 (5) | 10.3% |

</TABLE>

(1) The percentages have been calculated in accordance with Instruction 3 to Item 403 of Regulation S-B.

(2) Mr. Kirincic is the President, Chief Financial Officer, and a director of Kirin Holding Corp., which beneficially owns 1,121,217 shares of our common stock (see note 3 below). Mr. Lindner is the Chairman and Chief Executive Officer of both Kirlin Holding Corp. and Kirlin Securities, Inc., a wholly-owned subsidiary of Kirlin Holding Corp. Mr. Kirincic and Mr. Lindner each beneficially own 63,750 shares of our common stock as a result of their holding a warrant purchased in our private offering in December 1997. In addition, Mr. Kirincic and Mr. Lindner each individually own 23.6% of the outstanding common stock of Kirlin Holding Corp. Accordingly, although individually neither Mr. Kirincic nor Mr. Lindner controls Kirlin Holding Corp., if they were to act together, they could control Kirlin Holding Corp. and as a result, they could be deemed to share voting and dispositive power over the shares owned directly by Kirlin Holding Corp. and Kirlin Securities, Inc., or an aggregate of 1,121,217 additional shares each. Accordingly, Mr. Kirincic and Mr. Lindner would then be deemed to own 1,184,967 shares of our common stock. Both Mr. Kirincic and Mr. Lindner disclaim beneficial ownership of the shares owned by Kirlin Holding Corp. and Kirlin Securities, Inc.

(3) Includes 800,000 shares held by Kirlin Holding Corp., the parent company of Kirlin Securities, Inc., for which Kirlin Holding Corp. has sole power to vote and dispose of those shares. Also includes 321,217 shares held by Kirlin Securities, Inc., a wholly-owned subsidiary of Kirlin Holding Corp., with both entities sharing the right to vote and dispose of the shares.

(4) Includes 150,000 actually owned and an option to purchase an additional 695,000 shares from two of our shareholders in a private sale.

(5) Includes options to purchase 500,000 shares exercisable within 60 days of October 12, 2000.



<TABLE>
<CAPTION>

SECURITY OWNERSHIP OF MANAGEMENT

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Owner | Percentage of Common Stock (1) |
|---|---|---|---|

| <S> | <C> | <C> | <C> |
|---|---|---|---|
| Common Stock | Barry Siegel<br>c/o First Priority Group, Inc.<br>51 East Bethpage Road<br>Plainview, NY 11803 | 2,084,399(2)(3)(4) | 19.8% |
| Common Stock | Lisa Siegel<br>c/o First Priority Group, Inc.<br>51 East Bethpage Road<br>Plainview, NY 11803 | 2,084,399(2)(3)(4) | 19.8% |
| Common Stock | Gerald M. Zutler<br>c/o First Priority Group, Inc.<br>51 East Bethpage Road<br>Plainview, NY 11803 | 315,500 (5) | 2.96% |
| Common Stock | Barry J. Spiegel<br>c/o First Priority Group, Inc.<br>51 East Bethpage Road<br>Plainview, NY 11803 | 817,842 (6) | 7.86% |
| Common Stock | Kenneth J. Friedman<br>c/o First Priority Group, Inc.<br>51 East Bethpage Road<br>Plainview, NY 11803 | 140,000 (7) | 1.35% |
| Common Stock | R. Frank Mena<br>c/o First Priority Group, Inc.<br>51 East Bethpage Road<br>Plainview, NY 11803 | 75,000 (8) | 0.72% |
| Common Stock | Directors & Officers as a group | 3,432,241 | 31.14% |

</TABLE>

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(1) The percentages have been calculated in accordance with Instruction 3 to Item 403 of Regulation S-B.

(2) Includes 3,334 shares held by Barry Siegel as custodian for two nephews and 67 shares held directly by Barry Siegel's wife, Lisa Siegel. Both Barry and Lisa Siegel disclaim beneficial ownership of shares held by the other.

(3) Includes options held by Barry Siegel to purchase 166,666 shares of common stock exercisable within 60 days of October 12, 2000.

(4) Includes options held by Lisa Siegel to purchase 33,333 shares of common stock exercisable within 60 days of October 12, 2000.

(5) Includes options to purchase 315,000 shares of common stock exercisable within 60 days of October 12, 2000.

(6) Includes options to purchase 83,333 shares of common stock exercisable within 60 days of October 12, 2000.

(7) Includes options to purchase 30,000 shares of common stock exercisable within 60 days of October 12, 2000.

(8) Includes options to exercise 75,000 shares of common stock within 60 days of October 12, 2000.

## DESCRIPTION OF SECURITIES

### General

Our articles of incorporation authorize us to issue 20,000,000 shares of common stock and 1,000,000 shares of preferred stock. As of October 12, 2000, 10,317,869 shares of our common stock were issued and outstanding. We have not yet issued any shares of preferred stock.



### Common Stock

Holders of shares of common stock are entitled to one vote for each share on all matters to be voted on by the shareholders. Holders of common stock have no cumulative voting rights. Holders of shares of common stock are entitled to share ratably in any dividends that may be declared, from time to time by the board of directors in its discretion, from funds legally available for dividends. If we are liquidated dissolved or wound up, the holders of shares of common stock are entitled to share pro rata all assets remaining after payment in full of all liabilities. Holders of common stock have no preemptive rights to purchase our common stock. There are no conversion rights or redemption or sinking fund provisions for the common stock.

Our common stock is covered by the Securities and Exchange Commission's

penny stock rules. These rules include a rule that imposes additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors, generally institutions with assets in excess of $5,000,000 or individuals with net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouses. For transactions covered by the rule, the broker-dealer must make a special suitability determination for the purchaser and transaction prior to the sale. The rule may affect the ability of broker-dealers to sell our securities and may also affect the availability ability of purchasers of our stock to sell their shares in the secondary market. It may also cause fewer brokers to be willing to make a market in our common stock and it may affect the level of news coverage we receive.

Preferred Stock

We are authorized to issue 1,000,000 shares of preferred stock with such voting rights, designations, preferences, limitations and relative rights as the board of directors may determine. Currently there are no shares of preferred stock outstanding.

Warrants and Options

There is currently outstanding a warrant to purchase 68,970 shares of our common stock at a price of $2.1749 per share. We issued a warrant to Suerez Enterprises Limited on May 31, 2000 for Suerez's commitment to enter into the common stock purchase agreement. The warrant expires on October 31, 2003. The holder of the warrant has the right to have the common stock issuable upon exercise of the warrants included on any registration statement we file, other than a registration statement covering an employee stock plan or a registration statement filed in connection with a business combination or reclassification of our securities.

In addition, there are currently outstanding warrants to purchase 581,250 shares of our common stock at a price of $5.75 per share issued to the selling shareholders listed on page 23 of this prospectus in a private placement transaction in December 1997. The warrants expire on December 18, 2002.

We also have outstanding warrants to purchase 25,000 shares of our common stock at an exercise price of $2.00 per share, of which 12,500 are immediately exercisable and the other 12,500 become exercisable upon the achievement of certain performance based criteria. These warrants will expire on July 2, 2001. In addition, we have outstanding warrants to purchase 250,000 shares of our common stock at an exercise price of $2.50 per share, of which 175,000 are immediately exercisable and the other 75,000 become exercisable on November 10, 2000. These warrants will expire on July 9, 2005.

We have granted options to purchase 3,375,000 shares of our common stock pursuant to our 1995 Incentive Stock Plan, of which 1,616,999 are exercisable as of October 19, 2000 and of which 1,366,329 have already been exercised. The exercise price of the options range from $0.75 to $3.025 per share.

Statutory Provisions and Provisions of our Articles of Incorporation and Bylaws

A number of provisions of New York law, our amended articles of incorporation, and our bylaws could make it more difficult for anyone to acquire us, whether by means of a tender offer, a proxy contest, or otherwise, and make it more difficult to remove incumbent officers and directors. These provisions are intended to discourage certain types of coercive takeover practices and inadequate takeover bids, even though these types of transactions may offer our shareholders the opportunity to sell their stock at a price above the prevailing market price. These provisions also encourage persons seeking to acquire control of us to negotiate with us first.



We are subject to the "business combination" provisions of Section 912 of the New York Business Corporation Law and expect to continue to be so subject if and for so long as we have a class of securities registered under Section 12 of the Exchange Act. Section 912 could prohibit or delay, and therefore discourage, any attempt to acquire us.

Section 912 provides, with some exceptions (including, among others, transactions with shareholders who became interested prior to the effective date of an amendment to our articles of incorporation providing that we would be subject to Section 912 if we did not then have a class of stock registered pursuant to Section 12 of the Exchange Act), that a New York corporation may not engage in a "business combination" with any "interested shareholder" for a period of five years from the date that the person first became an interested shareholder unless one of the following applies:

- the transaction resulting in a person becoming an interested shareholder was approved by the board of directors of the corporation prior to that person becoming an interested shareholder;

- the business combination is approved by the holders of a majority of the outstanding voting stock not beneficially owned by the interested shareholder or any affiliate or associate of the interested shareholder at a meeting called no earlier than five years after the interested shareholder's stock acquisition date; or

- the business combination meets certain valuation requirements for the stock of the New York corporation.

A "business combination" includes mergers, asset sales, and other transactions resulting in a financial benefit to the interested shareholder. Subject to a number of exceptions, an "interested shareholder" is a person who, together with affiliates and associates, owns, or within five years did own, 20% or more of the corporation's outstanding voting stock. The "stock acquisition date" means, with respect to any person and any New York corporation, the date that the person first becomes an interested shareholder of the corporation.

In addition, some provisions of our articles of incorporation and bylaws summarized in the following paragraphs may be deemed to have an anti-takeover effect and may delay, defer, or prevent a tender offer or takeover attempt that a shareholder might consider in its best interest, including those attempts that might result in shareholders receiving for their shares a premium over the market price.

Board Composition. Our articles of incorporation currently provide for a board of seven directors divided into three classes, with each class serving staggered three-year terms. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class consists of one-third of the directors. Our having a staggered board may have the effect of delaying or preventing changes in control or management.

Board Vacancies. Our bylaws and articles of incorporation authorize the board of directors to fill vacant directorships or increase the size of the board of directors. This authority may deter a shareholder from removing incumbent directors and simultaneously gaining control of the board of directors, in that the board could fill with its own nominees any vacancies that are created.

Advance Notice of Shareholder Proposals and Nominees. Rules promulgated under the Exchange Act establish an advance notice procedure for shareholders to nominate candidates for election as directors or bring other business before any meeting of our shareholders. Under this procedure, only persons who are nominated by, or at the direction of, the board or by a shareholder who has given timely written notice prior to the meeting at which directors are to be elected, will be eligible to be elected director. In addition, under the shareholder notice procedure the only business that may be conducted at a shareholders' meeting is business that has been brought before the meeting by, or at the direction of, the board of directors or by a shareholder who has given timely written notice of his or her intention to bring that business before the meeting.

The shareholder notice procedure provides that for notice of shareholder nominations or other business to be made at a shareholders' meeting to be timely, it must be received by us not less than 90 calendar days prior to the anniversary of the date of the proxy statement for last year's annual meeting.

A shareholder's notice to us proposing to nominate a person for election as a director or proposing other business must contain information specified in the rules promulgated under the Exchange Act, including a representation that the shareholder is a record holder of our stock entitled to vote at the meeting and information regarding each proposed nominee or each proposed matter of business that would be required under the federal securities laws to be included in a proxy statement soliciting proxies for the proposed nominee or the proposed matter of business.



The shareholder notice procedure may have the effect of precluding a contest for the election of directors or preclude consideration of shareholder proposals if the proper procedures are not followed. and so may discourage or deter a shareholder from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposals, regardless of the merit of the nominees or the proposals.

Special Meetings of Shareholders. Our bylaws provide that special meetings of shareholders may only be called at the written request of two-thirds of the board of directors or any officer instructed by the board to call a special meeting, except when the shareholders are expressly entitled by the New York Business Corporation Law to demand a meeting.

Amendment of our Articles of Incorporation. Our articles of incorporation may only be amended by a majority vote of the directors and the shareholders. This makes it more difficult to avoid by means of amendment the antitakeover provisions in our articles of incorporation.

Authorized but Unissued Shares. We could use our authorized and unissued shares of common and preferred stock for a variety of corporate purposes, including future public offerings, corporate acquisitions, and employee benefit plans. Our ability to issue shares of common stock and preferred stock without shareholder approval, subject to the limitations imposed by the Nasdaq SmallCap Market, could, however, be used to discourage an unsolicited acquisition proposal. In addition, the possibility that we might issue shares of preferred stock could discourage a proxy contest, make it more

difficult for anyone to acquire a substantial block of our common stock, or limit the price investors might be willing to pay in the future for shares of our common stock.

Transfer Agent and Registrar

The transfer agent for our common stock is North American Transfer Co., located in Freeport, New York.

## COMMON STOCK PURCHASE AGREEMENT

Overview

On May 31, 2000, we signed a common stock purchase agreement with Suerez Enterprises Limited, a British Virgin Islands corporation, for the future issuance and purchase of shares of our common stock. The common stock purchase agreement establishes what is sometimes termed an "equity line of credit" or an "equity draw down facility." (The effective date of the agreement is defined as the effective date of the registration statement of which this prospectus is a part.)

In general, the draw down facility operates as follows. The investor, Suerez, has committed to provide us with up to $10,000,000 as we request it over a 12-month period, in return for common stock, as well as warrants to purchase shares of common stock. Once every 22 trading days, we may request a draw down of up to $5,000,000 of that money. The maximum amount we actually can draw down upon each request is the lesser of (1) $5,000,000 and (2) an amount equal to 20% of the product of (A) the average daily price of our common stock for the 22 trading days prior to the date of our draw down notice and (B) 22 times the average trading volume of our common stock for the 45 trading days following the date of our draw down notice, but in no event will the maximum draw down amount be less than $1,000,000 per month. Notwithstanding the foregoing, in no event will the minimum amount drawn down be less than $250,000.

At the end of a 22-day trading period following any draw down request, the actual draw down amount is determined based on the volume-weighted average stock price during that 22-day period, after which time formulas in the common stock purchase agreement are used to determine the number of shares we will issue to Suerez in return for that amount of money. The formulas for determining the actual draw down amounts, the number of shares we issue to Suerez and the price per share paid by Suerez are described in detail beginning on page 19. We may make up to a maximum of 12 draw downs. The aggregate total of all draw downs may not exceed $10,000,000, and no single draw may exceed $5,000,000. We are under no obligation to request a draw for any period. The per-share dollar amount Suerez pays for our common stock for each draw down includes a 10% discount to the average daily market price of our common stock for the 22-day period after our draw down request, weighted by trading volume.

The placement agent, Ladenburg Thalmann & Co. Inc., introduced us to Suerez. We have agreed to issue to Ladenburg as a placement fee a warrant for a number of shares equal to 2% of $5,000,000, or $100,000, divided by the volume weighted average of our common stock on the trading date immediately preceding the date of the closing of the initial draw down. This warrant is to be issued half upon closing of the initial drawdown, half six months later. We have agreed that after we have drawn down $5,000,000, we will issue to Ladenburg at the closing of each draw down thereafter a warrant for a number of shares equal



to 2% of the draw down amount divided by the volume weighted average of our common stock on the trading date immediately preceding the date of the applicable closing. Each warrant will have a term of three years and an exercise price equal to 150% of the volume weighted average price of our common stock on the trading day immediately preceding the date of the applicable closing. The common stock issuable upon exercise of those warrants is included in the registration statement of which this prospectus is a part.

We have also agreed to pay Ladenburg at each closing a cash fee equal to 4% of each draw down amount. An escrow agent fee of $1,500 will also be deducted from each draw down amout.

Based on a review of our trading volume and stock price history and the number of draw downs we estimate making, we are registering 5,925,926 shares of common stock for possible issuance under the common stock purchase agreement and 388,970 shares underlying the warrants for common shares delivered to Suerez and deliverable to Ladenburg Thalmann & Co. Inc. The listing requirements of the Nasdaq SmallCap Market prohibit us from issuing without shareholder approval 20% or more of our issued and outstanding common shares in a single transaction if the shares may be issued for less than the greater of market value or book value. Based on shares of common stock issued and outstanding on October 12, 2000, we may not issue without the approval of our shareholders more than 2,063,357 shares under the common stock purchase agreement and any Suerez warrants and Ladenburg warrants. Because approximately 388,970 of these shares are committed to those warrants, if we wish to draw amounts under the common stock purchase agreement that would cause us to issue in the aggregate more than 1,674,387 shares under the common stock purchase agreement, we must receive shareholder approval beforehand. If we ever need shareholder approval for such a draw down, it may be that our officers and directors as a group own sufficient shares of our common stock to approve it without requiring the affirmative vote

of any other shareholders.

In addition, the common stock purchase agreement does not permit us to draw down funds if issuing shares of common stock to Suerez pursuant to that draw down would result in Suerez owning more than 9.9% of our outstanding common stock on the draw down exercise date.

The Draw Down Procedure and the Stock Purchases

We may request a draw down by faxing a draw down notice to Suerez stating the amount of the draw down we wish to exercise and the minimum threshold price, if any, at which we are willing to sell the shares.

Amount of the Draw Down

No draw may exceed the lesser of (1) $5,000,000 and (2) the amount that is derived from the following formula:

- o the average daily trading volume for the 45 trading days immediately prior to the date we give notice of the draw down, multiplied by 22;

  multiplied by

- o the average of the volume-weighted average daily prices for the 22 trading days immediately prior to the date we give notice of the draw down;

  multiplied by

- o 20%;

except that in no event will the maximum draw down amount be less than $1,000,000 per month and the minimum draw down amount be less than $250,000.

The monthly draw down amount is reduced by 1/22 for every day in the 22 trading days after our draw down request that the volume-weighted average daily price for a trading day is below the threshold price set by us in the request. The lower our stock price is on any day in that 22-day period, the greater the number of shares we will be required to issue to Suerez for that draw down. Consequently, setting the threshold price requires balancing our need for the draw down amount against our unwillingness to issue an inappropriately high number of shares for that draw down amount. We cannot make another draw down request until expiration of the 22 trading days that follow a draw down request we have already made.



Number of Shares

The 22 trading days immediately following the draw down notice are also used to determine the number of shares we will issue in return for the money provided by Suerez, and thus the price per share Suerez will pay for our shares.

To determine the number of shares of common stock we must issue in connection with a draw down, take 1/22 of the draw down amount determined by the formulas above, and for each of the 22 trading days immediately following the date we give notice of the draw down, divide it by 90% of the volume-weighted average daily trading price of our common stock for that day. The 90% figure represents Suerez's 10% discount. The sum of these 22 daily calculations produces the number of common shares we will issue, unless the volume-weighted average daily price for any given trading day is below the threshold amount, in which case that day is ignored in the calculation. The price per share Suerez ultimately pays is determined by dividing the final draw down amount by the number of shares we issue Suerez.

Warrants

In lieu of providing Suerez with an initial minimum aggregate draw down commitment, have issued to Suerez a warrant to purchase 68,970 shares of our common stock with at an exercise price of $2.1749 per share, which was the volume-weighted average share price on May 30, 2000, which was the trading day immediate prior to the closing date. The warrant expires October 31, 2003.

In addition, once we have drawn down more than $5 ,000,000 in the aggregate, we are required to grant to Suerez at the time of the closing of any subsequent drawn down or partial draw down a warrant to purchase a number of shares equal to 4% of the draw down or partial draw down divided by the volume-weighted average price of our common stock for the trading day immediately preceding the date of each closing of a draw down. Each such warrant will be immediately exercisable with respect to half of the shares and exercisable six months thereafter with respect to the remaining half of the shares. The term of each warrant will be three years from the date of issuance, and the strike price will be 150% of the volume-weighted average price of our common stock for the trading day that immediately precedes the date of the applicable closing date.

Sample Calculation of a Draw Down

The following is an example of the calculation of the draw down amount and the number of shares we would issue to Suerez in connection with that draw

down based on hypothetical assumptions.

Sample Draw Down Amount Calculation.

Assume we provided a draw down notice to Suerez on August 24, 2000, stating that we wanted to make a draw down, and that we specified in the notice a threshold price of $1.60, meaning that we would not sell any shares to Suerez below that price during the applicable draw down period.

Assume that the average daily trading volume for the 45 trading days prior to our draw down notice of August 24, 2000. was 18,784 and that the average of the volume-weighted average daily prices of our common stock for the 22 trading days prior to the notice is $1.75. You can apply the formula to these hypothetical numbers as follows:

- o the average trading volume for the 45 trading days prior to our draw down notice (17,962) multiplied by 22 equals 395,169;

  multiplied by

- o the average of the volume-weighted average daily prices of our common stock for the 22 trading days prior to the notice ($1.75);

  multiplied by

- o 20%

The maximum amount we could draw down under the formula would be capped at $138,309, subject to further adjustments if the volume-weighted average daily price of our common stock for any of the 22 trading days following the draw down notice is below the threshold price we set of $1.60. For example, if the volume-weighted average daily price of our common



stock is below $1.60 on two of those 22 days, the $138,309 would be reduced by 1/22 for each of those days and our draw down amount would be 20/22 of $138,309, or $125,736.

Notwithstanding the foregoing, the common stock purchase agreement provides that in no event will the maximum draw down amount be less than $1,000,000 per month and the minimum draw down amount be less than $250,000. Accordingly, since the maximum draw down amount calculated under the formula is $138,309, we would be permitted to request a maximum draw down amount of $1,000,000 and a minimum draw down amount of $250,000.

Sample Calculation of Number of Shares

Assume that we have made a draw down request of $1,000,000, the maximum amount we could draw down based on the foregoing sample draw down amount calculation. In addition, assume we set a threshold price of $1.60 and that the volume-weighted average daily price for our common stock is as set forth in the table in the table below.

The number of shares to be issued based on any trading day during the draw down period is calculated from the following formula:

- o 1/22 of the draw down amount of $1,000,000; divided by

- o 90% of the volume weighted average daily price.

For example, for the first trading day in the example in the table below, the calculation is as follows: 1/22 of $1,000,000 is $45,454. Divide $45,454 by 90% of the volume-weighed average daily price for that day of $1.7055 per share, to get 26,620 shares. Perform this calculation for each of the 22 measuring days, excluding any days on which the volume-weighted average daily price is below the $1.60 threshold price, and add the results to determine the number of shares to be issued. In the table below, there are two days which must be excluded, namely days 14 and 15.

After excluding the days that are below the threshold price, the amount of our draw down in this example would be $909,080 and the total number of shares we would issue to Suerez for this draw down request would be 575,544, so long as those shares would not cause Suerez to beneficially own more than 9.9% of our then outstanding common stock. Suerez would pay $1.58 per share for those shares.

| Trading Day | Weighted-Volume Average Daily Stock Price* | 1/22 of Requested Draw Down Amount |
|---|---|---|
| 1 | $1.7055 | $45,454.00 |
| 2 | $1.8525 | $45,454.00 |
| 3 | $1.8472 | $45,454.00 |
| 4 | $1.9785 | $45,454.00 |
| 5 | $1.9773 | $45,454.00 |
| 6 | $1.8636 | $45,454.00 |
| 7 | $1.6311 | $45,454.00 |
| 8 | $1.6687 | $45,454.00 |
| 9 | $1.6638 | $45,454.00 |
| 10 | $1.6495 | $45,454.00 |

| | | |
|---|---|---|
| 11 | $1.6301 | $45,454.00 |
| 12 | $1.6292 | $45,454.00 |
| 13 | $1.7218 | $45,454.00 |
| 14 | $1.5668 | ** |
| 15 | $1.5792 | ** |
| 16 | $1.6077 | $45,454.00 |
| 17 | $1.6152 | $45,454.00 |
| 18 | $1.8886 | $45,454.00 |
| 19 | $1.8832 | $45,454.00 |
| 20 | $1.9394 | $45,454.00 |
| 21 | $1.7923 | $45,454.00 |
| 22 | $1.7308 | $45,454.00 |
| -- | ------- | ---------- |
| Total | | $909,080.00 |



* The share prices are illustrative only and should not be interpreted as a forecast of share prices or the expected or historical volatility of the share prices of our common stock.

** Excluded because the volume-weighted average daily price is below the threshold specified in our hypothetical draw down notice of $1.60.

We would receive the amount of our draw down ($909,080) less a 4% cash fee paid to the placement agent, Ladenburg Thalmann & Co. Inc., of $36,363, and less a $1,500 escrow fee, for net proceeds to us of $871,217. The delivery of the requisite number of shares and payment of the draw will take place through an escrow agent, Epstein, Becker & Green, P.C. of New York.

Necessary Conditions Before Suerez is Obligated to Purchase our Shares

The following conditions must be satisfied before Suerez is obligated to purchase the common shares that we wish to sell from time to time:

- a registration statement for the shares must be declared effective by the Securities and Exchange Commission and must remain effective and available as of the draw down settlement date for making resales of the common shares purchased by Suerez;

- there must be no material adverse change in our business, operations, properties, prospects or financial condition;

- we must not have merged or consolidated with or into another company or transferred all or substantially all of our assets to another company, unless the acquiring company has agreed to honor the common stock purchase agreement;

- no statute, rule, regulation, executive order, decree, ruling or injunction may be in effect that prohibits consummation of the transactions contemplated by the stock purchase agreement;

- no litigation or proceeding nor any investigation by any governmental authority may be pending or threatened against us or Suerez seeking to restrain, prevent or change the transactions contemplated by the stock purchase agreement or seeking damages in connection with such transactions; and

- trading in our common shares must not have been suspended by the Securities and Exchange Commission or the Nasdaq SmallCap Market (or any other market or exchange on which our common stock is traded), nor shall minimum prices have been established on securities whose trades are reported by the Nasdaq SmallCap Market.

On each draw down settlement date for the sale of common shares, we must deliver an opinion from our counsel about these matters.

A further condition is that Suerez may not purchase more than 19.9% of our common shares issued and outstanding on May 31, 2000, the closing date under the common stock purchase agreement, without us first obtaining approval from our shareholders for such excess issuance.

Restrictions on Future Financing

The common stock purchase agreement limits our ability to raise money by selling our securities for cash at a discount to the market price until the earlier of 12 months from the effective date of the registration statement of which this prospectus is a part or the date that is 60 days after Suerez has purchased the maximum of $10,000,000 worth of common stock from us under the common stock purchase agreement.

There are exceptions to this limitation for securities sold in the following situations:

- in a registered public offering that is underwritten by one or more established investment banks;

- in one or more private placements in connection with which the purchasers do not have registration rights;

- o pursuant to any currently existing or future employee benefit plan that has been or is approved by our shareholders;



- o pursuant to any compensatory plan for a full-time employee or key consultant;

- o in connection with a strategic partnership or other business transaction, the principal purpose of which is not simply to raise money

- o in one or more private placements, the principal purpose of which is to raise money for an acquisition; and

- o a transaction to which Suerez gives its written approval.

Costs of Closing the Transaction

At the closing of the transaction on May 31, 2000, we delivered the requisite opinion of counsel to Suerez and paid the escrow agent, Epstein Becker & Green P.C., $10,000 for Suerez's legal, administrative and escrow costs. In addition, we issued a warrant to purchase 68,970 shares of our common stock to Suerez.

Upon the closing of each draw down, we are required to issue to Ladenburg a cash fee equal 4% of the amount of each draw down, as well as a warrant to purchase shares of our common stock. See "Overview," above.

Termination of the Stock Purchase Agreement

Suerez may terminate the equity draw down facility under the common stock purchase agreement if any of the following events occur:

- o we suffer a material adverse change in our business, operations, properties, or financial condition;

- o there occurs any situation that would prohibit or materially interfere with our ability to perform our obligations under the common stock purchase agreement, the related registration rights agreement, or any other material agreement;

- o our common shares are delisted from the Nasdaq SmallCap Market (or any other market or exchange on which our common stock is traded), unless that delisting is in connection with the listing of such shares on a comparable stock exchange in the U.S.; or

- o we file for protection from creditors.

We may terminate the common stock purchase agreement if Suerez fails to fund more than one properly noticed draw down within three trading days of the date payment for such draw down is due.

Indemnification of Suerez

Suerez is entitled to customary indemnification from us for any losses or liabilities suffered by it based upon material misstatements or omissions from this prospectus and the registration statement of which this prospectus forms a part, except as they relate to information supplied by Suerez to us for inclusion in the prospectus and the registration statement.

## SELLING SHAREHOLDERS

Overview

The number of shares we are registering is based in part on our good faith estimate of the maximum number of shares we will issue to Suerez Enterprises Limited under the common stock purchase agreement. Accordingly, the number of shares we are registering for issuance under the common stock purchase agreement may be higher than the number we actually issue under the common stock purchase agreement.



Suerez Enterprises Limited

Suerez Enterprises Limited's principal offices are located at Aeulestrasse 74, FL-9490 Vaduz, Liechtenstein. Investment decisions for Suerez are made by its board of directors. Other than the warrants we issued to Suerez in connection with closing the common stock purchase agreement and any future draw downs, Suerez does not currently own any of our securities as of the date of this prospectus. Other than its obligation to purchase common shares under the common stock purchase agreement, it has no other commitments or arrangements to purchase or sell any of our securities. There are no business relationships between Suerez and us other than the common stock purchase agreement.

Ladenburg Thalmann & Co. Inc.

Ladenburg Thalmann & Co. Inc. has acted as placement agent in connection with the common stock purchase agreement. Ladenburg Thalmann introduced us to Suerez and assisted us with structuring the equity line of credit with Suerez. Ladenburg Thalmann's duties as placement agent were undertaken on a reasonable best efforts basis only. It made no commitment to purchase shares from us and did not ensure us of the successful placement of any securities.

This prospectus covers 213,333 shares of common stock which we anticipate we will be required to issue to Ladenburg Thalmann, in the form of warrants, as a placement fee for introducing us to Suerez. Each warrant will be exercisable at 150% of the volume weighted average price of our common stock on the trading day immediately preceding the closing date of each draw down and each warrant will have a term of three years. The decision to exercise any warrants issued, and the decision to sell the common stock issued pursuant to the warrants, will be made by Ladenburg Thalmann's officers and board of directors. Ladenburg Thalmann does not own any of our securities as of the date of this prospectus. Our agreement with Ladenburg Thalmann provides Ladenburg Thalmann with a right of first refusal for one year after completion of the offering under the common stock purchase agreement, as underwriter or placement agent, all of our financing arrangements at terms no less favorable than we could obtain in the market.

Other Selling Shareholders

Of the 6,896,146 shares we are registering, 581,250 shares are for the account of the selling shareholders described in the table below. These selling shareholders currently hold warrants to purchase unregistered shares of our common stock that were issued on December 19, 1997 pursuant to a private placement transaction. The 581,250 shares of common stock being registered for resale will be issued upon exercise of these warrants.

Based on information provided to us by each selling shareholder, the following table shows, as of October 12, 2000:

- o the name of the selling shareholder; and

- o the number of shares of common stock underlying the warrant held by that selling shareholder warrant.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Except as indicated, we believe each person will possess sole voting and investment power with respect to all of the shares of common stock underlying the warrant owned by that person, subject to community property laws where applicable.

<TABLE>
<CAPTION>

| Name | Beneficial Ownership of Common Stock as of October 12, 2000 | | Maximum Number of Shares of Common Stock Offered for Sale | Amount and Percentage of Common Stock Beneficially Owned After the Offering (1) | |
|---|---|---|---|---|---|
| | | | | Number | Percentage |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Suerez Enterprises Limited | 68,970 | (2) | 68,970 | 0 | * |
| Suerez Enterprises Limited | 0 | | 6,245,926 (3) | 0 | * |
| Michael Cohen | 10,000 | (4) | 10,000 | 0 | * |
| Anthony J. Kirincic | 63,750 | (4) | 63,750 | 0 | * |
| David O. Lindner | 63,750 | (4) | 63,750 | 0 | * |
| Robert A. Paduano | 12,500 | (4) | 12,500 | 0 | * |
| Roger Flore | 25,000 | (4) | 25,000 | 0 | * |
| Lawrence K. Fleschman | 25,000 | (4) | 25,000 | 0 | * |
| Jacqueline Knapp | 12,500 | (4) | 12,500 | 0 | * |
| Ronald I. Heller and Joyce Heller | 50,000 | (4) | 50,000 | 0 | * |
| Kae Investment | 12,500 | (4) | 12,500 | 0 | * |
| The Evan Todd Heller Trust | 12,500 | (4) | 12,500 | 0 | * |
| Anthony Charos and Kevin Charos | 6,250 | (4) | 6,250 | 0 | * |
| The Rachel Beth Heller Trust | 12,500 | (4) | 12,500 | 0 | * |
| Nagelberg Family Trust | 62,500 | (4) | 62,500 | 0 | * |
| Delaware Charter Guarantee & Trust FBO Ronald I. | 50,000 | (4) | 50,000 | 0 | * |
| Janine Halle Nessess | 50,000 | (4) | 50,000 | 0 | * |
| Donahew Fund LP | 25,000 | (4) | 25,000 | 0 | * |
| Delaware Charter Guarantee & Trust FBO David S. Nagelberg | 62,500 | (4) | 62,500 | 0 | * |
| Bernard Pismeny | 25,000 | (4) | 25,000 | 0 | * |

</TABLE>

* Less than 1%.

(1) Assumes that the selling stockholder will sell all of its shares of our common stock offered in this prospectus. We cannot assure you that the selling stockholder will sell all or any of its shares.

(2) Represents 68,970 shares of our common stock issuable upon exercise of outstanding warrants issued to Suerez Enterprises Limited as a commitment

fee for entering in the common stock purchase agreement.

(3) Includes (solely for purposes of this prospectus) up to an aggregate of 5,925,926 shares of our common stock that we may sell to Suerez pursuant to our common stock purchase agreement with Suerez and 320,000 shares of common stock underlying warrants to purchase shares of our common stock issuable in connection with the common stock purchase agreement, but would not be deemed beneficially owned within the meaning of Sections 13(d) and 13(g) of the Exchange Act before they were acquired by Suerez.

(4) Represents shares of our common stock issuable upon the exercise of warrants. Each warrant has an exercise price of $5.75 and expires on December 18, 2002.



None of the selling shareholders have held any positions or offices or had material relationships with us or any of our affiliates within the past three years other than as a result their being issued a warrant exercisable for shares of our common stock. We may amend or supplement this prospectus from time to time to update the disclosure.

PLAN OF DISTRIBUTION

General

Suerez is offering shares of our common stock for its account as statutory underwriter, and not for our account. We will not receive any proceeds from the sale of common shares by Suerez. Suerez may be offering for sale up to 6,101,563 common shares acquired by it pursuant to the terms of the common stock purchase agreement more fully described under the section above entitled "The Common Stock Purchase Agreement" and pursuant to the warrants we issued to and may issue to it in the future in connection with the transaction. Suerez has agreed to be named as a statutory underwriter within the meaning of the Securities Act in connection with such sales of common shares and will be acting as an underwriter in its resales of the common shares under this prospectus. Suerez has, prior to any sales, agreed not to effect any offers or sales of the common shares in any manner other than as specified in the prospectus and not to purchase or induce others to purchase common shares in violation of any applicable state and federal securities laws, rules and regulations and the rules and regulations of the Nasdaq SmallCap Market.

On October 12, 2000, there were approximately 10,317,869 shares of our common stock outstanding. The following table shows the number of shares we would issue to Suerez and the price it would pay for those shares given the hypothetical variables shown in the table, if:

- o we requested draw downs of the maximum amounts under the common stock purchase agreement;
- o we set a threshold price of $1.00;
- o the volume-weighted average daily price in the table were the volume-weighted average daily price of our common stock for the 22 trading days before each draw down request under the common stock purchase agreement and the 22 trading days after each draw down request;
- o the average trading volume in the table were the average trading volume for the 45 trading days before each draw down request; and
- o we do not issue more shares to Suerez under the common stock purchase agreement than we are currently registering for resale of the shares issued under the common stock purchase agreement.

<TABLE>
<CAPTION>

| Volume-Weighted Average Daily Price | Average Trading Volume | Number of Shares Issuable to Suerez under Common Stock Purchase Agreement (g) | Price per share paid by Suerez |
|---|---|---|---|
| $1.0000 (a) | 8,981 (d) | 1,029,971 | $0.90 |
| 1.7613 (b) | 17,962 (e) | 6,314,896 (h) | 1.58 |
| 2.6240 (c) | 26,943 (f) | 6,314,896 (h) | 2.36 |

</TABLE>

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(a) Represents the lowest price at which our shares can remain listed on the Nasdaq SmallCap Market.



(b) Represents the average closing price of our common stock for the 22 trading days before August 23, 2000.

(c) Represents 150% of the average closing price of our common stock for the 22

trading days before August 23, 2000.

(d) Represents 50% of the average trading volume of our common stock for the 45 trading days preceding August 23, 2000.

(e) Represents the average trading volume of our common stock for the 45 trading days preceding August 23, 2000.

(f) Represents 150% of the average trading volume of our common stock for the 45 trading days preceding August 23, 2000.

(g) The number of shares we would issue could be limited by a provision of the common stock purchase agreement that prevents us from issuing shares to Suerez to the extent Suerez would beneficially own more than 9.9% of our then-outstanding common stock.

(h) Represents all 6,314,896 shares we are registering under the common stock purchase agreement.

To permit Suerez to resell the common shares issued to it under the common stock purchase agreement, we agreed to register those shares and to maintain that registration. To that end, we have agreed with Suerez that we will prepare and file such amendments and supplements to the registration statement and the prospectus as may be necessary in accordance with the Securities Act and the rules and regulations promulgated thereunder to keep it effective until the earliest of any of the following dates:

- the date after which all of the shares of our common stock held by Suerez or its transferees that are covered by the registration statement of which this prospectus forms a part have been sold under the provisions of Rule 144 under the Securities Act;

- the date after which all of the shares of our common stock held by Suerez or its transferees that are covered by the registration statement have been transferred to persons who may trade those shares without restriction under the Securities Act and we have delivered new certificates or other evidences of ownership of those shares without any restrictive legend;

- the date after which all of the shares of our common stock held by Suerez or its transferees that are covered by the registration statement of which this prospectus forms of part have been sold by Suerez or its transferees pursuant to that registration statement;

- the date after which all of the shares of our common stock held by Suerez or its transferees that are covered by the registration statement may be sold, in the opinion of our counsel, under Rule 144 under the Securities Act irrespective of any applicable volume limitations;

- the date after which all of the shares of our common stock held by Suerez or its transferees that are covered by the registration statement may be sold, in the opinion of our counsel, without any time, volume or manner limitations under Rule 144(k) or any similar provision then in effect under the Securities Act; or

- the date after which none of the shares of our common stock held by Suerez that are covered by the registration statement are or may become issued and outstanding.

Shares of common stock offered through this prospectus may be sold from time to time by Suerez and the other Selling Shareholders. We will supplement this prospectus to disclose the names of any pledgees, donees, transferees, or other successors in interest that intend to offer common stock through this prospectus.

Sales may be made on the Nasdaq SmallCap Market, on the over-the-counter market, or otherwise at prices and at terms then prevailing or at prices related to the then current market price, or in negotiated private transactions, or in a combination of these methods. The selling shareholders will act independently of us in making decisions with respect to the form, timing, manner and size of each sale. We have been informed by the selling shareholders that there are no existing arrangements between any selling shareholder and any other shareholder, broker, dealer, underwriter or agent relating to the sale or distribution of shares of common stock which may be sold by selling shareholders through this prospectus. Selling shareholders may be deemed underwriters in connection with resales of their shares.

The common shares may be sold in one or more of the following manners:



- a block trade in which the broker or dealer so engaged will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

- purchases by a broker or dealer for its account under this prospectus; or

- ordinary brokerage transactions and transactions in which the broker

solicits purchases.

In effecting sales, brokers or dealers engaged by the selling shareholders may arrange for other brokers or dealers to participate. Except as disclosed in a supplement to this prospectus, no broker-dealer will be paid more than a customary brokerage commission in connection with any sale of the common shares by the selling shareholders. Brokers or dealers may receive commissions, discounts or other concessions from the selling shareholders in amounts to be negotiated immediately prior to the sale. The compensation to a particular broker-dealer may be in excess of customary commissions. Profits on any resale of the common shares as a principal by such broker-dealers and any commissions received by such broker-dealers may be deemed to be underwriting discounts and commissions under the Securities Act. Any broker-dealer participating in such transactions as agent may receive commissions from the selling shareholders (and, if they act as agent for the purchaser of such common shares, from such purchaser).

Broker-dealers may agree with the selling shareholders to sell a specified number of common shares at a stipulated price per share, and, to the extent a broker dealer is unable to do so acting as agent for the selling shareholders, to purchase as principal any unsold common shares at a price required to fulfill the broker-dealer commitment to the selling shareholders. Broker-dealers who acquire common shares as principal may thereafter resell such common shares from time to time in transactions (which may involve crosses and block transactions and which may involve sales to and through other broker-dealers, including transactions of the nature described above) in the over-the-counter market, in negotiated transactions or otherwise at market prices prevailing at the time of sale or at negotiated prices, and in connection with such resales may pay to or receive from the purchasers of such common shares commissions computed as described above. Brokers or dealers who acquire common shares as principal and any other participating brokers or dealers may be deemed to be underwriters in connection with resales of the common shares.

In addition, any common shares covered by this prospectus which qualify for sale pursuant to Rule 144 may be sold under Rule 144 rather than pursuant to this prospectus. We will not receive any of the proceeds from the sale of these common shares, although we have paid the expenses of preparing this prospectus and the related registration statement of which it is a part, and have reimbursed Suerez $10,000 for its legal, administrative and escrow costs.

Suerez is subject to the applicable provisions of the Exchange Act, including without limitation, Rule 10b-5 thereunder. Under applicable rules and regulations under the Exchange Act, any person engaged in a distribution of the common shares may not simultaneously engage in market-making activities with respect to those securities for a period beginning when that person becomes a distribution participant and ending upon that person's completion of participation in a distribution, including stabilization activities in the common shares to effect covering transactions, to impose penalty bids, or to effect passive market making bids. In addition, in connection with transactions in the common shares, Suerez and we will be subject to applicable provisions of the Exchange Act and the rules and regulations under the Exchange Act, including without limitation the rules set forth above. These restrictions may affect the marketability of the common shares.

The selling shareholders will pay all commissions and their own expenses, if any, associated with the sale of the common shares, other than the expenses associated with preparing this prospectus and the registration statement of which it is a part.

The price at which we will issue the common shares to Suerez under the common stock purchase agreement will be 90% of the volume-weighted average daily price traded on the Nasdaq SmallCap Market, for each day in the pricing period with respect to each draw down request.

Limited Grant of Registration Rights

We granted registration rights to Suerez to enable it to sell the common stock it purchases under the common stock purchase agreement. In connection with any such registration, we will have no obligation:

- to assist or cooperate with Suerez in the offering or disposition of those shares;

- to indemnify or hold harmless the holders of any such shares (other than Suerez) or any underwriter designated by any such holders;



- to obtain a commitment from an underwriter relating to the sale of any such shares; or

- to include such shares within any underwritten offering we do.

We will assume no obligation or responsibility whatsoever to determine a method of disposition for such shares or to otherwise include such shares within the confines of any registered offering other than the registration statement of which this prospectus is a part.

We will use our best efforts to file, during any period during which we are required to do so under our registration rights agreement with Suerez, one

or more post-effective amendments to the registration statement of which this prospectus is a part to describe any material information with respect to the plan of distribution not previously disclosed in this prospectus or any material change to such information in this prospectus. This obligation may include, to the extent required under the Securities Act, that a supplemental prospectus be filed, disclosing:

- the name of any broker-dealers;
- the number of common shares involved;
- the price at which the common shares are to be sold;
- the commissions paid or discounts or concessions allowed to broker-dealers, where applicable;
- that broker-dealers did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus, as supplemented; and
- any other facts material to the transaction.

Our registration rights agreement with Suerez permits us to restrict the resale of the shares Suerez has purchased from us under the common stock purchase agreement for a period of time sufficient to permit us to amend or supplement this prospectus to include material information. If we restrict Suerez for more than 30 consecutive days and our stock price declines during the restriction period, we are required to pay to Suerez cash to compensate Suerez for its inability to sell shares during the restriction period. The amount we would be required to pay would be the difference between our stock price on the first day of the restriction period and the last day of the restriction period, for each share held by Suerez during the restriction period that has been purchased under the common stock purchase agreement.

## LEGAL PROCEEDINGS

On June 8, 1998, we were served with a summons and complaint filed by Philip M. Panzera in the U.S. District Court for the Eastern District of New York alleging that we wrongfully terminated his employment on January 29, 1998, pursuant to an employment agreement dated November 14, 1997, and that we wrongfully converted Mr. Panzera's personal property. Mr. Panzera is seeking monetary damages in excess of $1,000,000. Mr. Panzera was our Senior Vice President and Chief Financial Officer from November 17, 1997, through January 29, 1998. We have answered this complaint and denied all of Mr. Panzera's allegations, stating that we properly terminated Mr. Panzera for cause pursuant to his employment agreement. Additionally, we have filed a counterclaim against Mr. Panzera alleging, among other things, that Mr. Panzera fraudulently induced us to enter into the employment agreement by making false representations concerning his educational background, employment history, experience and skills. We are seeking monetary damages of no less than $1,000,000. The discovery phase of this case has been completed.

Mr. Panzera recently made a motion for partial summary judgment to dismiss a number of the affirmative defenses and the counterclaims that we brought against him. On April 14, 2000, the court ruled in our favor and denied Mr. Panzera's motion for partial summary judgment.

Additionally, we made a motion for partial summary judgment to dismiss Mr. Panzera's complaint to the extent he seeks to recover on a modification to his employment agreement. The motion was granted, dismissing Mr. Panzera's claim against us under the employment agreement, to the extent that he relies on the terms of the modification of the employment agreement. We believe that the remainder of Mr. Panzera's claim is without merit, and we intend to continue to vigorously defend this suit.

We have recently reached a settlement with Mr. Panzera whereby each party will execute a release and stipulation dismissing this action, including our counterclaim against Mr. Panzera, with prejudice.



## LEGAL MATTERS

Certain legal matters in connection with the shares of our common stock offered for resale in this prospectus have been passed upon for us by Kramer Levin Naftalis & Frankel LLP, New York, New York.

## EXPERTS

Nussbaum Yates & Wolpow, P.C., independent certified public accountants, audited the consolidated financial statements incorporated in this prospectus, as indicated in their report with respect thereto. These documents are incorporated herein in reliance upon the authority of Nussbaum Yates & Wolpow, P.C. as experts in accounting and auditing in giving the report.

## DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

## WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form SB-2 with the Securities and Exchange Commission relating to the common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. Statements contained in this prospectus concerning the contents of any contract or other document referred to are not necessarily complete and in each instance we refer you to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference.

For further information with respect to us and the common stock we are offering, please refer to the registration statement. A copy of the registration statement can be inspected by anyone without charge at the public reference room of the Commission, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices located at 7 World Trade Center, Suite 1300, New York, New York 10048, and 500 West Madison Street, Chicago, Illinois 60601. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference room. Copies of these materials can be obtained by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Commission maintains a website (http://www.sec.gov) that contains information regarding registrants that file electronically with the Commission.

Our common stock is quoted for trading on the Nasdaq SmallCap Market, and you may inspect at the offices of the Nasdaq SmallCap Market, located at 1735 K Street, N.W., Washington, D.C. 20006, the registration statement relating to the common stock offered by this prospectus, reports filed by us under the Exchange Act, and other information concerning us.



## INDEX TO Financial Statements

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December 31, 1999


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June 30, 2000


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FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 1999 AND 1998

CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated balance sheets of First Priority Group, Inc. and subsidiaries as of December 31, 1999 and 1998, 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, 1999 and 1998, and the consolidated results of their operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

NUSSBAUM YATES & WOLPOW, P.C.

Melville, New York
March 13, 2000



<TABLE>
<CAPTION>

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

YEARS ENDED DECEMBER 31, 1999 AND 1998

ASSETS

| | 1999 | 1998 |
|---|---|---|
| Current assets: | | |
| <S> | <C> | <C> |
| Cash and cash equivalents | $ 542,359 | $2,782,180 |
| Accounts receivable, less allowance for doubtful accounts of $28,223 in 1999 and 1998 | 1,794,740 | 1,171,885 |
| Investment securities (Note 3) | 1,036,263 | -- |
| Prepaid expenses and other current assets | 39,376 | 66,207 |
| Total current assets | 3,412,738 | 4,020,272 |
| Property and equipment, net | 689,094 | 601,424 |
| Security deposits and other assets | 35,288 | 107,972 |
| Total assets | $4,137,120 | $4,729,668 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1999 | 1998 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 938,418 | $ 698,330 |
| Accrued expenses and other current liabilities | 747,567 | 596,795 |
| Current portion of long-term debt | 50,513 | 44,672 |

| | 1999 | 1998 |
|---|---|---|
| Total current liabilities | 1,736,498 | 1,339,797 |
| Long-term debt | -- | 51,926 |
| Shareholders' equity: | | |
| Common stock, $.015 par value, authorized 20,000,000 shares; issued 8,598,467 shares in 1999 and 1998 | 128,977 | 128,977 |
| Preferred stock, $.01 par value, authorized 1,000,000 shares; none issued or outstanding | -- | -- |
| Additional paid-in capital | 7,823,916 | 7,762,350 |
| Accumulated other comprehensive loss, unrealized holding loss on investment securities | ( 4,095) | -- |
| Deficit | ( 5,429,014) | ( 4,463,382) |
| | 2,519,784 | 3,427,945 |
| Less common stock held in treasury, at cost, 296,667 shares in 1999 and 266,667 shares in 1998 | 119,162 | 90,000 |
| Total shareholders' equity | 2,400,622 | 3,337,945 |
| Total liabilities and shareholders' equity | $4,137,120 | $4,729,668 |

See notes to consolidated financial statements.

</TABLE>



<TABLE>
<CAPTION>

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1999 AND 1998

| <S> | <C> 1999 | <C> 1998 |
|---|---|---|
| Revenue: | | |
| Collision repairs and fleet management services | $ 10,954,912 | $ 11,366,891 |
| Subrogation and salvage service commissions | 407,260 | 411,200 |
| Automobile affinity services | 773,406 | 362,880 |
| Total revenues | 12,135,578 | 12,140,971 |
| Cost of revenue (principally charges incurred at repair facilities for services) | 9,338,271 | 9,712,316 |
| Gross profit | 2,797,307 | 2,428,655 |
| Operating expenses: | | |
| Selling | 1,048,681 | 1,351,360 |
| General and administrative | 2,838,218 | 3,221,649 |
| Total operating expenses | 3,886,899 | 4,573,009 |
| | ( 1,089,592) | ( 2,144,354) |
| Other income (expense): | | |
| Realized loss on investment | ( 3,096) | -- |
| Investment and other income | 152,976 | 245,246 |
| Interest expense | ( 6,784) | ( 2,800) |
| Total other income | 143,096 | 242,446 |
| Loss from continuing operations before income taxes | ( 946,496) | ( 1,901,908) |
| Income taxes, all current | 19,136 | 7,928 |
| Loss from continuing operations | ( 965,632) | ( 1,909,836) |
| Discontinued operations, loss on disposal of direct response marketing division, no income tax benefit | -- | ( 93,922) |
| Net loss | ($ 965,632) | ( $ 2,003,758) |
| Basic and diluted loss per share: | | |
| Continuing operations | ($ .12) | ($ .23) |
| Discontinued operations | -- | ( .01) |

| | | |
|---|---|---|
| Net loss | ($ .12) | ($ .24) |
| Weighted average number of common shares outstanding | 8,324,649 | 8,197,827 |

See notes to consolidated financial statements.

</TABLE>



FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1999 AND 1998

<TABLE>
<CAPTION>

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Deficit |
|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> |
| Balance, January 1, 1998 | 7,998,467 | $ 119,977 | $ 6,645,737 | $ -- | ($2,459,624) |
| Net loss | -- | -- | -- | -- | (2,003,758) |
| Exercise of options | 100,000 | 1,500 | 68,500 | -- | -- |
| Exercise of warrants | 500,000 | 7,500 | 992,500 | -- | -- |
| Options granted for services | -- | -- | 55,613 | -- | -- |
| Balance, December 31, 1998 | 8,598,467 | 128,977 | 7,762,350 | -- | (4,463,382) |
| Net loss | -- | -- | -- | -- | ( 965,632) |
| Other comprehensive income (loss), unrealized holding loss arising during period | -- | -- | -- | ( 4,095) | -- |
| Comprehensive loss | -- | -- | -- | -- | -- |
| Purchase of treasury stock | -- | -- | -- | -- | -- |
| Options granted for services | -- | -- | 61,566 | -- | -- |
| Balance, December 31, 1999 | 8,598,467 | $ 128,977 | $ 7,823,916 | ($ 4,095) | ($5,429,014) |

</TABLE>

| | Treasury Stock Shares | Treasury Stock Amount | Total Share-holders' Equity |
|---|---|---|---|
| Balance, January 1, 1998 | 266,667 | ($ 90,000) | $ 4,216,090 |
| Net loss | -- | -- | ( 2,003,758) |
| Exercise of options | -- | -- | 70,000 |
| Exercise of warrants | -- | -- | 1,000,000 |
| Options granted for services | -- | -- | 55,613 |
| Balance, December 31, 1998 | 266,667 | ( 90,000) | 3,337,945 |
| Net loss | -- | -- | ( 965,632) |
| Other comprehensive income (loss), unrealized holding loss arising during period | -- | -- | ( 4,095) |
| Comprehensive loss | -- | -- | ( 969,727) |
| Purchase of treasury stock | 30,000 | ( 29,162) | ( 29,162) |
| Options granted for services | -- | -- | 61,566 |

| Balance, December 31, 1999 | 296,667 | ($ 119,162) | $ 2,400,622 |
|---|---|---|---|

See notes to consolidated financial statements.



<TABLE>
<CAPTION>

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1999 AND 1998

| | 1999 | 1998 |
|---|---|---|
| Cash flows used in operating activities: | | |
| <S> | <C> | <C> |
| Net loss | ($ 965,632) | ($2,003,758) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 201,289 | 143,308 |
| Gain on sale of property and equipment | ( 2,500) | -- |
| Realized loss on investment | 3,096 | -- |
| Provision for bad debts | -- | 16,723 |
| Options granted for services | 61,566 | 55,613 |
| Changes in assets and liabilities: | | |
| Accounts receivable | ( 622,855) | ( 50,784) |
| Inventories | -- | 61,642 |
| Prepaid expenses and other current assets | 26,831 | 73,069 |
| Security deposit and other assets | 8,009 | ( 66,644) |
| Accounts payable | 240,088 | ( 89,856) |
| Accrued expenses and other current liabilities | 150,772 | 306,425 |
| Total adjustments | 66,296 | 449,496 |
| Net cash used in operating activities | ( 899,336) | ( 1,554,262) |
| Cash flows used in investing activities: | | |
| Proceeds from sale of property and equipment | 2,500 | -- |
| Purchase of property and equipment | ( 224,284) | ( 287,422) |
| Purchase of investments | ( 1,543,454) | -- |
| Proceeds from sale of investments | 500,000 | -- |
| Net cash used in investing activities | ( 1,265,238) | ( 287,422) |
| Cash flows provided by (used in) financing activities: | | |
| Repayment of long-term debt | ( 46,085) | -- |
| Purchase of treasury stock | ( 29,162) | -- |
| Collection of shareholder note | -- | 100,000 |
| Proceeds from issuance of common stock | -- | 1,070,000 |
| Net cash provided by (used in) financing activities | ( 75,247) | 1,170,000 |
| Net decrease in cash and cash equivalents | ( 2,239,821) | ( 671,684) |
| Cash and cash equivalents at beginning of year | 2,782,180 | 3,453,864 |
| Cash and cash equivalents at end of year | $ 542,359 | $ 2,782,180 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for income taxes | $ 20,204 | $ 2,876 |
| Cash paid during the year for interest | $ 9,175 | $ -- |

</TABLE>

See notes to consolidated financial statements.



FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1999 AND 1998

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., driversshield.com Corp., 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.

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 and Cash Equivalents

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

Investment Securities

Investments consist of securities available for sale and are carried at fair value with unrealized gains or losses reported in a separate component of shareholders' equity. Realized gains or losses are determined based on the specific identification method.

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.

Reclassification

In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 101 (SAB 101), the Company has determined that the portion of its business representing commission revenues from its subrogation and salvage services should be displayed in the financial statements on a net basis. It had been the Company's prior policy to report such revenues and related costs on a gross basis. Accordingly, 1998 has been reclassified to reflect the net presentation. There was no effect on net loss or net cash flows used in operating activities from the reclassification. Revenues and direct costs for 1998 were reduced by $2,417,503. Accounts receivable and accounts payable for 1998 were reduced by $539,759.





2. Fair Value of Financial Instruments, Description of Business and Concentration of Credit Risk, and Revenue Recognition

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 Investments

Investments are stated at fair value as measured by quoted market prices.

o Long-Term Debt

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

Description of Business and Concentration of Credit Risk

The Company is engaged in automotive fleet management and administration

of automotive repairs 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. The Company also provides automobile affinity services for individuals.

The Company formed driversshield.com Corp. in April 1999 to provide collision repair claims management services for the insurance industry nationwide through a website on the Internet. At December 31, 1999, the website was not yet operational and to date, there have been no revenues.

Sales to one customer accounted for 10% of revenue in 1999 and 1998. The Company has no financial instruments with significant off-balance-sheet risk or concentration of credit risk.

Revenue Recognition

The Company recognizes revenue for its collision repairs and fleet management 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. The Company recognizes commissions for its subrogation and salvage services upon completion of the services. Automobile affinity services are recognized as such services are rendered.

3. Investment Securities

At December 31, 1999:

<TABLE>
<CAPTION>

| | Cost | Fair Value | Unrealized Holding Loss |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Available for sale, 106,721 shares of Salomon Smith Barney Adjustable Rate Government Income Fund | $1,040,358 | $1,036,263 | ($4,095) |

</TABLE>





4. Property and Equipment

| | 1999 | 1998 |
|---|---|---|
| Machinery and equipment | $ 980,894 | $ 717,912 |
| Furniture and fixtures | 285,800 | 264,823 |
| Leasehold improvements | 19,886 | 19,886 |
| | 1,286,580 | 1,002,621 |
| Less accumulated depreciation and amortization | 597,486 | 401,197 |
| | $ 689,094 | $ 601,424 |

5. 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 and ending December 31, 2000. This amount was accrued and charged to operations in the year ended December 31, 1998.

6. 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 |
|---|---|---|---|
| 1999: | | | |
| Basic and Diluted Loss Per Share | | | |
| <S> | <C> | <C> | <C> |

| | | | |
|---|---|---|---|
| Loss from continuing operations | ($ 965,632) | 8,324,469 | ($.12) |
| | ========== | ========= | ==== |
| 1998: | | | |
| Basic and Diluted Loss Per Share | | | |
| Loss from continuing operations | ($1,909,836) | 8,197,827 | ($.23) |
| | ========== | ========= | ==== |

</TABLE>

In 1999 and 1998, options and warrants were anti-dilutive.

7. 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.





7. Stock Options (Continued)

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 1999 and 1998, respectively: annual dividends of $-0- for both years, expected volatility of 174% and 80%, risk-free interest rate of 5.90% and 5.02%, and expected life of five years for all grants. The weighted-average fair value of stock options granted in 1999 and 1998 was $1.08 and $.83, respectively.

Under the above model, the total value of stock options granted in 1999 and 1998 was $801,945 and $1,044,745, respectively, which would be amortized ratably on a pro forma basis over the related vesting periods, which range from immediate vesting to five years (not including performance-based stock options granted in 1999 and 1998, 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:

| | 1999 | 1998 |
|---|---|---|
| Loss from continuing operations: | | |
| As reported | ($ 965,632) | ($1,909,836) |
| Pro forma | ( $3,293,360) | ($2,994,711) |
| Basic and diluted loss per share from continuing operations: | | |
| As reported | ($ .12) | ($ .23) |
| Pro forma | ($ .40) | ($ .37) |

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).

In March 1999, the Company repriced certain options granted to employees and third parties in previous years, representing the right to purchase

1,665,000 shares of common stock. The original grants gave the holders the right to purchase common stock at prices ranging from $1.25 to $5.00 per share. The options were repriced at prices ranging from $1.13 to $3.00 per share. The Company also granted options to employees, representing the right to purchase 630,000 shares of common stock at prices ranging from $1.13 to $1.24 per share. In addition, in October 1999, the Company repriced certain options granted to employees and third parties, representing the right to purchase 2,330,000 shares of common stock, of which 2,235,000 were part of the March 1999 grant. The original grants gave the holders the right to purchase common stock at prices ranging from $1.00 to $1.24 per share. The options were repriced at prices ranging from $.75 to $.83 per share. At the date of the 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.





7. Stock Options (Continued)

Performance-Based Stock Options

Under its 1995 Stock Incentive Plan, the Company had granted options to certain key executives whose vesting was entirely contingent upon the future profits (as defined) for the division or subsidiary or commissions earned under the management of the related key executive. As of January 1, 1998, there were 1,100,000 of such options outstanding. During 1998, the Company terminated and cancelled 950,000 of such options. During 1999, the Company terminated the remainder of the options.

Non-Incentive Stock Option Agreements

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

Summary

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

| <S> <C> | Number of Shares <C> | Exercise Price Range <C> <C> | Weighted Average Exercise Price <C> |
|---|---|---|---|
| Options outstanding, January1, 1998 | 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 granted | 5,035,000 | .75 - 3.00 | 1.02 |
| Options canceled | (4,352,500) | 1.00 - 5.00 | 1.54 |
| Options outstanding, December 31, 1999 | 3,960,000 | .12 - 3.75 | .91 |
| Options exercisable, December 31, 1998 | 1,552,500 | .12 - 5.00 | 1.36 |
| Options exercisable, December 31, 1999 | 2,712,914 | .12 - 3.75 | .92 |

</TABLE>

The following table summarizes information about the options outstanding at December 31, 1999 other than performance-based stock options:
<TABLE>
<CAPTION>

| Range of Exercise Price | Outstanding Options: Number Outstanding | Outstanding Options: Weighted Average Remaining Contractual Life (Years) | Outstanding Options: Weighted Average Exercise Price | Options Exercisable: Number Exercisable | Options Exercisable: Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $.14 - $.22 | 450,000 | .46 | $0.19 | 450,000 | $0.19 |
| $.75 - $1.56 | 3,190,000 | 3.11 | $0.87 | 1,976,248 | $0.90 |
| $1.75 - $3.75 | 320,000 | 3.33 | $2.36 | 286,666 | $2.28 |





7. Stock Options (Continued)

driversshield.com Corp.

During 1999, the Company's subsidiary, driversshield.com Corp. established the "driversshield.com Corp. 1999 Stock Option Plan." Under this plan, options may be granted to employees of driversshield.com Corp or the Parent or other subsidiaries of the Company, and outside directors for up to 2,000,000 shares of common stock. Under this plan, incentive stock options may be granted at no less than fair market value of the driversshield.com Corp. stock at the date of grant, and in the case of an optionee who owns directly or indirectly more than 10% of the outstanding voting stock, 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. No options have been granted as of December 31, 1999.

8. Common Stock and Stock Warrants

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. 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.

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 years ended December 31, 1999 and 1998, 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.

9. Preferred Stock Purchase Rights

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 or (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 shareholders.

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 (1) when a person or group acquires 20% or more of the Company's common stock (10% in the case of an Adverse Person as defined) and 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) or (2) on the tenth business 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 1/1000 of a share of the JPPS at an exercise price of $27.50 per 1/1000 of a share, subject to adjustment.

10. 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 $8,671 and $9,632 in 1999 and 1998.

11. Commitments and Contingencies

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. A portion of the premise is subleased under a lease expiring June 2000. Sublease income was $39,728 for the year ended December 31, 1999. Rent expense including real estate taxes for the years ended December 31, 1999 and 1998 aggregated $178,490 and $253,531, respectively.

As of December 31, 1999, the Company's future minimum rental commitments, net of sublease income of $20,000 to be received in 2000, are approximately as follows:

| | |
|---|---|
| 2000 | $164,000 |
| 2001 | 191,600 |
| 2002 | 48,400 |
| | $404,000 |

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 Office ("CEO") and $150,000 to the President.

In March 1999, in consideration for several senior executives who volunteered to temporarily reduce 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. These options were subsequently repriced in October 1999 (see Note 7). All grants were at no less than the fair market value at date of grant or repricing. 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. During the year ended December 31, 1999, salary reductions were approximately $123,000.

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.

Purchase Commitment

In September 1999, the Company entered into an agreement with a vendor for the design, development and operational services for an Internet website.

The Company will pay the vendor the lesser of $350,000 or the actual rate determined by the number of hours accumulated on the project as defined for the design and development services. The operational services require the Company to compensate the vendor with 30% of any net revenue





during the first contract year, provided, however, that the Company shall be entitled to retain for itself 100% of the net revenue until it has recouped the amount paid for the design and development services. After the Company has recouped the amount for the design and development services, the vendor shall be paid 100% of the revenue until it has recouped its cost, as defined. During the remainder of the contract which expires December 31, 2003, the vendor shall be paid between 35% to 42% of any net revenue generated from the website. Through December 31, 1999, the Company has expensed $168,794 for the development of the website.

Litigation

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 in excess of $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. Both parties have cross-motions for partial summary judgment pending before the Court and are awaiting a decision. 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.

12. Income Taxes

The Company accounts for income taxes according to the provisions of Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes." Under the liability method specified by SFAS 109, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which will be in effect when these differences reverse.

At December 31, 1999, the Company has an operating loss carryforward of approximately $4,950,000 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 $1,880,000 and $1,520,000 at December 31, 1999 and 1998 due to the uncertainty of realizing the benefit of the loss carryforwards.

At December 31, 1999, 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 |
| 2018 | 1,973,000 |
| 2019 | 950,000 |
| | $4,950,000 |

12. Income Taxes (Continued)

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

| | 1999 | 1998 |
|---|---|---|
| Federal statutory rate | (34.0%) | (34.0%) |
| Valuation allowance | 34.0 | 34.0 |
| State income taxes | 2.0 | .4 |
| | 2.0% | .4% |

13. Advertising Expense

Advertising expense, which is expensed as incurred, amounted to $95,947 and $125,873 in 1999 and 1998.

14. Discontinued Operations

At June 30, 1997, the Company decided to discontinue its direct-response marketing division. Accordingly, the loss on disposal of the division has been segregated from continuing operations and reported separately on the statement of operations.

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 a loss of $93,922 during the year ended December 31, 1998 which is reflected as a disposal loss in the accompanying financial statements. As of December 31, 1998, there were no remaining assets or liabilities of this division.

15. Fourth Quarter Adjustments

During the fourth quarter of the year ended December 31, 1998, the Company recorded a severance agreement (see Note 5) and an accrual for consulting services of $50,000, applicable to earlier periods in 1998.



<TABLE>
<CAPTION>

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(UNAUDITED)

ASSETS

| <S> | <C> |
|---|---|
| Current assets: | |
| Cash and cash equivalents | $1,146,604 |
| Accounts receivable, less allowance for doubtful accounts of $28,223 | 1,450,423 |
| Investment securities | 759,476 |
| Prepaid expenses and other current assets | 37,840 |
| Total current assets | 3,394,343 |
| Property and equipment, net of accumulated depreciation of $706,581 | 693,776 |
| Security deposits and other assets | 32,268 |
| Total assets | $4,120,387 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | |
|---|---|
| Current liabilities: | |
| Accounts payable | $ 759,905 |
| Accrued expenses and other current liabilities | 699,694 |
| Current portion of long-term debt | 38,557 |
| Total current liabilities | 1,498,156 |
| Shareholders' equity: | |
| Common stock, $.015 par value, authorized 20,000,000 shares; issued 10,841,655 shares | 162,625 |
| Preferred stock, $.01 par value, authorized 1,000,000 shares; none issued or outstanding | -- |
| Additional paid-in capital | 8,881,203 |

| | |
|---|---|
| Accumulated other comprehensive loss, unrealized holding loss on investment securities | ( 4,664) |
| Deficit | ( 5,330,899) |
| | 3,708,265 |
| Less common stock held in treasury, at cost, 523,786 shares | 1,086,034 |
| Total shareholders' equity | 2,622,231 |
| Total liabilities and shareholders' equity | $4,120,387 |

</TABLE>

See notes to condensed consolidated financial statements.



<TABLE>
<CAPTION>

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

| | Six Months Ended | |
|---|---|---|
| | June 30, 2000 | June 30, 1999 |
| Revenue: | | |
| <S> | <C> | <C> |
| Collision repairs and fleet management services | $2,882,976 | $3,016,400 |
| Subrogation and salvage service commissions | 72,801 | 146,254 |
| Automobile affinity services | 455,257 | 159,958 |
| Total revenues | 3,411,034 | 3,322,612 |
| Cost of revenue (principally charges incurred at repair facilities for services) | 2,433,484 | 2,564,971 |
| Gross profit | 977,550 | 757,641 |
| Operating expenses: | | |
| Selling | 97,523 | 120,411 |
| General and administrative | 893,014 | 795,609 |
| Total operating expenses | 990,537 | 916,020 |
| | (12,987) | ( 158,379) |
| Investment and other income | 29,690 | 35,175 |
| Income (loss) from operations before income taxes | 16,703 | ( 123,204) |
| Income taxes, all current | 2,525 | - |
| Net income (loss) | $ 14,178 | ($ 123,204) |
| Basic and diluted earnings (loss) per share: | | |
| Basic | $ .00 | ($ .01) |
| Diluted | $ .00 | ($ .01) |
| Weighted average number of common shares outstanding | 10,192,434 | 8,331,800 |
| Effect of dilutive securities, stock options, warrants | 1,518,192 | - |
| Weighted average diluted common shares outstanding | 11,710,626 | 8,331,800 |

</TABLE>

See notes to condensed consolidated financial statements.



<TABLE>
<CAPTION>

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

| | Six Months Ended June 30, 2000 | Six Months Ended June 30, 1999 |
|---|---|---|
| Revenue: | | |
| <S> | <C> | <C> |
| Collision repairs and fleet management services | $5,555,731 | $5,765,448 |
| Subrogation and salvage service commissions | 218,020 | 260,261 |
| Automobile affinity services | 878,327 | 287,321 |
| Total revenues | 6,652,078 | 6,313,030 |
| Cost of revenue (principally charges incurred at repair facilities for services) | 4,703,513 | 4,902,269 |
| Gross profit | 1,948,565 | 1,410,761 |
| Operating expenses: | | |
| Selling | 194,700 | 210,050 |
| General and administrative | 1,715,936 | 1,610,961 |
| Total operating expenses | 1,910,636 | 1,821,011 |
| | 37,929 | ( 410,250) |
| Other income (expense): | | |
| Realized loss on investment | ( 1,518) | - |
| Investment and other income | 66,405 | 79,104 |
| Total other income | 64,887 | 79,104 |
| Income (loss) from operations before income taxes | 102,816 | ( 331,146) |
| Income taxes, all current | 4,700 | - |
| Net income (loss) | $ 98,116 | ($ 331,146) |
| Basic and diluted earnings (loss) per share: | | |
| Basic | $ .01 | ($ .04) |
| Diluted | .01 | ( .04) |
| Weighted average number of common shares outstanding | 9,406,449 | 8,331,800 |
| Effect of dilutive securities, stock options, warrants | 2,560,186 | - |
| Weighted average diluted common shares outstanding | 11,966,635 | 8,331,800 |

</TABLE>

See notes to condensed consolidated financial statements.



<TABLE>
<CAPTION>

FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | Six Months Ended June 30, 2000 | Six Months Ended June 30, 1999 |
|---|---|---|
| Cash flows provided by (used in) operating activities: | | |
| <S> | <C> | <C> |
| Net income (loss) | $ 98,116 | ($ 331,146) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 115,173 | 82,502 |
| Realized loss on investment | 1,518 | -- |
| Provision for bad debts | -- | -- |
| Options granted for services | 39,967 | -- |
| Changes in assets and liabilities: | | |
| Accounts receivable | 344,317 | ( 442,891) |
| Prepaid expenses and other current assets | 1,536 | 24,709 |
| Security deposit and other assets | 3,020 | ( 29,248) |
| Accounts payable | ( 178,513) | ( 231,400) |
| Accrued expenses and other current liabilities | ( 47,873) | 666,152 |

| | | |
|---|---|---|
| Total adjustments | 279,145 | 69,824 |
| Net cash provided by (used in) operating activities | 377,261 | ( 261,322) |
| Cash flows provided by (used in) investing activities: | | |
| Purchase of property and equipment | ( 119,855) | ( 15,117) |
| Purchase of investments | ( 25,302) | -- |
| Proceeds from sale of investments | 300,000 | -- |
| Net cash provided by (used in) investing activities | 154,843 | ( 15,117) |
| Cash flows provided by (used in) financing activities: | | |
| Repayment of long-term debt | ( 11,956) | ( 15,859) |
| Proceeds from disgorgement of short-swing profits | 75,097 | -- |
| Proceeds from issuance of common stock | 9,000 | -- |
| Net cash provided by (used in) financing activities | 72,141 | ( 15,859) |
| Net increase (decrease) in cash and cash equivalents | 604,245 | ( 292,298) |
| Cash and cash equivalents at beginning of period | 542,359 | 2,782,180 |
| Cash and cash equivalents at end of period | $ 1,146,604 | $ 2,489,882 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for income taxes | $ 4,700 | $ -- |

</TABLE>

See notes to condensed consolidated financial statements.



FIRST PRIORITY GROUP, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2000

(UNAUDITED)

1. Unaudited Financial Statements

The information contained in the condensed consolidated financial statements for the period ended June 30, 2000 is unaudited, but includes all adjustments, consisting of normal recurring adjustments, which the Company considers necessary for a fair presentation of the financial position and the results of operations for these periods.

The financial statements and notes are presented as permitted by Form 10-QSB, and do not contain certain information included in the Company's annual statements and notes. These financial statements should be read in conjunction with the Company's annual financial statement as reported in its most recent annual report on Form 10-KSB.

For the six month period ending June 30, 2000, there were no significant non-owner sources of income or expense. Accordingly, a separate statement of comprehensive income has not been presented herein.

2. Business of the Company

The Company, a New York corporation formed on June 28, 1985, is engaged in the administration and provision 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 office is located at 51 East Bethpage Road, Plainview, New York 11803 and its telephone number is (516) 694-1010.

3. Results of Operations

The unaudited results of operations for the six months ended June 30, 2000 are not necessarily indicative of the results to be expected for the full year.

4. Earnings Per Share

Basic earnings (loss) per share is computed by dividing earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur

if common stock equivalents, such as stock options and warrants, were exercised. During the three and six month periods ended June 30, 1999 there was no dilutive effect from stock options and warrants.



No dealer, salesman or other person has been authorized to give any information or to make representations other than those contained in this prospectus, and if given or made, such information or representations must not be relied upon as having been authorized by us or the selling shareholders. Neither the delivery of this prospectus nor any sale hereunder will, under any circumstances, create an implication that the information herein is correct as of any time subsequent to its date. This prospectus does not constitute an offer to or solicitation of offers by anyone in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such an offer is not qualified to do so or to anyone to whom it is unlawful to make such an offer or solicitation.

6,896,146 SHARES

FIRST PRIORITY GROUP, INC.

COMMON STOCK

---------------------------

PROSPECTUS

---------------------------

_________, 2000

# PART II

## INFORMATION NOT REQUIRED IN PROSPECTUS

### Item 24. Indemnification of Directors and Officers

Reference is made to Section 402(b) of the New York Business Corporation Law (the "NYBCL"), which enables a corporation in its original certificate or an amendment thereto to eliminate or limit the personal liability of a director for violations of the director's fiduciary duty, except for the liability of any director if a judgment or other final adjudication adverse to him establishes that (i) his acts or omissions were in bad faith or involved intentional misconduct or a knowing violation of law or (ii) he personally gained in fact a financial profit or other advantage to which he was not legally entitled or (iii) his acts violated Section 719 of the NBYCL (providing for liability of directors for unlawful payment of dividends or unlawful stock purchases or redemptions). The Registrant's articles of incorporation contains provisions permitted by Section 402(b) of the NYBCL.

Reference also is made to Section 722 of the NYBCL which provides that a corporation may indemnify any persons, including officers and directors, who are, or are threatened to be made, parties to any threatened, pending or completed legal action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of such corporation), by reason of the fact that such person was an officer, director, employee or agent of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgements, fines and amounts paid in settlement actually and necessarily incurred by such person in connection with such action, suit or proceeding, provided such officer, director, employee or agent acted in good faith and in a manner he reasonably believed to be in or not opposed to the corporation's best interests and, for criminal proceedings, had no reasonable cause to believe that his conduct was unlawful. A New York corporation may indemnify officers and directors in an action by or in the right of the corporation under the same conditions, except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation. Where an officer or director is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him against the expenses which such officer or director actually and reasonably incurred.

The Registrant's articles of incorporation provides for indemnification of directors and officers of the Registrant to the fullest extent permitted by the NYBCL. The Registrant has obtained liability insurance for each director and officer for certain losses arising from claims or charges made against them while acting in their capacities as directors or officers of the Registrant.

### Item 25. Other Expenses of Issuance and Distribution.

The Registrant estimates that expenses payable by the Registrant in connection with the offering described in this Registration Statement will be as follows:

| | Total |
|---|---|
| SEC registration fee (actual) | $2,762.28 |
| Accounting fees and expenses | $4,500 |
| Legal fees and expenses | $13,151.74 |
| Printing and engraving expenses | $1,000 |
| Miscellaneous expenses | $1,000 |

Item 26. Recent Sales of Unregistered Securities

In August 1997 we raised $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 $2.00 per share. A private investment group and one executive participated in this placement.

In December 1997, we 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.



Item 27. Exhibits.

(a) List of Exhibits

| No. | Description |
|---|---|
| 3.1 | Articles of incorporation of First Priority, as amended (incorporated by reference to Exhibit 19.1 to First Priority's Quarterly Report on Form 10-QSB for the quarterly period ended March 31, 1991). |
| 3.2 | Amendment to the articles of incorporation (incorporated by reference to Exhibit 3.1 of First Priority's Form 10-QSB for the period ended September 30, 1996). |
| 3.3 | Amended and restated bylaws of First Priority (incorporated by reference to Exhibit 4 to First Priority's Current Report on Form 8-K dated December 28, 1998). |
| 5.1* | Opinion of Kramer Levin Naftalis & Frankel LLP. |
| 10.1 | The Company's 1995 Incentive Stock Plan (incorporated by reference to Exhibit 10.1 of First Priority's Form 10-QSB for the period ended September 30, 1996). |
| 10.2 | Lease Agreement dated December 6, 1996 between First Priority and 51 East Bethpage Holding Corporation for lease of First Priority's facilities in Plainview, New York (incorporated by reference to Exhibit 10.3 of First Priority'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 First Priority and 51 East Bethpage Holding Corporation (incorporated by reference to Exhibit 10.4 of First Priority's Form 10-QSB for the period ended June 30, 1997). |
| 10.4 | Employment Agreement dated March 23, 1998 between First Priority and Gerald M. Zutler (incorporated by reference to Exhibit 10.1 of First Priority's Form 10-QSB for the period ended March 31, 1998). |
| 10.5 | Employment Agreement dated October 8, 1998 between First Priority and Barry Siegel (incorporated by reference to Exhibit 10.17 of First Priority's Form 10-KSB for the year ended December 31, 1998). |
| 10.6 | Employment Agreement dated October 2, 1998 between First Priority and Barry J. Spiegel (incorporated by reference to Exhibit 10.18 of First Priority's Form 10-KSB for the year ended December 31, 1998). |
| 10.7 | Employment Agreement dated December 14, 1998 between First Priority and Lisa Siegel (incorporated by reference to Exhibit 10.19 of First Priority's Form 10-KSB for the year ended December 31, 1998). |
| 10.8 | Employment Agreement dated October 8, 1998 between First Priority and Gerald M. Zutler (incorporated by reference to Exhibit 10.20 of First Priority's Form 10-KSB for the year ended December 31, 1998). |
| 10.9 | Severance Agreement dated August 17, 1998 between First Priority and Michael Karpoff (incorporated by reference to Exhibit 10.21 of First Priority's Form 10-KSB for the year ended December 31, 1998). |
| 10.10 | Service Agreement dated November 29, 1999 between First Priority, driversshield.com Corp., Electronic Systems Corporation and EDS |

Information Services L.L.C (incorporated by reference to Exhibit 10.10 of First Priority's Form 10-KSB for the year ended December 31, 1998).

10.11 driversshield.com Corp. 1999 Stock Option Plan (incorporated by reference to Exhibit 10.11 of First Priority's Form 10-KSB for the year ended December 31, 1999).

10.12 * Engagement Letter dated April 6, 2000 from Ladenburg Thalmann & Co., Inc. to First Priority Group, Inc.

10.13 * Common Stock Purchase Agreement dated May 31, 2000 between First Priority and Suerez Enterprises Limited, a British Virgin Islands corporation with exhibits.

10.14 * Amendment to Common Stock Purchase Agreement dated September 29, 2000 between First Priority Group, Inc. and Suerez Enterprise Limited.

10.15 * Registration Rights Agreement dated May 31, 2000 between First Priority Group, Inc. and Suerez Enterprises Limited.



13.1 Form 10-KSB for the year ended December 31, 1999 (incorporated by reference and previously filed with the Commission).

13.2 Form 10-QSB for the quarter ending March 31, 2000 (incorporated by reference and previously filed with the Commission).

13.3 Form 10-QSB for the quarter ending June 30, 2000 (incorporated by reference and previously filed with the Commission).

21 List of subsidiaries (incorporated by reference to Exhibit 21 of First Priority's Form 10-KSB for the year ended December 31, 1999).

23.1 * Consent of Nussbaum Yates & Wolpow, P.C.

23.2 * Consent of Kramer Levin Naftalis & Frankel LLP (contained in the opinion filed as Exhibit 5.1 hereto).

24.1* Power of Attorney (contained on the signature page of this Registration Statement).

(b) Reports on Form 8-K

None

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* Filed herewith

Item 28. Undertakings

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

i. To include any prospectus required by Section 10(a)(3) of the Securities Act;

ii. To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement(or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement;

iii. To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

provided, however, that clauses (i) and (ii) do not apply if the Registration Statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by such clauses is contained in periodic reports file with or furnished to the Commission by the Registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

- ----------------------
1        Required?



SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the Plainview, New York, on October 18, 2000.

FIRST PRIORITY GROUP, INC.

By: /s/ Barry Siegel
------------------------------------
Name: Barry Siegel
Title: Chairman of the Board, Treasurer, Secretary, Chief Executive Officer and Principal Accounting Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Barry Siegel his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ Barry Siegel<br>Barry Siegel | Chairman of the Board, Treasurer, Secretary, Chief Executive Officer and Principal Accounting Officer | October 18, 2000 |
| /s/ Barry J. Spiegel<br>Barry J. Spiegel | Director, President of Affinity Services Division | October 18, 2000 |
| /s/ Gerald M. Zutler<br>Gerald M. Zutler | President and Chief Operating Officer | October 18, 2000 |
| /s/ Kenneth J. Friedman<br>Kenneth J. Friedman | Director | October 18, 2000 |
| R. Frank Mena | Director | |



EXHIBIT INDEX

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| 3.3 | Amended and restated bylaws of First Priority (incorporated by reference to Exhibit 4 to First Priority's Current Report on Form 8-K |

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23.2 * Consent of Kramer Levin Naftalis & Frankel LLP (contained in the opinion filed as Exhibit 5.1 hereto).

24.1* Power of Attorney (contained on the signature page of this Registration Statement).

- --------------------

* Filed herewith

Exhibit 5.1

KRAMER LEVIN NAFTALIS & FRANKEL LLP

919 THIRD AVENUE

NEW YORK, N.Y. 10022 - 3852

TEL (212) 715-7787
FAX (212) 715-8047

47, Avenue Hoche
75008 Paris
France

October 2, 2000

First Priority Group, Inc.
51 East Bethpage Road
Plainview, New York 11803

Registration Statement on Form SB-2

Ladies and Gentlemen:

We have acted as counsel to First Priority Group, Inc., a New York corporation ("First Priority"), in connection with the preparation and filing of a Registration Statement on Form SB-2 (the "Registration Statement") with the Securities and Exchange Commission (the "Commission"), with respect to the registration for resale under the Securities Act of 1933, as amended (the "Act"), of an aggregate of 6,896,146 shares of First Priority's common stock, par value $.015 per share (the "Stock"), of which 6,314,896 shares are being registered for issuance to Suerez Enterprises Limited pursuant to a common stock purchase agreement and 581,250 shares of which are issuable to the selling shareholder named in the Registration Statement upon the exercise of certain warrants (those 6,896,146 shares, the "Shares").

In connection with the registration of the Shares, we have reviewed such documents and records as we have deemed necessary to enable us to express an opinion on the matters covered hereby. In rendering this opinion, we have (a) assumed (i) the genuineness of all signatures on all documents examined by us, (ii) the authenticity of all documents submitted to us as originals, and (iii) the conformity to original documents of all documents submitted to us as photostatic or conformed copies and the authenticity of the originals of such copies; and (b) relied on (i) certificates of public officials and (ii) as to matters of fact, statements and certificates of officers and representatives of First Priority.

Based upon the foregoing, we are of the opinion that the Shares that are currently issued and outstanding have been validly issued, fully paid and non-assessable, and that the remaining Shares will, upon issuance, be validly issued, fully paid and non-assessable.

We hereby consent to the use of this opinion as an exhibit to the Registration Statement. In giving the foregoing consent, we do not thereby admit that we are in the category of persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission thereunder.

Very truly yours,

/s/ Kramer Levin Naftalis & Frankel LLP

Exhibit 10.2

April 6, 2000

Barry Siegel
Chairman/ Chief Executive Officer
First Priority Group, Inc.
51 East Bethpage Road
Plainview, NY 11803

Dear Mr. Siegel:

The purpose of this letter agreement (the "Agreement") is to set forth the terms and conditions pursuant to which Ladenburg Thalmann & Co. Inc. ("LTCO") shall serve as exclusive placement agent in connection with the proposed offering of equity securities (the "Securities") of First Priority Group, Inc. (the "Company") pursuant to a registration statement, wherein the commitment for the offering will be for $10,000,000 (the "Offering"). All references to dollars shall be to U.S. dollars. The terms of such Offering and the Securities shall be substantially in the form set forth in Exhibit D hereto, which exhibit is incorporated by reference herein.

Upon the terms and subject to the conditions of this Agreement, the parties hereto agree as follows:

1. Appointment. (a) Subject to the terms and conditions of this Agreement hereinafter set forth, the Company hereby retains LTCO, and LTCO hereby agrees to act as the Company's exclusive placement agent and financial advisor in connection with the Offering, effective as of the date hereof. The Company expressly acknowledges and agrees that LTCO's obligations hereunder are on a reasonable best efforts basis only and that the execution of this Agreement does not constitute a commitment by LTCO to purchase the Securities and does not ensure the successful placement of the Securities or any portion thereof or the success of LTCO with respect to securing any other financing on behalf of the Company.

(b) Except as set forth below in this Section 1, during the effectiveness of this Agreement, neither the Company nor any of its subsidiaries or affiliates shall, directly or indirectly, through any officer, director, employee, agent or otherwise (including, without limitation, through any placement agent, broker, investment banker, attorney or accountant retained by the Company or any of its subsidiaries or affiliates), solicit, initiate or encourage the submission of any proposal or offer (an "Investment Proposal") from any person or entity (including any of such person's or entity's officers, directors, employees, agents and other representatives) except for those entities or persons listed on Exhibit E relating to any issuance of the Company's or any of its subsidiaries' equity securities (including debt securities with any equity feature) or relating to any other transaction having a similar effect or result on the Company's or any of its subsidiaries' capitalization, or participate in any discussions or negotiations regarding, or furnish to any other person or entity any information with respect to, or otherwise cooperate in any way with, or assist or participate in, facilitate or encourage any effort or attempt by any other person or entity to do or seek to do any of the foregoing. The Company shall immediately cease and cause to be terminated any and all contacts, discussions and negotiations with third parties regarding any Investment Proposal except for those entities or persons listed on Exhibit E. The Company shall promptly notify LTCO if any such Investment Proposal, or any inquiry or contact with any person or entity with respect thereto, is made. The Company shall not provide or release any information with respect to this Agreement or the Offering except as required by law.

(c) Notwithstanding anything to the contrary contained herein, in the event that LTCO shall not provide to the Company within 30 days after the date hereof, one or more qualified institutional investors reasonably acceptable to the Company willing to invest in the Offering on substantially the same terms as outlined in the term sheet marked Exhibit D with documentation that is

reasonably satisfactory to the Company and its counsel, the Company shall have the right to terminate this Agreement upon a ten-day written notice.

2. Fees and Compensation. In consideration of the services rendered by LTCO in connection with the Offering, the Company agrees to pay LTCO the following fees and other compensation:

(a) 1) 2% warrant coverage on $5 million as commitment fee; one half of which shall be payable immediately upon the initial closing which will be the date of the completion of the initial draw down under the Offering and the remainder of which shall be payable six months after such date; after the Company draws down at least $5 million under the Offering, 4% warrant coverage on the amount draw down by the Company at each subsequent closing payable at the applicable subsequent closing which will be the date of the completion of the applicable subsequent draw down under the Offering. The warrant coverage shall be determined as follows: 1% * (for the initial and six months later closing) $5 million or (for subsequent closings) the amount drawn down by the Company at the applicable subsequent closing / the volume weighted average price ("VWAP") of the



Company's common stock on the trading day immediately preceding the applicable closing. The Warrants shall have a term of three years and a strike price equal to 150% of the VWAP of the Company's common stock on the trading day immediately preceding the applicable closing; and

2) a cash fee payable upon the initial and each subsequent closing equal to 4% of the amount drawn down by the Company at each such closing; and

(b) Reimbursement of reasonable and actual expenses incurred by LTCO in connection with the Offering, except legal fees shall not exceed $35,000 in the aggregate with those legal fees paid to the Investor(s) as set forth in Exhibit D herein. Such fees shall be refunded by LTCO to the Company out of the first Draw Down commission otherwise payable after the Company has drawn down at least $5 million.

(c) All amounts payable hereunder shall be paid to LTCO out of the Company's or investor's attorney escrow account at the closing.

(d) Should LTCO provide a qualified institutional investor(s) reasonably acceptable to the Company and such investor(s) is willing to invest in the Offering on substantially the same terms as outlined in the term sheet marked Exhibit D, with documentation that is reasonably satisfactory to the Company and its counsel, and the Company were to terminate the Agreement after April 6, 2000 or prior to March 31, 2001 (the "Termination Date"), for reasons other than a breach of this Agreement by LTCO, the Company will pay $100,000 to LTCO as a "break-up" fee.

3. Terms of Retention. (a) Unless extended or terminated in writing by the parties hereto in accordance with the provisions hereof, this Agreement shall remain in effect until the Termination Date of March 31, 2001 or the full commitment of the Offering is invested, which ever is earlier.

(b) Notwithstanding anything herein to the contrary, the obligation to pay the Fees and Compensation and Expenses described in Section 2, if any, and paragraphs 2, 6, and 8 of Exhibit A and all of Exhibit B and Exhibit C attached hereto, each of which exhibits is incorporated herein by reference, shall survive any termination or expiration of the Agreement. It is expressly understood and agreed by the parties hereto

that any private financing of equity or debt or other capital raising activity of the Company within 24 months of the termination or expiration of this Agreement, with any investors to whom the Company was introduced by LTCO or who was contacted by LTCO while this Agreement was in effect and disclosed to the Company in writing, shall result in such fees and compensation being due and payable by the Company to LTCO under the same terms of Section 2 above.

4. Right of First Refusal. Upon completion of the Offering, LTCO shall have an irrevocable right of first refusal for a period of one year to provide all financing



arrangements for the Company (other than conventional banking arrangements, borrowing and commercial debt financing and discrete unrelated transactions of not more than $250,000 where no investment banking fee is being paid). LTCO shall exercise such right in writing within five (5) business days of receipt of a written term sheet describing such proposed transaction in reasonable detail.

5. Information. The Company recognizes and confirms that in completing its engagement hereunder, LTCO will be using and relying on publicly available information and on data, material and other information furnished to LTCO by the Company or the Company's affiliates and agents. It is understood and agreed that in performing under this engagement, LTCO will rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished. Notwithstanding the foregoing, it is understood that LTCO will conduct a due diligence investigation of the Company and the Company will cooperate in all respects with such investigation as a condition of LTCO's obligations hereunder.

6. Registration. The Company shall prepare and file with the SEC a registration statement. From time to time in connection with any particular sale of Securities, the Company will, at its own expense, obtain any registration or qualification required to sell any Securities under the Blue Sky laws of any applicable jurisdictions, as reasonably requested by LTCO.

7. No General Solicitation. The Securities will be offered only by approaching prospective purchasers on an individual basis. No general solicitation or general advertising in any form will be used in connection with the offering of the Securities. From and after the filing of the registration statement, the Company shall pre-clear any proposed press release with LTCO which consent shall not be unreasonably withheld.

8. Closing. The closing of the sale of the Securities shall be subject to customary closing conditions, including the provision at closing by the Company of officers' certificates, opinions of counsel and "cold comfort" letters from the Company's auditors.

9. Miscellaneous. This Agreement together with the attached Exhibits A through E constitutes the entire understanding and agreement between the parties with respect to its subject matter and there are no agreements or understandings with respect to the subject matter hereof which are not contained in this Agreement. This Agreement may be modified only in writing signed by the party to be charged hereunder.



If the foregoing correctly sets forth our agreement, please confirm this by signing and returning to us the duplicate copy of this letter.

We appreciate this opportunity to be of service and are looking forward

to working with you on this matter.

Very truly yours,

LADENBURG THALMANN & CO. INC.

By: ------------------------------------
Name:
Title:

Agreed to and accepted as of the date first written above:

First Priority Group, Inc.

By: --------------------------------------------
Name:
Title:



EXHIBIT A

STANDARD TERMS AND CONDITIONS

1. The Company shall promptly provide LTCO with all relevant information about the Company (to the extent available to the Company in the case of parties other than the Company) that shall be reasonably requested or required by LTCO, which information shall be accurate in all material respects at the time furnished.

2. LTCO shall keep all information obtained from the Company strictly confidential except: (a) information which is otherwise publicly available, or previously known to, or obtained by LTCO independently of the Company and without breach of LTCO's agreement with the Company; (b) LTCO may disclose such information to its employees and attorneys, and to its other advisors and financial sources on a need to know basis only and shall ensure that all such employees, attorneys, advisors and financial sources will keep such information strictly confidential; and (c) pursuant to any order of a court of competent jurisdiction or other governmental body or as may otherwise be required by law.

3. The Company recognizes that in order for LTCO to perform properly its obligations in a professional manner, it is necessary that LTCO be informed of and, to the extent practicable, participate in meetings and discussions between the Company and any third party relating to the matters covered by the terms of LTCO's engagement.

4. The Company agrees that any report or opinion, oral or written, delivered to it by LTCO is prepared solely for its confidential use and shall not be reproduced, summarized, or referred to in any public document or given or otherwise divulged to any other person without LTCO's prior written consent, except as may be required by applicable law or regulation.

5. No fee payable to LTCO pursuant to any other agreement with the Company or payable by the Company to any agent, lender or investor shall reduce or otherwise affect any fee payable by the Company to LTCO hereunder.

6. The Company represents and warrants that: (a) it has full right, power and authority to enter into this Agreement and to perform all of its obligations hereunder; (b) this Agreement has been duly authorized and executed and constitutes a valid and binding agreement of the Company enforceable in accordance with its terms; and (c) the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby does not conflict with or result in a breach of (i) the Company's certificate of incorporation or by-laws or (ii) any agreement to which the Company is a party or by which any of its property or assets is bound.

EXHIBIT A (CONTINUED)

7. Nothing contained in this Agreement shall be construed to place LTCO and the Company in the relationship of partners or joint venturers. Neither LTCO nor the Company shall represent itself as the agent or legal representative of the other for any purpose whatsoever nor shall either have the power to obligate or bind the other in any manner whatsoever. LTCO, in performing its services hereunder, shall at all times be an independent contractor.

8. This Agreement has been and is made solely for the benefit of LTCO and the Company and each of the persons, agents, employees, officers, directors and controlling persons referred to in Exhibit B and their respective heirs, executors, personal representatives, successors and assigns, and nothing contained in this Agreement shall confer any rights upon, nor shall this Agreement be construed to create any rights in, any person who is not party to such Agreement, other than as set forth in this paragraph.

9. The rights and obligations of either party under this Agreement may not be assigned without the prior written consent of the other party hereto and any other purported assignment shall be null and void.

10. All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing and shall be mailed, hand delivered, or sent via facsimile and confirmed by letter, to the party to whom it is addressed at the following addresses or such other address as such party may advise the other in writing:

To the Company:
Barry Siegel
First Priority Group, Inc.
51 East Bethpage Road
Plainview, NY 11803
Telephone: (516) 694-1010
Facsimile: (516) 694-1202

To LTCO:
Ladenburg Thalmann & Co. Inc.
590 Madison Avenue
New York, NY 10022
Attention: David B. Boris
Telephone: (212) 409-2000
Facsimile: (212) 409-2169

All notices hereunder shall be effective upon receipt by the party to which it is addressed.



EXHIBIT B

INDEMNIFICATION

The Company agrees that it shall indemnify and hold harmless, LTCO, its stockholders, directors, officers, employees, agents, affiliates and controlling persons within the meaning of Section 20 of the Securities Exchange Act of 1934 and Section 15 of the Securities Act of 1933, each as amended (any and all of whom are referred to as an "Indemnified Party"), from and against any and all losses, claims, damages, liabilities, or expenses, and all actions in respect thereof (including, but not limited to, all legal or other expenses reasonably incurred by an Indemnified Party in connection with the investigation, preparation, defense or settlement of any claim, action or proceeding, whether or not resulting in any liability), incurred by an Indemnified Party: (a) arising out of, or in connection with, any actions taken or omitted to be taken

by the Company, its affiliates, employees or agents, or any untrue statement or alleged untrue statement of a material fact contained in any of the financial or other information contained in the registration statement and/or final prospectus furnished to LTCO by or on behalf of the Company or the omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; or (b) with respect to, caused by, or otherwise arising out of any transaction contemplated by the Agreement or LTCO's performing the services contemplated hereunder; provided, however, the Company will not be liable under clause (b) hereof to the extent, and only to the extent, that any loss, claim, damage, liability or expense is finally judicially determined to have resulted primarily from LTCO's negligence or bad faith in performing such services.

If the indemnification provided for herein is conclusively determined (by an entry of final judgment by a court of competent jurisdiction and the expiration of the time or denial of the right to appeal) to be unavailable or insufficient to hold any Indemnified Party harmless in respect to any losses, claims, damages, liabilities or expenses referred to therein, then the Company shall contribute to the amounts paid or payable by such Indemnified Party in such proportion as is appropriate and equitable under all circumstances taking into account the relative benefits received by the Company on the one hand and LTCO on the other, from the transaction or proposed transaction under the Agreement or, if allocation on that basis is not permitted under applicable law, in such proportion as is appropriate to reflect not only the relative benefits received by the Company on the one hand and LTCO on the other, but also the relative fault of the Company and LTCO.

The Company shall not settle or compromise or consent to the entry of any judgment in or otherwise seek to terminate any pending or threatened action, claim, suit or proceeding in which any Indemnified Party is or could be a party and as to which indemnification or contribution could have been sought by such Indemnified Party hereunder (whether or not such Indemnified Party is a party thereto), unless such consent or termination includes an express unconditional release of such Indemnified Party, reasonably satisfactory in form and substance to such Indemnified Party, from all losses,



claims, damages, liabilities or expenses arising out of such action, claim, suit or proceeding.

The foregoing indemnification and contribution provisions are not in lieu of, but in addition to, any rights which any Indemnified Party may have at common law hereunder or otherwise, and shall remain in full force and effect following the expiration or termination of LTCO's engagement and shall be binding on any successors or assigns of the Company and successors or assigns to all or substantially all of the Company's business or assets.



EXHIBIT C

## JURISDICTION

The Company hereby irrevocably: (a) submits to the jurisdiction of any court of the State of New York in NY or Nassau County or any federal court sitting in the State of New York in the Southern District or Eastern District for the purposes of any suit, action or other proceeding arising out of the Agreement between the Company and LTCO which is brought by or against the Company or LTCO; (b) agrees that all claims in respect of any suit, action or proceeding may be heard and determined in any such court; and (c) to the extent that the Company has acquired, or hereafter may acquire, any immunity from jurisdiction of any such court or from any legal process therein, the Company hereby waives, to the fullest extent permitted by law, such immunity.

The Company waives, and the Company agrees not to assert in any such suit, action or proceeding, in each case, to the fullest extent permitted by

applicable law, any claim that: (a) the Company is not personally subject to the jurisdiction of any such court; (b) the Company is immune from any legal process (whether through service or notice, attachment prior to judgment, attachment in the aid of execution, execution or otherwise) with respect to it or its property; (c) any such suit, action or proceeding is brought in an inconvenient forum; (d) the venue of any such suit, action or proceeding is improper; or (e) this Agreement may not be enforced in or by any such court.

Any process against the Company in, or in connection with, any suit, action or proceeding filed in the United States District Court or any other court of the State of New York, arising out of or relating to this Agreement or any transaction or agreement contemplated hereby, may be served on the Company personally, or overnight courier (with the same effect as though served upon the Company personally) addressed to the Company at the address set forth in the Agreement between the Company and LTCO.

Nothing in these provisions shall affect any party's right to serve process in any manner permitted by law or limit its rights to bring a proceeding in the competent courts of any jurisdiction or jurisdictions or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of law principles.

Exhibit 10.3

COMMON STOCK PURCHASE AGREEMENT

This COMMON STOCK PURCHASE AGREEMENT (this "Agreement") is dated as of May 31, 2000 by and between First Priority Group, Inc., a New York corporation (the "Company"), and Suerez Enterprises Limited (the "Purchaser").

The parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Certain Definitions.

(a) "Average Daily Price" shall be the price based on the VWAP of the Company on the Principal Market.

(b) "Draw Down" shall have the meaning assigned to such term in Section 6.1(a) hereof.

(c) "Draw Down Exercise Date" shall have the meaning assigned to such term in Section 6.1(b) hereof.

(d) "Draw Down Pricing Period" shall mean a period of twenty-two (22) consecutive Trading Days preceding a Draw Down Exercise Date.

(e) "Effective Date" shall mean the date the Registration Statement of the Company covering the Shares being subscribed for hereby is declared effective.

(f) "Material Adverse Effect" shall mean any adverse effect on the business, operations, properties or financial condition of the Company that is material and adverse to the Company and its subsidiaries and affiliates, taken as a whole and/or any condition, circumstance, or situation that would prohibit or otherwise materially interfere with the ability of the Company to perform any of its material obligations under this Agreement or the Registration Rights Agreement or to perform its obligations under any other material agreement.

(g) "Principal Market" shall mean initially the Nasdaq SmallCap Market, and shall include the American Stock Exchange, Nasdaq National Market or the New York Stock Exchange if the Company is listed and trades on such market or exchange. Principal Market shall not include the OTC Bulletin Board without the express written consent of the Purchaser.

(h) "Registration Statement" shall mean the registration statement under the Securities Act of 1933, as amended, to be filed with the Securities and Exchange Commission for the registration of the Shares pursuant to the Registration Rights Agreement attached hereto as Exhibit A.

(i) "SEC Documents" shall mean the Company's latest Form 10-K or 10-KSB as of the time in question, all Forms 10-Q or 10-QSB and 8-K filed thereafter, and the Proxy Statement for its latest fiscal year as of the time in question until such time as the Company no longer has an obligation to maintain the effectiveness of a Registration Statement as set forth in the Registration Rights Agreement.

(j) "Shares" shall mean, collectively, the shares of Common Stock of the Company being subscribed for hereunder and those shares of Common Stock issuable to the Purchaser upon exercise of the Warrants.



(k) "Threshold Price" is the lowest Average Daily Price at which the Company will sell its Common Stock with respect to this Agreement.

(l) "Trading Day" shall mean any day on which the Principal Market is open for business.

(m) "VWAP" shall mean the daily volume weighted average price of the Company's Common Stock on the NadaqSmall Cap Market or on any Principal Market as reported by Bloomberg Financial using the AQR function.

ARTICLE II

PURCHASE AND SALE OF COMMON STOCK

Section 2.1 Purchase and Sale of Stock. Subject to the terms and conditions of this Agreement, the Company may issue and sell to the Purchaser and the Purchaser shall purchase from the Company up to Ten Million Dollars $10,000,000 of the Company's Common Stock, $0.015 par value per share (the "Common Stock"), based on up 12 Draw Downs of up to Five Million Dollars ($5,000,000) per Draw Down.

Section 2.2 The Shares. The Company has authorized and has reserved and covenants to continue to reserve, free of preemptive rights and other similar contractual rights of stockholders, a sufficient number of its authorized but unissued shares of its Common Stock to cover the Shares to be issued in connection with all Draw Downs requested under this Agreement. Anything in this Agreement to the contrary notwithstanding, (i) at no time will the Company request a Draw Down which would result in the issuance of a number of shares of Common Stock pursuant to this Agreement which exceeds 19.9% of the number of shares of Common Stock issued and outstanding on the Closing Date without obtaining stockholder approval of such excess issuance, and (ii) the Company may not make a Draw Down to the extent that, after such purchase by the Purchaser, the sum of the number of shares of Common Stock beneficially owned by the Purchaser and its affiliates would result in beneficial ownership by the Purchaser and its affiliates of more than 9.9% of the then outstanding shares of Common Stock. For purposes of the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities and Exchange Act of 1934, as amended.

Section 2.3 Purchase Price and Closing. The Company agrees to issue and sell to the Purchaser and, in consideration of and in express reliance upon the representation, warranties, covenants, terms and conditions of this Agreement, the Purchaser agrees to purchase that number of the Shares to be issued in connection with each Draw Down. The closing under this Agreement shall take place at the offices of Epstein Becker & Green, P.C., 250 Park Avenue, New York, New York 10177 (the "Closing") within fifteen (15) days from the date hereof, or (ii) such other time and place or on such date as the Purchaser and the Company may agree upon (the "Closing Date"). Each party shall deliver all documents, instruments and writings required to be delivered by such party pursuant to this Agreement at or prior to the Closing.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1 Representation and Warranties of the Company. The Company hereby makes the following representations and warranties to the Purchaser:

(a) Organization, Good Standing and Power. The Company is a corporation duly incorporated validly existing and in good standing under the laws of the State of New York and has all requisite corporate authority to own, lease and operate its properties and assets and to carry on its business as now being conducted. The Company does not have any subsidiaries and does not own more that fifty percent (50%) of or control any other business entity except as set forth in the SEC Documents. The Company is duly qualified and is in good standing as a foreign corporation to do business in every jurisdiction in which the nature of the business



conducted or property owned by it makes such qualification necessary, other than those in which the failure so to qualify would not have a Material Adverse Effect on the Company's financial condition.

(b) Authorization, Enforcement. (i) The Company has the

requisite corporate power and corporate authority to enter into and perform its obligations under this Agreement, the Registration Rights Agreement, the Escrow Agreement and to issue the Draw Down Shares pursuant to their respective terms, (ii) the execution, issuance and delivery of this Agreement, the Registration Rights Agreement and the Escrow Agreement by the Company and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary corporate action and no further consent or authorization of the Company or its Board of Directors or stockholders is required, and (iii) this Agreement, the Registration Rights Agreement and the Escrow Agreement have been duly executed and delivered by the Company and at the initial Closing shall constitute valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation, conservatorship, receivership or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application. The Company has duly and validly authorized and reserved for issuance shares of Common Stock sufficient in number for the issuance of the Draw Down Shares.

(c) Capitalization. The authorized capital stock of the company consists of 20,000,000 shares of Common Stock, $0.015 par value per share, of which 8,598,467 shares are issued and outstanding and 1,000,000 shares of preferred stock, $0.01 par value per share, of which none are issued and outstanding. All of the outstanding shares of the Company's Common Stock have been duly and validly authorized and are fully-paid and non-assessable. Except as set forth in this Agreement and the Registration Rights Agreement and as set forth in the SEC Documents, or on Schedule 3.1(c) hereto, no shares of Common Stock are entitled to preemptive rights or registration rights and there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock of the Company. Furthermore, except as set forth in this Agreement and as set forth in the SEC Documents or on Schedule 3.1(c), there are no contracts, commitments, understandings, or arrangements by which the Company is or may become bound to issue additional shares of the capital stock of the Company or options, securities or rights convertible into shares of capital stock of the Company and is not a party to any agreement granting registration rights to any person with respect to any of its equity or debt securities. The Company is not a party to, and it has no knowledge of, any agreement restricting the voting or transfer of any shares of the capital stock of the Company. Except as set forth in the SEC Documents or on Schedule 3.1(c) hereto, the offer and sale of all capital stock, convertible securities, rights, warrants, or options of the Company issued prior to the Closing complied with all applicable federal and state securities laws, and no stockholder has a right of rescission or damages with respect thereto which would have a Material Adverse Effect on the Company's financial condition or operating results. The Company has made available to the Purchaser true and correct copies of the Company's Charter as in effect on the date hereof (the "Charter"), and the Company's Bylaws as in effect on the date hereof (the "Bylaws"). The Company has not received any notice from the Principal Market questioning or threatening the continued inclusion of the Common Stock on such market.

(d) Issuance of Shares. The Shares to be issued under this Agreement have been duly authorized by all necessary corporate action and, when paid for or issued in accordance with the terms hereof, the Shares shall be validly issued and outstanding, fully paid and non-assessable, and the Purchaser shall be entitled to all rights accorded to a holder of Common Stock.

(e) No Conflicts. The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated herein do not and will not (i) violate any provision of the Company's Charter or Bylaws, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, mortgage, deed of trust, indenture, note, bond, license, lease agreement, instrument or obligation to which the Company is a party, (iii) create or impose a lien, charge or encumbrance on any property of the Company under any agreement or any commitment to which the Company is a party or by which the Company is bound or by which any of its respective properties or assets are bound, or (iv) result in a violation of any federal, state, local or other foreign statute, rule, regulation, order, judgment or decree (including any federal and state or securities laws and regulations) applicable to the Company or any of its subsidiaries or by which

any property or asset of the Company or any of its



subsidiaries are bound or affected, except, in all cases, for such conflicts, defaults, termination, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect. The business of the Company and its subsidiaries is not being conducted in violation of any laws, ordinances or regulations of any governmental entity, except for possible violations which singularly or in the aggregate do not and will not have a Material Adverse Effect. The Company is not required under any federal, state or local law, rule or regulation to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement, or issue and sell the Shares in accordance with the terms hereof (other than any filings which may be required to be made by the Company with the Securities and Exchange Commission (the "Commission") or state securities administrators subsequent to the Closing and any registration statement which may be filed pursuant hereto); provided that, for purpose of the representation made in this sentence, the Company is assuming and relying upon the accuracy of the relevant representations and agreements of the Purchaser herein.

(f) Commission Documents, Financial Statements. The Common Stock of the Company is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, except as disclosed in the SEC Documents or on Schedule 3.1(f) hereto, the Company has timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the Commission pursuant to the reporting requirements of the Exchange Act, including material filed pursuant to Section 13(a) or 15(d) of the Exchange Act (all of the foregoing including filings incorporated by reference therein being referred to herein as the "Commission Documents"). The Company has delivered or made available to the Purchaser true and complete copies of the Commission Documents filed with the Commission since December 31, 1998. The Company has not provided to the Purchaser any information which, according to applicable law, rule or regulation, should have been disclosed publicly by the Company but which has not been so disclosed, other than with respect to the transactions contemplated by this Agreement. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the Commission promulgated thereunder applicable to such documents, and, as of their respective dates, none of the SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Commission Documents comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the Commission or other applicable rules and regulations with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements), and fairly present in all material respects the financial position of the Company and its subsidiaries as of the dates thereof and the results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments).

(g) Subsidiaries. The SEC Documents or Schedule 3.1(g) hereto sets forth each subsidiary of the Company, showing the jurisdiction of its incorporation or organization and showing the percentage of each person's ownership of the outstanding stock or other interests of such subsidiary. For the purposes of this Agreement, "subsidiary" shall mean any corporation or other entity of which at least a majority of the securities or other ownership interests having ordinary voting power (absolutely or contingently) for the election of directors or other persons performing similar functions are at the time owned directly or indirectly by the Company and/or any of its other subsidiaries. All of the outstanding shares of capital stock of each subsidiary have been duly authorized and validly issued, and are fully paid and non-assessable. There are no outstanding preemptive, conversion or other rights, options, warrants or agreements granted or issued by or binding upon any

subsidiary for the purchase or acquisition of any shares of capital stock of any subsidiary or any other securities convertible into, exchangeable for or evidencing the rights to subscribe for any shares of such capital stock. Neither the Company nor any subsidiary is subject to any obligation (contingent or otherwise) to repurchase or otherwise acquire or retire any shares of the capital stock of any subsidiary or any convertible securities, rights, warrants or options of the type described in the preceding sentence. Neither the Company nor any subsidiary is a party to, nor has any knowledge of, any agreement restricting the voting or transfer of any shares of the capital stock of any subsidiary.



(h) No Material Adverse Effect. Since December 31, 1999, no Material Adverse Effect has occurred or exists with respect to the Company, except as disclosed in the SEC Documents or on Schedule 3.1(h) hereof.

(i) No Undisclosed Liabilities. Except as disclosed in the SEC Documents or on Schedule 3.1(i) hereto, neither the Company nor any of its subsidiaries has any liabilities, obligations, claims or losses (whether liquidated or unliquidated, secured or unsecured, absolute, accrued, contingent or otherwise) that would be required to be disclosed on a balance sheet of the Company or any subsidiary (including the notes thereto) in conformity with GAAP which are not disclosed in the Commission Documents, other than those incurred in the ordinary course of the Company's or its subsidiaries respective businesses since such date and which, individually or in the aggregate, do not or would not have a Material Adverse Effect on the Company or its subsidiaries.

(j) No Undisclosed Events or Circumstances. Since December 31, 1999, no event or circumstance has occurred or exists with respect to the Company or its businesses, properties, prospects, operations or financial condition, that, under applicable law, rule or regulation, requires public disclosure or announcement prior to the date hereof by the Company but which has not been so publicly announced or disclosed in the SEC Documents.

(k) Indebtedness. The SEC Documents or Schedule 3.1(k) hereto sets forth as of the date hereof all outstanding secured and unsecured Indebtedness of the Company or any subsidiary, or for which the Company or any subsidiary has commitments. For the purposes of this Agreement, "Indebtedness" shall mean (a) any liabilities for borrowed money or amounts owed in excess of $250,000 (other than trade accounts payable incurred in the ordinary course of business), (b) all guaranties, endorsements and contingent obligations in respect of Indebtedness of others, whether or not the same are or should be reflected in the Company's balance sheet (or the notes thereto), except guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business; and (c) the present value of any lease payments in excess of $250,000 due under leases required to be capitalized in accordance with GAAP. Neither the Company nor any subsidiary is in default with respect to any Indebtedness.

(l) Title to Assets. Each of the Company and the subsidiaries has good and marketable title to all of its real and personal property reflected in the Commission Documents, free of any mortgages, pledges, charges, liens, security interests or other encumbrances, except for those indicated in the SEC Documents or on Schedule 3.1(1) hereto or such that do not cause a Material Adverse Effect on the Company's financial condition or operating results. All said leases of the Company and each of its subsidiaries are valid and subsisting and in full force and effect.

(m) Actions Pending. There is no action, suit, claim, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any subsidiary which questions the validity of this Agreement or the transactions contemplated hereby or any action taken or to be taken pursuant hereto or thereto. Except as set forth in the SEC Documents or on Schedule 3.1(m) hereto, there is no action, suit, claim, investigation or proceeding pending or, to the knowledge of the Company, threatened, against or involving the Company, any subsidiary or any of their respective properties or assets. There are no outstanding orders, judgments, injunctions, awards or decrees of any court, arbitrator or governmental or regulatory body against the Company or any subsidiary.

(n) Compliance with Law. The business of the Company and

the subsidiaries has been and is presently being conducted in accordance with all applicable federal, state and local governmental laws, rules, regulations and ordinances, except as set forth in the SEC Documents or on Schedule 3.1(n) hereto or such that do not cause a Material Adverse Effect. The Company and each of its subsidiaries have all franchises, permits, licenses, consents and other governmental or regulatory authorizations and approvals necessary for the conduct of their respective businesses as now being conducted by them unless the failure to possess such franchises, permits, licenses, consents and other governmental or regulatory authorizations and approvals, individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.



(o) Taxes. The Company and each subsidiary has filed all Tax Returns which it is required to file under applicable laws; all such Tax Returns are true and accurate and has been prepared in compliance with all applicable laws; the Company has paid all Taxes due and owing by it or any subsidiary (whether or not such Taxes are required to be shown on a Tax Return) and have withheld and paid over to the appropriate taxing authorities all Taxes which it is required to withhold from amounts paid or owing to any employee, stockholder, creditor or other third parties; and since December 31, 1998, the charges, accruals and reserves for Taxes with respect to the Company (including any provisions for deferred income taxes) reflected on the books of the Company are adequate to cover any Tax liabilities of the Company if its current tax year were treated as ending on the date hereof.

No claim has been made by a taxing authority in a jurisdiction where the Company does not file tax returns that the Company or any subsidiary is or may be subject to taxation by that jurisdiction. There are no foreign, federal, state or local tax audits or administrative or judicial proceedings pending or being conducted with respect to the Company or any subsidiary; no information related to Tax matters has been requested by any foreign, federal, state or local taxing authority; and, except as disclosed above, no written notice indicating an intent to open an audit or other review has been received by the Company or any subsidiary from any foreign, federal, state or local taxing authority. There are no material unresolved questions or claims concerning the Company's Tax liability. The Company (A) has not executed or entered into a closing agreement pursuant to ss. 7121 of the Internal Revenue Code or any predecessor provision thereof or any similar provision of state, local or foreign law; and (B) has not agreed to or is required to make any adjustments pursuant to ss. 481 (a) of the Internal Revenue Code or any similar provision of state, local or foreign law by reason of a change in accounting method initiated by the Company or any of its subsidiaries or has any knowledge that the IRS has proposed any such adjustment or change in accounting method, or has any application pending with any taxing authority requesting permission for any changes in accounting methods that relate to the business or operations of the Company. The Company has not been a United States real property holding corporation within the meaning of ss. 897(c)(2) of the Internal Revenue Code during the applicable period specified in ss. 897(c)(1)(A)(ii) of the Internal Revenue Code.

The Company has not made an election under ss. 341(f) of the Internal Revenue Code. The Company is not liable for the Taxes of another person that is not a subsidiary of the Company under (A) Treas. Reg. ss. 1.1502-6 (or comparable provisions of state, local or foreign law), (B) as a transferee or successor, (C) by contract or indemnity or (D) otherwise. The Company is not a party to any tax sharing agreement. The Company has not made any payments, is not obligated to make payments nor is it a party to an agreement that could obligate it to make any payments that would not be deductible under ss. 280G of the Internal Revenue Code.

For purposes of this Section 3.1(o):

"IRS" means the United States Internal Revenue Service.

"Tax" or "Taxes" means federal, state, county, local, foreign, or other income, gross receipts, ad valorem, franchise, profits, sales or use, transfer, registration, excise, utility, environmental, communications, real or personal property, capital stock, license, payroll, wage or other withholding, employment, social security, severance, stamp, occupation, alternative or add-on minimum, estimated and other taxes of any kind whatsoever (including, without limitation, deficiencies, penalties, additions to tax, and interest attributable

thereto) whether disputed or not.

"Tax Return" means any return, information report or filing with respect to Taxes, including any schedules attached thereto and including any amendment thereof.

(p) Certain Fees. Except as set forth on Schedule 3.1(p) hereto, no brokers, finders or financial advisory fees or commissions will be payable by the Company or any subsidiary with respect to the transactions contemplated by this Agreement.

(q) Disclosure. To the best of the Company's knowledge, neither this Agreement or the Schedules hereto nor any other documents, certificates or instruments furnished to the Purchaser by or on behalf of the Company or any subsidiary in connection with the transactions contemplated by this Agreement contain any



untruestatement of a material fact or omits to state a material fact necessary in order to make the statements made herein or therein, in the light of the circumstances under which they were made herein or therein, not misleading.

(r) Operation of Business. The Company and each of the subsidiaries owns or possesses all patents, trademarks, service marks, trade names, copyrights, licenses and authorizations as set forth in the SEC Documents and on Schedule 3.1(r) hereto, and all rights with respect to the foregoing, which are necessary for the conduct of its business as now conducted without any conflict with the rights of others.

(s) Regulatory Compliance. The Company has all necessary licenses, registrations and permits to conduct its business as now being conducted in all states where the Company conducts its business.

(t) Books and Records. The records and documents of the Company and its subsidiaries accurately reflect in all material respects the information relating to the business of the Company and the subsidiaries, the location and collection of their assets, and the nature of all transactions giving rise to the obligations or accounts receivable of the Company or any subsidiary.

(u) Material Agreements. Except as set forth in the SEC Documents, or on Schedule 3.1(u) hereto, neither the Company nor any subsidiary is a party to any written or oral contract, instrument, agreement, commitment, obligation, plan or arrangement, a copy of which would be required to be filed with the Commission as an exhibit to a registration statement on Form S-1 or other applicable form (collectively, "Material Agreements") if the Company or any subsidiary were registering securities under the Securities Act of 1933, as amended (the "Securities Act"). The Company and each of its subsidiaries has in all material respects performed all the obligations required to be performed by them to date under the foregoing agreements, have received no notice of default and, to the best of the Company's knowledge are not in default under any Material Agreement now in effect, the result of which could cause a Material Adverse Effect. No written or oral contract, instruments, agreement, commitment, obligation, plan or arrangement of the Company or of any subsidiary limits or shall limit the payment of dividends on the Company's Common Stock.

(v) Transactions with Affiliates. Except as set forth in the SEC Documents or on Schedule 3.1(v) hereto, there are no loans, leases, agreements, contracts, royalty agreements, management contracts or arrangements or other continuing transactions exceeding $100,000 between (a) the Company, any subsidiary or any of their respective customers or suppliers on the one hand, and (b) on the other hand, any officer, employee, consultant or director of the Company, or any of its subsidiaries, or any person owning any capital stock of the Company or any subsidiary or any member of the immediately family of such officer, employee, consultant, director or stockholder or any corporation or other entity controlled by such officer, employee, consultant, director or stockholder, or a member of the immediate family of such officer, employee, consultant, director or stockholder.

(w) Securities Act of 1933. The Company has complied and will comply with all applicable federal and state securities laws in connection

with the offer, issuance and sale of the Shares hereunder. Neither the Company nor anyone acting on its behalf, directly or indirectly, has or will sell, offer to sell or solicit offers to buy the Shares or similar securities to, or solicit offers with respect thereto from, or enter into any preliminary conversations or negotiations relating thereto with, any person (other than the Purchaser), so as to bring the issuance and sale of the Shares and/or Warrants under the registration provisions of the Securities Act and applicable state securities laws. Neither the Company nor any of its affiliates, nor any person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with the offer or sale of the Shares.

(x) Governmental Approvals. Except as set forth in the SEC Documents or on Schedule 3.1(x) hereto, and except for the filing of any notice prior or subsequent to the Closing that may be required under applicable federal or state securities laws (which if required, shall be filed on a timely basis), including the filing of a registration statement or statements pursuant to this Agreement, no authorization, consent, approval, license, exemption of, filing or registration with any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, is or will be necessary for, or in connection with, the execution or delivery of the Shares, or for the performance by the Company of its obligations under this Agreement.



(y) Employees. Neither the Company nor any subsidiary has any collective bargaining arrangements or agreements covering any of its employees, except as set forth in the SEC Documents or on Schedule 3(y) hereto. Except as set forth in the SEC Documents or on Schedule 3(y) hereto, neither the Company nor any subsidiary is in breach of any employment contract, agreement regarding proprietary information, noncompetition agreement, nonsolicitation agreement, confidentiality agreement, or any other similar contract or restrictive covenant, relating to the right of any officer, employee or consultant to be employed or engaged by the Company or such subsidiary. Since the date of the December 31, 1998, Form 10-K, no officer, consultant or key employee of the Company or any subsidiary whose termination, either individually or in the aggregate, could have a Material Adverse Effect, has terminated or, to the knowledge of the Company, has any present intention of terminating his or her employment or engagement with the Company or any subsidiary.

(z) Absence of Certain Developments. Except as provided in SEC Documents or in Schedule 3.1(z) hereto, since December 31, 1999, neither the Company nor any subsidiary has:

(i) issued any stock, bonds or other corporate securities or any rights, options or warrants with respect thereto;

(ii) borrowed any amount or incurred or become subject to any liabilities (absolute or contingent) except current liabilities incurred in the ordinary course of business which are comparable in nature and amount to the current liabilities incurred in the ordinary course of business during the comparable portion of its prior fiscal year, as adjusted to reflect the current nature and volume of the Company's or such subsidiary's business;

(iii) discharged or satisfied any lien or encumbrance or paid any obligation or liability (absolute or contingent), other than current liabilities paid in the ordinary course of business;

(iv) declared or made any payment or distribution of cash or other property to stockholders with respect to its stock, or purchased or redeemed, or made any agreements so to purchase or redeem, any shares of its capital stock;

(v) sold, assigned or transferred any other tangible assets, or canceled any debts or claims, except in the ordinary course of business;

(vi) sold, assigned or transferred any patent rights, trademarks, trade names, copyrights, trade secrets or other intangible assets or intellectual property rights, or disclosed any proprietary confidential information to any person except to customers in the ordinary course of business or to the Purchaser or its representatives;

(vii) suffered any substantial losses or waived any rights of material value, whether or not in the ordinary course of business, or suffered the loss of any material amount of prospective business;

(viii) made any changes in employee compensation except in the ordinary course of business and consistent with past practices;

(ix) made capital expenditures or commitments therefor that aggregate in excess of $500,000;

(x) entered into any other material transaction, whether or not in the ordinary course of business;

(xi) suffered any material damage, destruction or casualty loss, whether or not covered by insurance;



(xii) experienced any material problems with labor or management in connection with the terms and conditions of their employment; or

(xiii) effected any two or more events of the foregoing kind which in the aggregate would be material to the Company or its subsidiaries.

(aa) Use of Proceeds. The proceeds from the sale of the Shares will be used by the Company and its subsidiaries for general corporate purposes.

(bb) Acknowledgment Regarding Purchaser's Purchase of Shares. Company acknowledges and agrees that Purchaser is acting solely in the capacity of arm's length purchaser with respect to this Agreement and the transactions contemplated hereunder. The Company further acknowledges that the Purchaser is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereunder and any advice given by the Purchaser or any of its representatives or agents in connection with this Agreement and the transactions contemplated hereunder is merely incidental to the Purchaser's purchase of the Shares. The Company further represents to the Purchaser that the Company's decision to enter into this Agreement has been based solely on the independent evaluation by the Company and its own representatives and counsel.

Section 3.2 Representations and Warranties of the Purchaser. The Purchaser hereby makes the following representations and warranties to the Company:

(a) Organization and Standing of the Purchaser. The Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of British Virgin Islands.

(b) Authorization and Power. The Purchaser has the requisite power and authority to enter into and perform this Agreement and to purchase the Shares being sold to it hereunder. The execution, delivery and performance of this Agreement by Purchaser and the consummation by it of the transactions contemplated hereby have been duly authorized by all necessary corporate action.

(c) No Conflicts. The execution, delivery and performance of this Agreement and the consummation by the Purchaser of the transactions contemplated hereby or relating hereto do not and will not (i) result in a violation of such Purchaser's charter documents or bylaws or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of any agreement, indenture or instrument to which the Purchaser is a party, or result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to the Purchaser or its properties (except for such conflicts, defaults and violations as would not, individually or in the aggregate, have a Material Adverse Effect on Purchaser). The Purchaser is not required to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute,

deliver or perform any of its obligations under this Agreement or to purchase the Shares in accordance with the terms hereof, provided that for purposes of the representation made in this sentence, the Purchaser is assuming and relying upon the accuracy of the relevant representations and agreements of the Company herein.

(d) Financial Risks. The Purchaser acknowledges that it is able to bear the financial risks associated with an investment in the Shares and that it has been given full access to such records of the Company and the subsidiaries and to the officers of the Company and the subsidiaries as it has deemed necessary or appropriate to conduct its due diligence investigation. The Purchaser is capable of evaluating the risks and merits of an investment in the Shares by virtue of its experience as an investor and its knowledge, experience, and sophistication in financial and business matters and the Purchaser is capable of bearing the entire loss of its investment in the Shares.

(e) Accredited Investor. The Purchaser is an "accredited investor" as defined in Regulation D promulgated under the Securities Act.



(f) Compliance With Law. The Purchaser's trading and distribution activities with respect to the Shares will be in compliance with all applicable state and federal securities laws, rules and regulations and the rules and regulations of the Principal Market.

(g) General. The Purchaser understands that the Company is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings of the Purchaser set forth herein in order to determine the suitability of the Purchaser to acquire the Shares.

## ARTICLE IV

## COVENANTS

The Company covenants with the Purchaser as follows:

Section 4.1 Securities Compliance.

The Company shall notify The NASD, in accordance with their rules and regulations, of the transactions contemplated by this Agreement, and shall take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Shares and the Warrants to the Purchaser or subsequent holders.

Section 4.2 Registration and Listing. The Company will cause its Common Stock to continue to be registered under Sections 12(b) or 12(g) of the Exchange Act, will comply in all respects with its reporting and filing obligations under the Exchange Act, will comply with all requirements related to any registration statement filed pursuant to this Agreement, and will not take any action or file any document (whether or not permitted by the Securities Act or the rules promulgated thereunder) to terminate or suspend such registration or to terminate or suspend its reporting and filing obligations under the Exchange Act or Securities Act, except as permitted herein. The Company will take all action necessary to continue the listing or trading of its Common Stock on the Principal Market and will comply in all respects with the Company's reporting, filing and other obligations under the bylaws or rules of the NASD and the Principal Market.

Section 4.3 Registration Statement. The Company shall cause to be filed the Registration Statement, which Registration Statement shall provide for the sale of the Shares to the Purchaser and resale by the Purchaser to the public in accordance with this Agreement. The Company shall cause such Registration Statement to be declared effective by the Commission as expeditiously as practicable. Before the Purchaser shall be obligated to accept a Draw Down request from the Company, the Company shall have caused a sufficient number of shares of Common Stock to be registered to cover the Shares to be issued in connection with such Draw Down.

Section 4.4 Escrow Arrangement. The Company and the Purchaser shall enter into an escrow arrangement with Epstein Becker & Green, P.C. (the "Escrow Agent") in the Form of Exhibit B hereto respecting payment against delivery of

the Shares.

Section 4.5 Compliance with Laws. The Company shall comply, and cause each subsidiary to comply, with all applicable laws, rules, regulations and orders, noncompliance with which could have a Material Adverse Effect.

Section 4.6 Keeping of Records and Books of Account. The Company shall keep and cause each subsidiary to keep adequate records and books of account, in which complete entries will be made in accordance with GAAP consistently applied, reflecting all financial transactions of the Company and its subsidiaries, and in which, for each fiscal year, all proper reserves for depreciation, depletion, obsolescence, amortization, taxes, bad debts and other purposes in connection with its business shall be made.



Section 4.7 Amendments. The Company shall not amend or waive any provision the Charter, Bylaws of the Company in any way that would adversely affect the dividend rights or voting rights of the holders of the Shares. Section 4.8 Other Agreements. The Company shall not enter into any agreement the terms of which such agreement would restrict or impair the right to perform of the Company or any subsidiary under this Agreement or the Charter of the Company.

Section 4.9 Notice of Certain Events Affecting Registration; Suspension of Right to Request a Draw Down. The Company will immediately notify the Purchaser upon the occurrence of any of the following events in respect of the Registration Statement or related prospectus in respect of the Shares: (i) receipt of any request for additional information from the Commission or any other federal or state governmental authority during the period of effectiveness of the Registration Statement the response to which would require any amendments or supplements to the Registration Statement or related prospectus; (ii) the issuance by the Commission or any other federal or state governmental authority of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose; (iii) receipt of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; (iv) the happening of any event that makes any statement made in the Registration Statement or related prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any changes in the Registration Statement, related prospectus or documents so that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the related prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (v) the Company's reasonable determination that a post-effective amendment to the Registration Statement would be appropriate; and the Company will promptly make available to the Purchaser any such supplement or amendment to the related prospectus. The Company shall not deliver to the Purchaser any Draw Down Notice during the continuation of any of the foregoing events.

Section 4.10 Consolidation; Merger. The Company shall not, at any time after the date hereof, effect any merger or consolidation of the Company with or into, or a transfer of all or substantially all of the assets of the Company to, another entity (a "Consolidation Event") unless the resulting successor or acquiring entity (if not the Company) assumes by written instrument or by operation of law the obligation to deliver to the Purchaser such shares of stock and/or securities as the Purchaser is entitled to receive pursuant to this Agreement.

Section 4.11 Limitation on Future Financing. The Company agrees that, except as set forth below, it will not enter into any sale of its securities for cash at a discount to the current market price until the earlier of (i) twelve (12) months from the effective date of the Registration Statement or (ii) sixty (60) days after the entire $10,000,000 of Shares has been purchased by Purchaser. The foregoing shall not prevent or limit the Company from engaging in any sale of securities (i) in a registered public offering by the Company which is underwritten by one or more established investment banks, (ii) in one or more

private placements where the purchasers do not have registration rights, (iii) pursuant to any presently existing or future employee benefit plan which plan has been or is approved by the Company's stockholders, (iv) pursuant to any compensatory plan for a full-time employee or key consultant, (v) in connection with a strategic partnership or other business transaction, the principal purpose of which is not simply to raise money (which shall include piggy-back registration rights to the Registration Rights Agreement), (vi) in one or more private placements, the principal purpose of which is to raise money for an acquisition (which shall include piggy-back registration rights to the Registration Rights Agreement) or (vii) to which Purchaser gives its written approval. Further, the Purchaser shall have a right of first refusal, to elect to participate, in such subsequent transaction in the case of (vi) and (vii) above. Such right of first refusal must be exercised in writing within seven (7) Trading Days of the Purchaser's receipt of notice of the proposed terms of such financing.



ARTICLE V

CONDITIONS TO CLOSING AND DRAW DOWNS

Section 5.1 Conditions Precedent to the Obligation of the Company to Sell the Shares. The obligation hereunder of the Company to issue and sell the Shares to the Purchaser is subject to the satisfaction or waiver, at or before the Closing, of each of the conditions set forth below. These conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion.

(a) Accuracy of the Purchaser's Representations and Warranties. The representations and warranties of the Purchaser shall be true and correct in all material respects as of the date when made and as of the Closing and as of each Draw Down Exercise Date as though made at that time, except for representations and warranties that speak as of a particular date.

(b) Performance by the Purchaser. The Purchaser shall have performed, satisfied and complied in all material respects with all material covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Purchaser at or prior to the Closing and as of each Draw Down Exercise Date.

(c) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

Section 5.2 Conditions Precedent to the Obligation of the Purchaser to Close. The obligation hereunder of the Purchaser to enter this Agreement is subject to the satisfaction or waiver, at or before the Closing, of each of the conditions set forth below. These conditions are for the Purchaser's sole benefit and may be waived by the Purchaser at any time in its sole discretion.

(a) Accuracy of the Company's Representations and Warranties. Each of the representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing as though made at that time (except for representations and warranties that speak as of a particular date).

(b) Performance by the Company. The Company shall have performed, satisfied and complied in all respects with all covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing.

(c) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement.

(d) No Proceedings or Litigation. No action, suit or proceeding before any arbitrator or any governmental authority shall have been

commenced, and no investigation by any governmental authority shall have been threatened, against the Purchaser or the Company or any subsidiary, or any of the officers, directors or affiliates of the Company or any subsidiary seeking to restrain, prevent or change the transactions contemplated by this Agreement, or seeking damages in connection with such transactions.

(e) Opinion of Counsel, Etc. At the Closing, the Purchaser shall have received an opinion of counsel to the Company, dated the date of Closing, in the form of Exhibit C hereto, and such other certificates and documents as the Purchaser or its counsel shall reasonably require incident to the Closing.

(f) Warrants. In lieu of a minimum Draw Down commitment by the Company, the Purchaser shall receive a warrant certificate at the initial closing to purchase up to a number of shares of Common Stock equal to $100,000 divided by the VWAP on the Trading Day immediately prior to the date of the Closing (the



"Initial Warrant"). One half of such Warrants shall be exercisable immediately and the other half shall be exercisable six months thereafter. As to any Draw Downs or any portion of a Draw Down made by the Company after the Company has drawn down, or in excess of Five Million Dollars ($5,000,000) in the aggregate under this Agreement, the Purchaser shall also receive, at each applicable Draw Down closing, a warrant certificate representing 4% warrant coverage (using the same formula set forth above) of any such Draw Down or portion thereof (each, a "Draw Down Warrant" and collectively with the Initial Warrant, the "Warrants"). The term of the Warrants shall be three (3) years from the date of their issuance. The Strike Price of the Warrants shall be 150% of the VWAP on the Trading Days immediately prior to the applicable closing date. The Common Stock underlying the Warrants will be registered in the Registration Statement referred to in Section 4.3 hereof. The Warrants shall be in the form of Exhibit E hereto.

Section 5.3 Conditions Precedent to the Obligation of the Purchaser to Accept a Draw Down and Purchase the Shares. The obligation hereunder of the Purchaser to accept a Draw Down request and to acquire and pay for the Shares is subject to the satisfaction or waiver, at or before each Draw Down Exercise Date, of each of the conditions set forth below. The conditions are for the Purchaser's sole benefit and may be waived by the Purchaser at any time in its sole discretion.

(a) Satisfaction of Conditions to Closing. The Company shall have satisfied, or the Purchaser shall have waived, the conditions set forth in Section 5.2 hereof

(b) Effective Registration Statement. The Registration Statement registering the Shares shall have been declared effective by the Commission and shall remain effective on each Draw Down Exercise Date.

(c) No Suspension. Trading in the Company's Common Stock shall not have been suspended by the Commission or the Principal Market (except for any suspension of trading of limited duration agreed to by the Company, which suspension shall be terminated prior to each Draw Down request), and, at any time prior to such request, trading in securities generally as reported on the Principal Market shall not have been suspended or limited, or minimum prices shall not have been established on securities whose trades are reported on the Principal Market.

(d) Material Adverse Effect. No Material Adverse Effect and no Consolidation Event shall have occurred.

(e) Opinion of Counsel. The Purchaser shall have received a "down-to-date" letter from the Company's counsel, confirming that there is no change from the counsel's previously delivered opinion, or else specifying with particularity the reason for any change.

ARTICLE VI

DRAW DOWN TERMS

Section 6.1 Draw Down Terms. Subject to the satisfaction of the conditions set forth in this Agreement, the parties agree as follows:

(a) The Company, may, in its sole discretion, issue and exercise a draw down (a "Draw Down") during each Draw Down Pricing Period, which Draw Down the Purchaser will be obligated to accept for a period of 12 months after on the Effective Date.

(b) Only one Draw Down shall be allowed in each Draw Down Pricing Period. The price per share paid by the Purchaser shall be based on the Average Daily Price on each separate Trading Day during the Draw Down Pricing Period. The number of shares of Common Stock purchased by the Purchaser with respect to each Draw Down shall be determined on a daily basis during each Draw Down Pricing Period and settled at the election of the Purchaser on a weekly basis. In connection with each Draw Down Pricing Period, the Company may



set an Average Daily Price below which the Company will not sell any Shares (the "Threshold Price"). If the Average Daily Price on any day within the Draw Down Pricing Period is less than the Threshold Price, the Company shall not sell and the Purchaser shall not be obligated to purchase the Shares otherwise to be purchased for such day, except that, the Purchaser may, in its sole discretion, purchase any such Shares at the Threshold Price.

(c) The minimum Draw Down shall be $250,000, unless otherwise agreed by Purchaser.

(d) The maximum dollar amount of each Draw Down during any Draw Down Pricing Period shall be limited pursuant to the following formula: Average Stock Price: Average of the Average Daily Prices for the 22 Trading Days prior to the Draw Down Notice date. Average Trading Volume: Average daily trading volume for the 45 Trading Days prior to the Draw Down Notice date. Maximum dollar amount of each Draw Down: 20% of (Average Stock Price x (Average Trading Volume x 22)) the number of Shares of Common Stock to be issued in connection with each Draw Down shall be equal to the sum of the quotients (for each trading day within the Draw Down Pricing Period) of (x) 1/22nd of the Draw Down amount and (y) 90% of the Average Daily Price of the Common Stock on each Trading Day within the Draw Down Pricing Period. If the Average Daily Price on a given Trading Day is less than the Threshold Price, then the Purchaser's Draw Down will be reduced by 1/22nd and that day shall be withdrawn from the Draw Down Pricing Period.

(e) The Company must inform the Purchaser by delivering a Draw Down Notice, in the form of Exhibit D hereto, via facsimile transmission as to the amount of the Draw Down the Company wishes to exercise before the first day of the Draw Down Pricing Period (the "Draw Down Notice"). The Company may set the Threshold Price, if any, prior to each Draw Down request. At no time shall the Purchaser be required to purchase more than the scheduled Draw Down amount for a given Draw Down Pricing Period so that if the Company chooses not to exercise the maximum permitted Draw Down in a given Draw Down Pricing Period the Purchaser is not obligated to purchase more than the scheduled maximum amount in a subsequent Draw Down Pricing Period. Notwithstanding the above, in no event shall the maximum Draw Down dollar amount be less than $1 million per month.

(f) On or before three (3) Trading Days after each Draw Down Exercise Date, the Shares purchased by the Purchaser shall be delivered to The Depository Trust Company ("DTC") on the Purchaser's behalf. The Shares shall be credited by the Company to the DTC account designated by the Purchaser upon receipt by the Escrow Agent of payment for the Draw Down into the Escrow Agent's trust account as provided in the Escrow Agreement. The Escrow Agent shall be directed to pay 96% of the purchase price to the Company, net of One Thousand Five Hundred Dollars ($1,500) as escrow expenses to the Escrow Agent, and 4% to the placement agent. The delivery of the Shares into the Purchaser's DTC account in exchange for payment therefor shall be referred to herein as "Settlement".

## ARTICLE VII

## TERMINATION

Section 7.1 Termination by Mutual Consent. The term of this Agreement

shall be twelve (12) months. This Agreement may be terminated at any time by mutual consent of the parties.

Section 7.2 Other Termination.Section 7.3 The Purchaser may terminate this Agreement upon one (1) Trading Day's notice if (i) an event resulting in a Material Adverse Effect has occurred, (ii) the Common Stock is de-listed from the Principal Market unless such de-listing is in connection with the listing of the Common Stock on the Nasdaq National Market, Nasdaq SmallCap Market, the American Stock Exchange or the New York Stock Exchange, (iii) the Company files for protection from creditors under any applicable law, (iv) the Company completes any financing prohibited by Section 4.11, (v) the Registration Statement is not effective by September 30, 2000 or (vi) or in the event that the officers and directors of the Company shall own less than 35% of the outstanding Common Stock of the Company that such officers and directors of the Company own on the date hereof.



The Company may terminate this Agreement (i) upon one (1) Trading Day's notice if the Purchaser shall fail to fund more than one properly noticed Draw Down within three (3) Trading Days of the date payment for such Draw Down is due.

Section 7.3 Effect of Termination. In the event of termination by the company or the Purchaser, written notice thereof shall forthwith be given to the other party and the transactions contemplated by this Agreement shall be terminated without further action by either party. If this Agreement is terminated as provided in Section 7.1 or 7.2 herein, this Agreement shall become void and of no further force and effect, except for Sections 9.1 and 9.2, and Article VIII herein. Nothing in this Section 7.3 shall be deemed to release the Company or the Purchaser from any liability for any breach under this Agreement, or to impair the rights to the Company and the Purchaser to compel specific performance by the other party of its obligations under this Agreement.

## ARTICLE VIII

## INDEMNIFICATION

Section 8.1 General Indemnity. The Company agrees to indemnify and hold harmless the Purchaser (and its directors, officers, affiliates, agents, successors and assigns) from and against any and all losses, liabilities, deficiencies, costs, damages and expenses (including, without limitation, reasonable attorney's fees, charges and disbursements) incurred by the Purchaser as a result of any inaccuracy in or breach of the representations, warranties or covenants made by the Company herein. The Purchaser agrees to indemnify and hold harmless the Company and its directors, officers, affiliates, agents, successors and assigns from and against any and all losses, liabilities, deficiencies, costs, damages and expenses (including, without limitation, reasonable attorneys fees, charges and disbursements) incurred by the Company as result of any inaccuracy in or breach of the representations, warranties or covenants made by the Purchaser herein. Notwithstanding anything to the contrary herein, the Purchaser shall be liable under this Section 8.1 for only that amount as does not exceed the net proceeds to such Purchaser as a result of the sale of Shares pursuant to the Registration Statement.

Section 8.2 Indemnification Procedure. Any party entitled to indemnification under this Article VIII (an "indemnified party") will give written notice to the indemnifying party of any matters giving rise to a claim for indemnification; provided, that the failure of any party entitled to indemnification hereunder to give notice as provided herein shall not relieve the indemnifying party of its obligations under this Article VIII except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any action, proceeding or claim is brought against an indemnified party in respect of which indemnification is sought hereunder, the indemnifying party shall be entitled to participate in and, unless in the reasonable judgment of counsel to the indemnified party a conflict of interest between it and the indemnifying party may exist with respect of such action, proceeding or claim, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. In the event that the indemnifying party advises an indemnified party that it will contest such a claim for indemnification hereunder, or fails, within thirty (30) days of receipt of any indemnification notice to notify, in writing, such person of its election to

defend, settle or compromise, at its sole cost and expense, any action, proceeding or claim (or discontinues its defense at any time after it commences such defense), then the indemnified party may, at its option, defend, settle or otherwise compromise or pay such action or claim. In any event, unless and until the indemnifying party elects in writing to assume and does so assume the defense of any such claim, proceeding or action, the indemnified party's costs and expenses arising out of the defense, settlement or compromise of any such action, claim or proceeding shall be losses subject to indemnification hereunder. The indemnified party shall cooperate fully with the indemnifying party in connection with any settlement negotiations or defense of any such action or claim by the indemnifying party and shall furnish to the indemnifying party all information reasonably available to the indemnified party which relates to such action or claim. The indemnifying party shall keep the indemnified party fully apprised at all times as to the status of the defense or any settlement negotiations with respect thereto. If the indemnifying party elects to defend any such action or claim, then the indemnified party shall be entitled to participate in such defense with counsel of its choice at its sole cost and expense. The indemnifying party shall not be liable for any settlement of any action, claim or proceeding effected without its prior written consent. Notwithstanding anything in this Article VIII to the contrary, the indemnifying party shall not, without the indemnified party's prior written consent, settle or compromise any claim or consent to entry of any judgment in respect thereof which imposes any future obligation on the indemnified party or which does not include, as an



unconditional term thereof, the giving by the claimant or the plaintiff to the indemnified party of a release from all liability in respect of such claim. The indemnification required by this Article VIII shall be made by periodic payments of the amount thereof during the course of investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred, within ten (10) Trading Days of written notice thereof to the indemnifying party so long as the indemnified party irrevocably agrees to refund such moneys if it is ultimately determined by a court of competent jurisdiction that such party was not entitled to indemnification. The indemnity agreements contained herein shall be in addition to (a) any cause of action or similar rights of the indemnified party against the indemnifying party or others, and (b) any liabilities the indemnifying party may be subject to.

ARTICLE IX

MISCELLANEOUS

Section 9.1 Fees and Expenses. The Company shall pay all fees and expenses related to the transactions contemplated by this Agreement; provided, that the Company shall pay, at the Closing, all attorneys and escrow fees and expenses (exclusive of disbursements and out-of-pocket expenses) incurred by the Purchaser of $10,000 in connection with the preparation, negotiation, execution and delivery of this Agreement and the transactions contemplated hereunder. In addition, the Company shall pay all reasonable fees and expenses incurred by the Purchaser in connection with any amendments, modifications or waivers of this Agreement or the Registration Rights Agreement or incurred in connection with the enforcement of this Agreement and the Registration Rights Agreement, including, without limitation, all reasonable attorneys fees and expenses. The Company shall pay all stamp or other similar taxes and duties levied in connection with issuance of the Shares pursuant hereto.

Section 9.2 Specific Enforcement. The Company and the Purchaser acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent or cure breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof or thereof, this being in addition to any other remedy to which any of them may be entitled by law or equity.

Section 9.3 Entire Agreement; Amendment. This Agreement, together with the Registration Rights Agreement and the Escrow Agreement contains the entire understanding of the parties with respect to the matters covered hereby and, except as specifically set forth herein, neither the Company nor the Purchaser makes any representations, warranty, covenant or undertaking with respect to

such matters. No provision of this Agreement may be waived or amended other than by a written instrument signed by the party against whom enforcement of any such amendment or waiver is sought.

Section 9.4 Notices. Any notice, demand, request, waiver or other communication required or permitted to be given hereunder shall be in writing and shall be effective (a) upon hand delivery or facsimile at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company:
51 East Bethpage Road
Plainview, NY 11803
Telephone (516) 694-1010
Fax: (516) 694-1202
Attention: Barry Siegel

With copies to:
Muenz Meritz P.C.
3 Hughes Place
Dix Hills, N.Y. 11746



Tel: (631) 242-7384
Fax: (631) 242 6715
Attention: Lawrence A. Muenz

If to Purchaser:
c/o Dr. Dr. Batliner & Partner
Aeulestrasse 74
FL-9490 Vaduz, Liechtenstein
Telephone Number:_______
Fax: 011-075-236-0405
Attention: Hans Gassner

with copies to:
Epstein Becker & Green P.C.
250 Park Avenue
New York, New York 10177-1211
Telephone: (212) 351-3771
Attention: Robert F. Charron

Any party hereto may from time to time change its address for notices by giving written notice of such changed address to the other party hereto in accordance herewith.

Section 9.5 Waivers. No waiver by either party of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provisions, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter.

Section 9.6 Headings. The article, section and subsection headings in this Agreement are for convenience only and shall not constitute a part of this Agreement for any other purpose and shall not be deemed to limit or affect any of the provisions hereof.

Section 9.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. The parties hereto may not amend this Agreement or any rights or obligations hereunder without the prior written consent of the Company and each Purchaser to be affected by the amendment. After Closing, the assignment by a party to this Agreement of any rights hereunder shall not affect the obligations of such party under this Agreement.

Section 9.8 No Third Party Beneficiaries.This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

Section 9.9 Governing Law/Arbitration.This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, without giving effect to the choice of law provisions. Any dispute under this Agreement or any Exhibit attached hereto shall be submitted to arbitration under the American Arbitration Association (the "AAA") in New York City, New York, and shall be finally and conclusively determined by the decision of a board of arbitration consisting of three (3) members (hereinafter referred to as the "Board of Arbitration") selected as according to the rules governing the AAA. The Board of Arbitration shall meet on consecutive business days in New York City, New York, and shall reach and render a decision in writing (concurred in by a majority of the members of the Board of Arbitration) with respect to the amount, if any, which the losing party is required to pay to the other party in respect of a claim filed. In connection with rendering its decisions, the Board of Arbitration shall adopt and follow the laws of the State of New York. To the extent practical, decisions of the Board of Arbitration shall be rendered no more than thirty (30) calendar days following commencement of proceedings with respect thereto. The Board of Arbitration shall cause its written decision to be delivered to all parties involved in the dispute. The Board of Arbitration shall be authorized and is directed to enter a default judgment against any party refusing to participate in the arbitration proceeding within thirty days of any deadline for such participation. Any decision made by the Board of Arbitration (either prior to or after the expiration of such thirty (30) calendar day period) shall be final, binding and conclusive on the parties to the dispute, and entitled to be enforced to the fullest extent permitted by law and entered in



any court of competent jurisdiction. The prevailing party shall be awarded its costs, including attorneys' fees, from the non-prevailing party as part of the arbitration award. Any party shall have the right to seek injunctive relief from any court of competent jurisdiction in any case where such relief is available. The prevailing party in such injunctive action shall be awarded its costs, including attorney's fees, from the non-prevailing party.

Section 9.10 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and shall become effective when counterparts have been signed by each party and delivered to the other parties hereto, it being understood that all parties need not sign the same counterpart. Execution may be made by delivery by facsimile.

Section 9.11 Publicity. Prior to the Closing, neither the Company nor the Purchaser shall issue any press release or otherwise make any public statement or announcement with respect to this Agreement or the transactions contemplated hereby or the existence of this Agreement. After the Closing, the Company may issue a press release or otherwise make a public statement or announcement with respect to this Agreement or the transactions contemplated hereby or the existence of this Agreement; provided, that prior to issuing any such press release, making any such public statement or announcement, the Company obtains the prior consent of the Purchaser, which consent shall not be unreasonably withheld or delayed.

Section 9.12 Severability. The provisions of this Agreement are severable and, in the event that any court of competent jurisdiction shall determine that any one or more of the provisions or part of the provisions contained in this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision or part of a provision of this Agreement and this Agreement shall be reformed and construed as if such invalid or illegal or unenforceable provision, or part of such provision, had never been contained herein, so that such provisions would be valid, legal and enforceable to the maximum extent possible.

Section 9.13 Further Assurances. From and after the date of this Agreement, upon the request of the Purchaser or the Company, each of the Company and the Purchaser shall execute and deliver such instruments, documents and other writings as may be reasonably necessary or desirable to confirm and carry out and to effectuate fully the intent and purposes of this Agreement.

Section 9.14 Effectiveness of Agreement. Section 9.15 This Agreement

shall become effective only upon satisfaction of the conditions precedent to the Closing in Article I of the Escrow Agreement.



IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorize officer as of this __ day of May, 2000.

First Priority Group, Inc.

By: /s/ Barry Siegel
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Barry Siegel, Chairman & CEO

Suerez Enterprises Limited

By: /s/ Hans Gassner
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Hans Gassner, Authorized Signatory



EXHIBIT B

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (this "Agreement") is made as of May 31, 2000, by and among First Priority Group, Inc., a corporation incorporated under the laws of New York, (the "Company"), Suerez Enterprises Limited ("Purchaser"), and Epstein Becker & Green, P.C., having an address at 250 Park Avenue, New York, NY 10177 (the "Escrow Agent"). Capitalized terms used but not defined herein shall have the meanings set forth in the Common Stock Purchase Agreement referred to in the first recital.

WHEREAS, the Purchaser will from time to time as requested by the Company, purchase shares of the Company's Common Stock from the Company as set forth in that certain Common Stock Purchase Agreement (the "Purchase Agreement") dated the date hereof between the Purchaser and the Company, which will be issued as per the terms and conditions contained herein and in the Purchase Agreement; and

WHEREAS, the Company and the Purchaser have requested that the Escrow Agent hold in escrow and then distribute the initial documents and certain funds which are conditions precedent to the effectiveness of the Purchase Agreement, and have further requested that upon each exercise of a Draw Down, the Escrow Agent hold the relevant documents and the applicable purchase price pending receipt by Purchaser of certificates representing the securities issuable upon such Draw Down;

NOW, THEREFORE, in consideration of the covenants and mutual promises contained herein and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

TERMS OF THE ESCROW FOR THE INITIAL CLOSING

1.1 The parties hereby agree to establish an escrow account with the Escrow Agent whereby the Escrow Agent shall hold the funds and documents which are referenced in Section 5.2 of the Purchase Agreement.

1.2 At the Closing, the Company shall deliver to the Escrow Agent:

(i) the original executed Registration Rights Agreement in the form of Exhibit A to the Purchase Agreement;

(ii) the original executed opinion of Muenz Meritz P.C. in the form of Exhibit C to the Purchase Agreement;

(iii) the sum of $10,000 for the fees and expenses of the Purchaser's counsel;

(iv) the original executed Company counterpart of this Escrow Agreement;

(v) the original executed Company counterpart of the Purchase Agreement; and

(vi) the original executed Initial Warrant in the form of Exhibit E to the Purchase Agreement.

1.3 Upon receipt of the foregoing, and receipt of executed counterparts from Purchaser of the Purchase Agreement, the Registration Rights Agreement and this Escrow Agreement, the Escrow Agent shall calculate and enter the exercise price, the number of warrants, the issuance date and termination date on the face of



the Initial Warrant and immediately transfer the sum of Ten Thousand Dollars $10,000 to Epstein Becker & Green, P.C. ("EB&G"), 250 Park Avenue, New York, New York 10177 for the Purchaser's legal, administrative and escrow costs and then the Escrow Agent shall then arrange to have the Purchase Agreement, this Escrow Agreement, the Registration Rights Agreement, the Initial Warrant, and the opinion of counsel delivered to the appropriate parties.

ARTICLE II

TERMS OF THE ESCROW FOR EACH DRAW DOWN

2.1 Each time the Company shall send a Draw Down Notice to the Purchaser as provided in the Purchase Agreement, it shall send a copy, by facsimile, to the Escrow Agent.

2.2 Each time the Purchaser shall purchase Shares pursuant to a Draw Down, the Purchaser shall send the applicable purchase price of the Draw Down Shares to the Escrow Agent, which shall advise the Company in writing that it has received the purchase price for such Draw Down Shares. The Company shall promptly, but no later than three (3) Trading Days after receipt of such funding notice from the Escrow Agent, cause its transfer agent to issue the Draw Down Shares to the Purchaser via DTC deposit to the account specified by the Purchaser from time to time and deliver to the Escrow Agent the Draw Down Warrant, if applicable, and, if applicable, a warrant certificate issued to Ladenburg Thalmann & Co. Inc. with terms identical to that of the Draw Down Warrant (the "LT Draw Down Warrant"), and, as to the first Draw Down closing only, up to $25,000 for the accountable expenses of Ladenburg Thalmann & Co. Inc. and a warrant certificate issued to Ladenburg Thalmann & Co. Inc. with terms identical to that of the Initial Warrant (the "LT Warrant"). Upon receipt of written confirmation from the transfer agent or from the Purchaser that such Draw Down Shares have been so deposited and the applicable Warrants have been so delivered, the Escrow Agent shall enter the calculate and enter the number, the exercise price, the Issuance Date and the Termination Date on the face of the applicable Warrants and shall within one (1) Trading Day wire 96% of the purchase price per the written instructions of the Company, net of One Thousand Five Hundred Dollars $1,500 as escrow expenses to the Escrow Agent, and the remaining 4% of the purchase price as directed by Ladenburg Thalmann & Co. Inc.

ARTICLE III

MISCELLANEOUS

3.1 No waiver or any breach of any covenant or provision herein contained shall be deemed a waiver of any preceding or succeeding breach thereof, or of any other covenant or provision herein contained. No extension of time for performance of any obligation or act shall be deemed an extension of

the time for performance of any other obligation or act.

3.2 All notices or other communications required or permitted hereunder shall be in writing, and shall be sent by fax, overnight courier, registered or certified mail, postage prepaid, return receipt requested, and shall be deemed received upon receipt thereof, as set forth in the Purchase Agreement.

3.3 This Escrow Agreement shall be binding upon and shall inure to the benefit of the permitted successors and permitted assigns of the parties hereto.

3.4 This Escrow Agreement is the final expression of, and contains the entire agreement between, the parties with respect to the subject matter hereof and supersedes all prior understandings with respect thereto. This Escrow Agreement may not be modified, changed, supplemented or terminated, nor may any obligations hereunder be waived, except by written instrument signed by the parties to be charged or by their respective agents duly authorized in writing or as otherwise expressly permitted herein.

3.5 Whenever required by the context of this Escrow Agreement, the singular shall include the plural and masculine shall include the feminine. This Escrow Agreement shall not be construed as if it had been



prepared by one of the parties, but rather as if both parties had prepared the same. Unless otherwise indicated, all references to Articles are to this Escrow Agreement.

3.6 The parties hereto expressly agree that this Escrow Agreement shall be governed by, interpreted under and construed and enforced in accordance with the laws of the State of New York. Except as expressly set forth herein, any action to enforce, arising out of, or relating in any way to, any provisions of this Escrow Agreement shall brought in the Federal or state courts of New York, New York as is more fully set forth in the Purchase Agreement.

3.7 The Escrow Agent's duties hereunder may be altered, amended, modified or revoked only by a writing signed by the Company, Purchaser and the Escrow Agent.

3.8 The Escrow Agent shall be obligated only for the performance of such duties as are specifically set forth herein and may rely and shall be protected in relying or refraining from acting on any instrument reasonably believed by the Escrow Agent to be genuine and to have been signed or presented by the proper party or parties. The Escrow Agent shall not be personally liable for any act the Escrow Agent may do or omit to do hereunder as the Escrow Agent while acting in good faith, excepting only its own gross negligence or willful misconduct, and any act done or omitted by the Escrow Agent pursuant to the advice of the Escrow Agent's attorneys-at-law (other than Escrow Agent itself) shall be conclusive evidence of such good faith.

3.9 The Escrow Agent is hereby expressly authorized to disregard any and all warnings given by any of the parties hereto or by any other person or corporation, excepting only orders or process of courts of law and is hereby expressly authorized to comply with and obey orders, judgments or decrees of any court. In case the Escrow Agent obeys or complies with any such order, judgment or decree, the Escrow Agent shall not be liable to any of the parties hereto or to any other person, firm or corporation by reason of such decree being subsequently reversed, modified, annulled, set aside, vacated or found to have been entered without jurisdiction.

3.10 The Escrow Agent shall not be liable in any respect on account of the identity, authorization or rights of the parties executing or delivering or purporting to execute or deliver the Purchase Agreement or any documents or papers deposited or called for thereunder or hereunder.

3.11 The Escrow Agent shall be entitled to employ such legal counsel and other experts as the Escrow Agent may deem necessary properly to advise the Escrow Agent in connection with the Escrow Agent's duties hereunder, may rely upon the advice of such counsel, and may pay such counsel reasonable compensation therefor. The Escrow Agent has acted as legal counsel for the Purchaser, and may continue to act as legal counsel for the Purchaser, from time to time, notwithstanding its duties as the Escrow Agent hereunder. The Company

consents to the Escrow Agent in such capacity as legal counsel for the Purchaser and waives any claim that such representation represents a conflict of interest on the part of the Escrow Agent. The Company understands that the Purchaser and the Escrow Agent are relying explicitly on the foregoing provision in entering into this Escrow Agreement.

3.12 The Escrow Agent's responsibilities as escrow agent hereunder shall terminate if the Escrow Agent shall resign by written notice to the Company and the Purchaser. In the event of any such resignation, the Purchaser and the Company shall appoint a successor Escrow Agent.

3.13 If the Escrow Agent reasonably requires other or further instruments in connection with this Escrow Agreement or obligations in respect hereto, the necessary parties hereto shall join in furnishing such instruments.

3.14 It is understood and agreed that should any dispute arise with respect to the delivery and/or ownership or right of possession of the documents or the escrow funds held by the Escrow Agent hereunder, the Escrow Agent is authorized and directed in the Escrow Agent's sole discretion (1) to retain in the Escrow Agent's possession without liability to anyone all or any part of said documents or the escrow funds until such disputes shall have been settled either by mutual written agreement of the parties concerned by a final order,



decree or judgment or a court of competent jurisdiction after the time for appeal has expired and no appeal has been perfected, but the Escrow Agent shall be under no duty whatsoever to institute or defend any such proceedings or (2) to deliver the escrow funds and any other property and documents held by the Escrow Agent hereunder to a state or Federal court having competent subject matter jurisdiction and located in the State and City of New York in accordance with the applicable procedure therefor.

3.15 The Company and the Purchaser agree jointly and severally to indemnify and hold harmless the Escrow Agent and its partners, employees, agents and representatives from any and all claims, liabilities, costs or expenses in any way arising from or relating to the duties or performance of the Escrow Agent hereunder or the transactions contemplated hereby or by the Purchase Agreement other than any such claim, liability, cost or expense to the extent the same shall have been determined by final, unappealable judgment of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Escrow Agent.

IN WITNESS WHEREOF, the parties hereto have executed this Escrow Agreement as of this __ May, 2000.

First Priority Group, Inc.

By: _______________________________________
Barry Siegel, Chairman & CEO

Suerez Enterprises Limited

By: _______________________________________
Hans Gassner, Authorized Signatory

ESCROW AGENT:

EPSTEIN BECKER & GREEN, P.C.

By: _______________________________________
Robert F. Charron, Authorized Signatory



EXHIBIT E

NEITHER THIS WARRANT NOR THE SHARES ISSUABLE UPON EXERCISE HEREOF HAVE BEEN

REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY OTHER APPLICABLE SECURITIES LAWS IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH OTHER SECURITIES LAWS. NEITHER THIS WARRANT NOR THE SHARES ISSUABLE UPON EXERCISE HEREOF MAY BE SOLD, PLEDGED, TRANSFERRED, ENCUMBERED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR IN A TRANSACTION WHICH IS EXEMPT FROM REGISTRATION UNDER THE PROVISIONS OF THE SECURITIES ACT.

STOCK PURCHASE WARRANT

To Purchase [_______] Shares of Common Stock of

First Priority Group, Inc.

THIS CERTIFIES that, for value received, Suerez Enterprises Limited (the "Holder"), is entitled, upon the terms and subject to the conditions hereinafter set forth, at any time on or after May __, 2000 (the "Issuance Date") and on or prior to the close of business on October __, 2003 (the "Termination Date") but not thereafter, to subscribe for and purchase from First Priority Group, Inc., a New York corporation (the "Company"), up to [_________] shares (the "Warrant Shares") of Common Stock, $0.015 par value, of the Company (the "Common Stock"). The purchase price of one share of Common Stock (the "Exercise Price") under this Warrant shall be [$______] (150% of the VWAP on the Trading Day prior to the applicable closing date). The Exercise Price and the number of shares for which the Warrant is exercisable shall be subject to adjustment as provided herein. In the event of any conflict between the terms of this Warrant and the Common Stock Purchase Agreement dated May 31, 2000 pursuant to which this Warrant has been issued (the "Purchase Agreement"), the Purchase Agreement shall control. Capitalized terms used and not otherwise defined herein shall have the meanings set forth for such terms in the Purchase Agreement.

1. Title to Warrant. Prior to the Termination Date hereof and subject to compliance with applicable laws, this Warrant and all rights hereunder are transferable, in whole or in part, at the office or agency of the Company by the holder hereof in person or by duly authorized attorney, upon surrender of this Warrant together with the Assignment Form annexed hereto properly endorsed.

2. Authorization of Shares. The Company covenants that all shares of Common Stock which may be issued upon the exercise of rights represented by this Warrant will, upon exercise of the rights represented by this Warrant, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

3. Exercise of Warrant. Except as provided in Section 4 herein, exercise of the purchase rights represented by this Warrant may be made at any time or times, as to one half of the Warrants, on or after the Issuance Date hereof and before the close of business on the 180th day before the Termination Date hereof and as to the other one half, on or after the 180th day after the Issuance Date hereof and before the close of business on the Termination Date hereof. Exercise of this Warrant or any part hereof shall be effected by the surrender of this Warrant and the Notice of Exercise Form annexed hereto duly executed, at the office of the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered holder hereof at the address of such holder appearing on the books of the Company) and upon payment of the Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank, the holder of this Warrant shall be entitled to receive a certificate for the number of shares of Common Stock so purchased. Certificates for shares purchased hereunder shall be delivered to the holder hereof within three (3) Trading Days after the date on which this Warrant shall have been exercised as aforesaid. This Warrant shall be deemed to have



been exercised and such certificate or certificates shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised by payment to the Company of the Exercise Price and all taxes required to be paid by Holder, if any, pursuant to Section 5 prior to the issuance of such shares, have been paid. If this Warrant

shall have been exercised in part, the Company shall, at the time of delivery of the certificate or certificates representing Warrant Shares, deliver to Holder a new Warrant evidencing the rights of Holder to purchase the unpurchased shares of Common Stock called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant. Should the Warrant not have been and remain registered under an effective Registration Statement pursuant to the Registration Rights Agreement dated May 31, 2000 between the Company and the Holder immediately prior to the exercise of this Warrant, in whole or in part, then this Warrant may also be exercised by means of a "cashless exercise" in which the holder shall be entitled to receive a certificate for the number of shares equal to the quotient obtained by dividing [(A-B) (X)] by (A), where:

(A) = the average of the high and low trading prices per share of Common Stock on the Trading Day preceding the date of such election;

(B) = the Exercise Price of the Warrants; and

(X) = the number of shares issuable upon exercise of the Warrants in accordance with the terms of this Warrant.

4. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which Holder would otherwise be entitled to purchase upon such exercise, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the Exercise Price.

5. Charges, Taxes and Expenses. Issuance of certificates for shares of Common Stock upon the exercise of this Warrant shall be made without charge to the holder hereof for any issue or transfer tax or other incidental expense in respect of the issuance of such certificate, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued in the name of the holder of this Warrant or in such name or names as may be directed by the holder of this Warrant; provided, however, that in the event certificates for shares of Common Stock are to be issued in a name other than the name of the holder of this Warrant, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the holder hereof; and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto.

6. Closing of Books. The Company will not close its shareholder books or records in any manner which prevents the timely exercise of this Warrant.

7. Transfer, Division and Combination. (a) Subject to compliance with any applicable securities laws, transfer of this Warrant and all rights hereunder, in whole or in part, shall be registered on the books of the Company to be maintained for such purpose, upon surrender of this Warrant at the principal office of the Company, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. A Warrant, if properly assigned, may be exercised by a new holder for the purchase of shares of Common Stock without having a new Warrant issued.

(b) This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by Holder or its agent or attorney. Subject to compliance with Section 7(a), as to any transfer which may be involved in such division or combination,



the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice.

(c) The Company shall prepare, issue and deliver at its own expense (other than transfer taxes) the new Warrant or Warrants under this Section 7.

(d) The Company agrees to maintain, at its aforesaid office, books for the registration and the registration of transfer of the Warrants.

8. No Rights as Shareholder until Exercise. This Warrant does not entitle the holder hereof to any voting rights or other rights as a shareholder of the Company prior to the exercise hereof. Upon the surrender of this Warrant and the payment of the aggregate Exercise Price, the Warrant Shares so purchased shall be and be deemed to be issued to such holder as the record owner of such shares as of the close of business on the later of the date of such surrender or payment.

9. Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant certificate or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

10. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday, Sunday or a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a Saturday, Sunday or legal holiday.

11. Adjustments of Exercise Price and Number of Warrant Shares. (a) Stock Splits, etc. The number and kind of securities purchasable upon the exercise of this Warrant and the Exercise Price shall be subject to adjustment from time to time upon the happening of any of the following. In case the Company shall (i) pay a dividend in shares of Common Stock or make a distribution in shares of Common Stock to holders of its outstanding Common Stock, (ii) subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock, (iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock or (iv) issue any shares of its capital stock in a reclassification of the Common Stock, then the number of Warrant Shares purchasable upon exercise of this Warrant immediately prior thereto shall be adjusted so that the holder of this Warrant shall be entitled to receive the kind and number of Warrant Shares or other securities of the Company which he would have owned or have been entitled to receive had such Warrant been exercised in advance thereof. Upon each such adjustment of the kind and number of Warrant Shares or other securities of the Company which are purchasable hereunder, the holder of this Warrant shall thereafter be entitled to purchase the number of Warrant Shares or other securities resulting from such adjustment at an Exercise Price per Warrant Share or other security obtained by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of Warrant Shares purchasable pursuant hereto immediately prior to such adjustment and dividing by the number of Warrant Shares or other securities of the Company resulting from such adjustment. An adjustment made pursuant to this paragraph shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event.

(b) Reorganization, Reclassification, Merger, Consolidation or Disposition of Assets. In case the Company shall reorganize its capital, reclassify its capital stock, consolidate or merge with or into another corporation (where the Company is not the surviving corporation or where there is a change in or distribution with respect to the Common Stock of the Company), or sell, transfer or otherwise dispose of all or substantially all its property, assets or business to another corporation and, pursuant to the terms of such reorganization, reclassification, merger, consolidation or disposition of assets, shares of common stock of the successor or acquiring corporation, or any cash, shares of stock or other securities or property of any nature



whatsoever (including warrants or other subscription or purchase rights) in

addition to or in lieu of common stock of the successor or acquiring corporation ("Other Property"), are to be received by or distributed to the holders of Common Stock of the Company, then Holder shall have the right thereafter to receive, upon exercise of this Warrant, the number of shares of common stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and Other Property receivable upon or as a result of such reorganization, reclassification, merger, consolidation or disposition of assets by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event. In case of any such reorganization, reclassification, merger, consolidation or disposition of assets, the successor or acquiring corporation (if other than the Company) shall expressly assume the due and punctual observance and performance of each and every covenant and condition of this Warrant to be performed and observed by the Company and all the obligations and liabilities hereunder, subject to such modifications as may be deemed appropriate (as determined in good faith by resolution of the Board of Directors of the Company) in order to provide for adjustments of shares of Common Stock for which this Warrant is exercisable which shall be as nearly equivalent as practicable to the adjustments provided for in this Section 11. For purposes of this Section 11, "common stock of the successor or acquiring corporation" shall include stock of such corporation of any class which is not preferred as to dividends or assets over any other class of stock of such corporation and which is not subject to redemption and shall also include any evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for any such stock, either immediately or upon the arrival of a specified date or the happening of a specified event and any warrants or other rights to subscribe for or purchase any such stock. The foregoing provisions of this Section 11 shall similarly apply to successive reorganizations, reclassifications, mergers, consolidations or disposition of assets.

12. Voluntary Adjustment by the Company. The Company may at any time during the term of this Warrant, reduce the then current Exercise Price to any amount and for any period of time deemed appropriate by the Board of Directors of the Company.

13. Notice of Adjustment. Whenever the number of Warrant Shares or number or kind of securities or other property purchasable upon the exercise of this Warrant or the Exercise Price is adjusted, as herein provided, the Company shall promptly mail by registered or certified mail, return receipt requested, to the holder of this Warrant notice of such adjustment or adjustments setting forth the number of Warrant Shares (and other securities or property) purchasable upon the exercise of this Warrant and the Exercise Price of such Warrant Shares (and other securities or property) after such adjustment, setting forth a brief statement of the facts requiring such adjustment and setting forth the computation by which such adjustment was made. Such notice, in the absence of manifest error, shall be conclusive evidence of the correctness of such adjustment.

14. Notice of Corporate Action. If at any time:

(a) the Company shall take a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or other distribution, or any right to subscribe for or purchase any evidences of its indebtedness, any shares of stock of any class or any other securities or property, or to receive any other right, or

(b) there shall be any capital reorganization of the Company, any reclassification or recapitalization of the capital stock of the Company or any consolidation or merger of the Company with, or any sale, transfer or other disposition of all or substantially all the property, assets or business of the Company to, another corporation or,

(c) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company;

then, in any one or more of such cases, the Company shall give to Holder (i) at least 30 days' prior written notice of the date on which a record date shall be selected for such dividend, distribution or right or for determining rights to vote in respect of any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, liquidation or winding up, and (ii) in the case of any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up, at least 30 days' prior written notice of the date

when the same shall take place. Such notice in accordance with the foregoing clause also shall specify (i) the date on which any such record is to be taken for the purpose of such dividend, distribution or right, the date on which the holders of Common Stock shall be entitled to any such dividend, distribution or right, and the amount and character thereof, and (ii) the date on which any such reorganization, reclassification, merger, consolidation, sale, transfer, disposition, dissolution, liquidation or winding up is to take place and the time, if any such time is to be fixed, as of which the holders of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such disposition, dissolution, liquidation or winding up. Each such written notice shall be sufficiently given if addressed to Holder at the last address of Holder appearing on the books of the Company and delivered in accordance with Section 16(d).

15. Authorized Shares. The Company covenants that during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for the Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Principal Market upon which the Common Stock may be listed.

The Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder against impairment. Without limiting the generality of the foregoing, the Company will (a) not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the amount payable therefor upon such exercise immediately prior to such increase in par value, (b) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of this Warrant, and (c) use all commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof as may be necessary to enable the Company to perform its obligations under this Warrant.

Upon the request of Holder, the Company will at any time during the period this Warrant is outstanding acknowledge in writing, in form reasonably satisfactory to Holder, the continuing validity of this Warrant and the obligations of the Company hereunder.

Before taking any action which would cause an adjustment reducing the current Exercise Price below the then par value, if any, of the shares of Common Stock issuable upon exercise of the Warrants, the Company shall take any corporate action which may be necessary in order that the Company may validly and legally issue fully paid and non-assessable shares of such Common Stock at such adjusted Exercise Price.

Before taking any action which would result in an adjustment in the number of shares of Common Stock for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

16. Miscellaneous.

(a) Jurisdiction. This Warrant shall be binding upon any successors or assigns of the Company. This Warrant shall constitute a contract under the laws of New York without regard to its conflict of law principles or rules, and be subject to arbitration pursuant to the terms set forth in the

Purchase Agreement.



(b) Restrictions. The holder hereof acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

(c) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice Holder's rights, powers or remedies, notwithstanding all rights hereunder terminate on the Termination Date hereof. If the Company willfully fails to comply with any material provision of this Warrant, the Company shall pay to Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

(d) Notices. Any notice, request or other document required or permitted to be given or delivered to the holder hereof by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

(e) Limitation of Liability. No provision hereof, in the absence of affirmative action by Holder to purchase shares of Common Stock, and no enumeration herein of the rights or privileges of Holder hereof, shall give rise to any liability of Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

(f) Remedies. Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(g) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of all Holders from time to time of this Warrant and shall be enforceable by any such Holder or holder of Warrant Shares.

(h) Indemnification. The Company agrees to indemnify and hold harmless Holder from and against any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, attorneys' fees, expenses and disbursements of any kind which may be imposed upon, incurred by or asserted against Holder in any manner relating to or arising out of any failure by the Company to perform or observe in any material respect any of its covenants, agreements, undertakings or obligations set forth in this Warrant; provided, however, that the Company will not be liable hereunder to the extent that any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, costs, attorneys' fees, expenses or disbursements are found in a final non-appealable judgment by a court to have resulted from Holder's negligence, bad faith or willful misconduct in its capacity as a stockholder or warrantholder of the Company.

(i) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

(j) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

(k) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.



IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized.

Dated:

First Priority Group, Inc.

By: ____________________________
Barry Siegel, Chairman & CEO



NOTICE OF EXERCISE

To: First Priority Group, Inc.

1. The undersigned hereby elects to purchase [________] shares of Common Stock (the "Common Stock"), of First Priority Group, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

2. Please issue a certificate or certificates representing said shares of Common Stock in the name of the undersigned or in such other name as is specified below:

- ----------------------------------------

Name

Address:

- ----------------------------------------

Dated:

- ----------------------------------------

Signature

ASSIGNMENT FORM

(To assign the foregoing warrant, execute this form and supply required information. Do not use this form to exercise the warrant.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to [NAME] whose address is [__________________________].

Dated:

Holder's Signature:

- ----------------------------------------

Holder's Address:

- ----------------------------------------

Signature Guaranteed:

- ----------------------------------------

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank or trust company. Officers of corporations and those acting in an fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

Exhibit 10.4

First Priority Group, Inc.
51 East Bethpage Road
Plainview, New York 11803
Tel: (516) 694-1010

September 29, 2000

Suerez Enterprises Limited
C/o Dr. Dr. Batliner & Partner
Aeulestrasse 74
FL-9490 Vaduz, Liechtenstein
Attn.: Mr. Hans Gassner

Re: Amendment to Common Stock Purchase Agreement

Gentlemen:

Reference is made to that certain Common Stock Purchase Agreement (the "Purchase Agreement"), dated May 31, 2000, between First Priority Group, Inc. (the "Company") and Suerez Enterprises Limited (the "Purchaser"). In order to register for resale the Common Stock to be purchased pursuant to the Purchase Agreement, certain provisions of the Purchase Agreement must be deleted or revised.

In consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree to restate the following section of the Purchase Agreement as follows:

Section 5.2 (f) Warrants. In lieu of a minimum Draw Down commitment by the Company, the Purchaser shall receive a warrant certificate at the initial closing to purchase up to a number of shares of Common Stock equal to $100,000 divided by the VWAP on the Trading Day immediately prior to the date of the Closing (the "Initial Warrant"). One half of such Warrants shall be exercisable immediately and the other half shall be exercisable six months thereafter. As to any Draw Downs or any portion of a Draw Down made by the Company after the Company has drawn down in excess of Five Million Dollars ($5,000,000) in the aggregate under this Agreement, the Purchaser shall also receive, at each applicable Draw Down closing, a warrant certificate representing 4% warrant coverage (using the same formula set forth above) of any such Draw Down or portion thereof (each, a "Draw Down Warrant" and collectively with the Initial Warrant, the "Warrants"). The term of the Warrants shall be three (3) years from the date of their issuance. The Strike Price of the Warrants shall be 150% of the VWAP on the Trading Days immediately prior to the applicable closing date. The Common Stock underlying the Warrants will be registered in the Registration Statement referred to in Section 4.3 hereof. The Warrants shall be in the form of Exhibit E hereto.

Conditions Precedent to the Obligation of the Purchaser to Accept a Draw Down and Purchase the Shares. The obligation hereunder of the Purchaser to accept a Draw Down request and to acquire and pay for the Shares is subject to the satisfaction or waiver, at or before each Draw Down Exercise Date, of each of the conditions set forth below.

Section 6.1. (b) Only one Draw Down shall be allowed in each Draw Down Pricing Period. The price per share paid by the Purchaser shall be based on the

Average Daily Price on each separate Trading Day during the Draw Down Pricing Period. The number of shares of Common Stock purchased by the Purchaser with respect to each Draw Down shall be determined on a daily basis during each Draw Down Pricing Period and settled on a weekly basis (each date of settlement a "Draw Down Exercise Date"). In connection with each Draw Down Pricing Period, the Company may set an Average Daily Price below which the Company will not sell any Shares (the "Threshold Price"). If the Average Daily Price on any day within the Draw Down Pricing Period is less than the Threshold Price, the Company shall not sell and the Purchaser shall not be obligated to purchase the Shares otherwise to be purchased for such day.

Section 7.1. Termination by Mutual Consent. The term of this Agreement shall be twelve (12) months.

Section 7.2. Other Termination. The Purchaser may terminate this Agreement upon one (1) Trading Day's notice if (i) an event resulting in a Material Adverse Effect has occurred, (ii) the Common Stock is de-listed from the Principal Market unless such de-listing is in connection with the listing of the Common Stock on the Nasdaq National Market, Nasdaq SmallCap Market, the American Stock Exchange or the New York Stock Exchange, or (iii) the Company files for protection from creditors under any applicable law.

Additionally, the parties hereby agree to amend the address for the Purchaser in Section 9.4 of the Purchase Agreement as follows:

Except as specifically amended by the terms of this letter, the Purchase Agreement shall remain unmodified and in full force and effect, and shall not be in any way changed, modified or superseded by the terms set forth herein. All terms used but not defined in this letter shall have the meanings set forth in the Purchase Agreement.

If the foregoing correctly sets forth our understanding and agreement, please so indicate by signing where indicated below.

FIRST PRIORITY GROUP, INC.

By: __________________________
Name:
Title:

ACCEPTED AND AGREED TO:

SUEREZ ENTERPRISES LIMITED

By: _________________________________
Name:
Title:

Exhibit 10.5

EXHIBIT A

# REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT, dated as of May 31, 2000, between Suerez Enterprises Limited ("Purchaser") and First Priority Group, Inc. (the "Company").

WHEREAS, simultaneously with the execution and delivery of this Agreement, pursuant to a Common Stock Purchase Agreement dated the date hereof (the "Purchase Agreement") the Purchaser has committed to purchase up to $10,000,000 worth of the Company's Common Stock (terms not defined herein shall have the meanings ascribed to them in the Purchase Agreement); and

WHEREAS, the Company desires to grant to the Purchaser the registration rights set forth herein with respect to the Shares and the Shares issuable upon exercise of the Warrants from time to time (the "Warrant Shares") (hereinafter referred to collectively as the "Stock" or "Securities" of the Company).

NOW, THEREFORE, the parties hereto mutually agree as follows:

Section 1. Registrable Securities. As used herein the term "Registrable Security" means the Securities until (i) all Securities have been disposed of pursuant to the Registration Statement, (ii) all Securities have been sold under circumstances under which all of the applicable conditions of Rule 144 (or any similar provision then in force) under the Securities Act ("Rule 144") are met, (iii) all Securities have been otherwise transferred to persons who may trade such Securities without restriction under the Securities Act, and the Company has delivered a new certificate or other evidence of ownership for such Securities not bearing a restrictive legend or (iv) such time as, in the opinion of counsel to the Company, all Securities may be sold without any time, volume or manner limitations pursuant to Rule 144(k) (or any similar provision then in effect) under the Securities Act. The term "Registrable Securities" means any and/or all of the securities falling within the foregoing definition of a "Registrable Security." In the event of any merger, reorganization, consolidation, recapitalization or other change in corporate structure affecting the Common Stock, such adjustment shall be deemed to be made in the definition of "Registrable Security" as is appropriate in order to prevent any dilution or enlargement of the rights granted pursuant to this Agreement.

Section 2. Restrictions on Transfer. The Purchaser acknowledges and understands that in the absence of an effective Registration Statement authorizing the resale of the Securities as provided herein, the Securities are "restricted securities" as defined in Rule 144 promulgated under the Act. The Purchaser understands that no disposition or transfer of the Securities may be made by Purchaser in the absence of (i) an opinion of counsel to the Purchaser, in form and substance reasonably satisfactory to the Company, that such transfer may be made without registration under the Securities Act or (ii) such registration.

With a view to making available to the Purchaser the benefits of Rule 144 under the Securities Act or any other similar rule or regulation of the Commission that may at any time permit the Purchaser to sell securities of the Company to the public without registration ("Rule 144"), the Company agrees to:

(a) comply with the provisions of paragraph (c)(1) of Rule 144; and

(b) file with the Commission in a timely manner all reports and other documents required to be filed by the Company pursuant to Section 13 or 15(d) under the Exchange Act; and, if at any time it is not required to file such reports but in the past had been required to or did file such reports, it will, upon the request of any Purchaser, make available other information as required by, and so long as necessary to permit sales of, its Registrable Securities pursuant to Rule 144.

Section 3. Registration Rights With Respect to the Securities.

(a) The Company agrees that it will prepare and file with the Securities and Exchange Commission ("Commission"), within forty-five (45) days after the date hereof, a registration statement (on Form S-3 and/or S-1, or other appropriate form of registration statement) under the Securities Act (the "Registration Statement"), at the sole expense of the Company (except as provided in Section 3(c) hereof), in respect of Purchaser, so as to permit a public offering and resale of the Securities under the Act by Purchaser.

The Company shall use its best efforts to cause the Registration Statement to become effective within five (5) days of SEC clearance and will within said five (5) days request acceleration of effectiveness. If the Registration Statement is not declared effective by September 30, 2000 this Agreement and the Purchase Agreement shall terminate. The Company will notify Purchaser of the effectiveness of the Registration Statement within one Trading Day of such event.

(b) The Company will maintain the Registration Statement or post-effective amendment filed under this Section 3 hereof effective under the Securities Act until the earlier of (i) the date that none of the Securities are or may become issued and outstanding, (ii) the date that all of the Securities have been sold pursuant to the Registration Statement, (iii) the date the holders thereof receive an opinion of counsel to the Company, which counsel shall be reasonably acceptable to the Purchaser, that the Securities may be sold under the provisions of Rule 144 without limitation as to volume, (iv) all Securities have been otherwise transferred to persons who may trade such shares without restriction under the Securities Act, and the Company has delivered a new certificate or other evidence of ownership for such securities not bearing a restrictive legend, or (v) all Securities may be sold without any time, volume or manner limitations pursuant to Rule 144(k) or any similar provision then in effect under the Securities Act in the opinion of counsel to the Company, which counsel shall be reasonably acceptable to the Purchaser (the "Effectiveness Period").

(c) All fees, disbursements and out-of-pocket expenses and costs incurred by the Company in connection with the preparation and filing of the Registration Statement under subparagraph 3(a) and in complying with applicable securities and Blue Sky laws (including, without limitation, all attorneys' fees of the Company) shall be borne by the Company. The Purchaser shall bear the cost of underwriting and/or brokerage discounts, fees and commissions, if any, applicable to the Securities being registered and the fees and expenses of its counsel. The Purchaser and its counsel shall have a reasonable period, not to exceed seven (7) Trading Days, to review the proposed Registration Statement or any amendment thereto, prior to filing with the Commission, and the Company shall provide each Purchaser with copies of any comment letters received from the Commission with respect thereto within two (2) Trading Days of receipt thereof. The Company shall make reasonably available for inspection by Purchaser, any underwriter participating in any disposition pursuant to the Registration Statement, and any attorney, accountant or other agent retained by such Purchaser or any such underwriter all relevant financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries, and cause the Company's officers, directors and employees to supply all information reasonably requested by such Purchaser or any such underwriter, attorney, accountant or agent in connection with the Registration Statement, in each case, as is customary for similar due diligence examinations; provided, however, that all records, information and documents that are designated in writing by the Company, in good faith, as confidential, proprietary or containing any material non-public information shall be kept confidential by such Purchaser and any such underwriter, attorney, accountant or agent (pursuant to an appropriate confidentiality agreement in the case of any such Purchaser or agent), unless such disclosure is made pursuant to judicial process in a court proceeding (after first giving the Company an opportunity promptly to seek a protective order or otherwise limit the scope of the information sought to be disclosed) or is required by law, or such records, information or documents become available to the public generally or through a third party not in violation of an accompanying obligation of confidentiality; and provided further that, if the foregoing inspection and information gathering would otherwise disrupt the Company's conduct of its business, such inspection and information gathering shall, to the maximum extent possible, be coordinated

on behalf of the Purchaser and the other parties entitled thereto by one firm of counsel designed by and on behalf of the majority in interest of Purchaser and other parties. The Company shall qualify any



of the securities for sale in such states as such Purchaser reasonably designates and shall furnish indemnification in the manner provided in Section 6 hereof. However, the Company shall not be required to qualify in any state which will require an escrow or other restriction relating to the Company and/or the sellers, or which will require the Company to qualify to do business in such state or require the Company to file therein any general consent to service of process. The Company at its expense will supply the Purchaser with copies of the Registration Statement and the prospectus included therein and other related documents in such quantities as may be reasonably requested by the Purchaser.

(d) The Company shall not be required by this Section 3 to include a Purchaser's Securities in any Registration Statement which is to be filed if, in the opinion of counsel for both the Purchaser and the Company (or, should they not agree, in the opinion of another counsel experienced in securities law matters acceptable to counsel for the Purchaser and the Company) the proposed offering or other transfer as to which such registration is requested is exempt from applicable federal and state securities laws and would result in all purchasers or transferees obtaining securities which are not "restricted securities", as defined in Rule 144 under the Securities Act.

(e) If at any time or from time to time after the effective date of the Registration Statement, the Company notifies the Purchaser in writing of the existence of a Potential Material Event (as defined in Section 3(f) below), the Purchaser shall not offer or sell any Securities or engage in any other transaction involving or relating to Securities, from the time of the giving of notice with respect to a Potential Material Event until such Purchaser receives written notice from the Company that such Potential Material Event either has been disclosed to the public or no longer constitutes a Potential Material Event; provided, however, that if the Company so suspends the right to such holders of Securities for more than twenty (20) days in the aggregate during any twelve month period, during the periods the Registration Statement is required to be in effect then the Company must compensate the Purchaser for any decline in market value of the Securities held by Purchaser at the beginning of such suspension through the end of such suspension. If a Potential Material Event shall occur prior to the date the Registration Statement is filed, then the Company's obligation to file the Registration Statement shall be delayed without penalty for not more than thirty (30) days (and the September 30, 2000 deadline shall be commensurately extended). The Company must give Purchaser notice in writing at least two (2) Trading Days prior to the first day of the blackout period, if lawful to do so.

(f) "Potential Material Event" means any of the following: (a) the possession by the Company of material information that is not ripe for disclosure in a registration statement, as determined in good faith by the Chief Executive Officer or the Board of Directors of the Company or that disclosure of such information in the Registration Statement would be detrimental to the business and affairs of the Company; or (b) any material engagement or activity by the Company which would, in the good faith determination of the Chief Executive Officer or the Board of Directors of the Company, be adversely affected by disclosure in a registration statement at such time, which determination shall be accompanied by a good faith determination by the Chief Executive Officer or the Board of Directors of the Company that the Registration Statement would be materially misleading absent the inclusion of such information.

Section 4. Cooperation with Company. Purchaser will cooperate with the Company in all respects in connection with this Agreement, including timely supplying all information reasonably requested by the Company (which shall include all information regarding the Purchaser and proposed manner of sale of the Registrable Securities required to be disclosed in the Registration Statement) and executing and returning all documents reasonably requested in connection with the registration and sale of the Registrable Securities and entering into and performing its obligations under any underwriting agreement, if the offering is an underwritten offering, in usual and customary form, with the managing underwriter or underwriters of such underwritten offering. The Purchaser shall consent to be named as an underwriter in the Registration

Statement. Purchaser acknowledges that in accordance with current Commission policy, the Purchaser will be named as the underwriter of the Securities in the Registration Statement.



Section 5. Registration Procedures. If and whenever the Company is required by any of the provisions of this Agreement to effect the registration of any of the Registrable Securities under the Act, the Company shall (except as otherwise provided in this Agreement), as expeditiously as possible, subject to the Purchaser's assistance and cooperation as reasonably required:

(a) prepare and file with the Commission such amendments and supplements to the Registration Statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective and to comply with the provisions of the Act with respect to the sale or other disposition of all securities covered by such registration statement whenever the Purchaser of such Registrable Securities shall desire to sell or otherwise dispose of the same (including prospectus supplements with respect to the sales of securities from time to time in connection with a registration statement pursuant to Rule 415 promulgated under the Act) and (ii) take all lawful action such that each of (A) the Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, not misleading and (B) the Prospectus forming part of the Registration Statement, and any amendment or supplement thereto, does not at any time during the Registration Period include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(b) prior to the filing with the Commission of any Registration Statement (including any amendments thereto) and the distribution or delivery of any prospectus (including any supplements thereto), provide draft copies thereof to the Purchasers and reflect in such documents all such comments as the Purchasers (and their counsel) reasonably may propose and (ii) furnish to each Purchaser such numbers of copies of a prospectus including a preliminary prospectus or any amendment or supplement to any prospectus, as applicable, in conformity with the requirements of the Act, and such other documents, as such Purchaser may reasonably request in order to facilitate the public sale or other disposition of the securities owned by such Purchaser;

(c) register and qualify the Registrable Securities covered by the Registration Statement under New York blue sky laws (subject to the limitations set forth in Section 3(d) above), and do any and all other acts and things which may be reasonably necessary or advisable to enable each Purchaser to consummate the public sale or other disposition in such jurisdiction of the securities owned by such Purchaser, except that the Company shall not for any such purpose be required to qualify to do business as a foreign corporation in any jurisdiction wherein it is not so qualified or to file therein any general consent to service of process;

(d) list such Registrable Securities on the Principal Market, and any other exchange on which the Common Stock of the Company is then listed, if the listing of such Registrable Securities is then permitted under the rules of such exchange or the Nasdaq Stock Market;

(e) notify each Purchaser at any time when a prospectus relating thereto covered by the Registration Statement is required to be delivered under the Act, of the happening of any event of which it has knowledge as a result of which the prospectus included in the Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and the Company shall prepare and file a curative amendment under Section 5(a) as quickly as commercially possible;

(f) as promptly as practicable after becoming aware of such event, notify each Purchaser who holds Registrable Securities being sold (or, in the event of an underwritten offering, the managing underwriters) of the issuance by the Commission or any state authority of any stop order or other suspension of the effectiveness of the Registration Statement at the earliest

possible time and take all lawful action to effect the withdrawal, recession or removal of such stop order or other suspension;



(g) cooperate with the Purchasers to facilitate the timely preparation and delivery of certificates for the Registrable Securities to be offered pursuant to the Registration Statement and enable such certificates for the Registrable Securities to be in such denominations or amounts, as the case may be, as the Purchasers reasonably may request and registered in such names as the Purchaser may request; and, within three (3) Trading Days after a Registration Statement which includes Registrable Securities is declared effective by the Commission, deliver and cause legal counsel selected by the Company to deliver to the transfer agent for the Registrable Securities (with copies to the Purchasers whose Registrable Securities are included in such Registration Statement) an appropriate instruction and, to the extent necessary, an opinion of such counsel;

(h) take all such other lawful actions reasonably necessary to expedite and facilitate the disposition by the Purchasers of their Registrable Securities in accordance with the intended methods therefor provided in the prospectus which are customary for issuers to perform under the circumstances;

(i) in the event of an underwritten offering, promptly include or incorporate in a Prospectus supplement or post-effective amendment to the Registration Statement such information as the managers reasonably agree should be included therein and to which the Company does not reasonably object and make all required filings of such Prospectus supplement or post-effective amendment as soon as practicable after it is notified of the matters to be included or incorporated in such Prospectus supplement or post-effective amendment; and

(j) maintain a transfer agent for its Common Stock.

Section 6. Indemnification.

(a) The Company agrees to indemnify and hold harmless the Purchaser and each person, if any, who controls the Purchaser within the meaning of the Securities Act ("Distributing Purchaser") against any losses, claims, damages or liabilities, joint or several (which shall, for all purposes of this Agreement, include, but not be limited to, all reasonable costs of defense and investigation and all reasonable attorneys' fees), to which the Distributing Purchaser may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, or any related preliminary prospectus, final prospectus or amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, preliminary prospectus, final prospectus or amendment or supplement thereto in reliance upon, and in conformity with, written information furnished to the Company by the Distributing Purchaser, specifically for use in the preparation thereof. This Section 6(a) shall not inure to the benefit of any Distributing Purchaser with respect to any person asserting such loss, claim, damage or liability who purchased the Registrable Securities which are the subject thereof if the Distributing Purchaser failed to send or give (in violation of the Securities Act or the rules and regulations promulgated thereunder) a copy of the prospectus contained in such Registration Statement to such person at or prior to the written confirmation to such person of the sale of such Registrable Securities, where the Distributing Purchaser was obligated to do so under the Securities Act or the rules and regulations promulgated thereunder. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) Each Distributing Purchaser agrees that it will indemnify and hold harmless the Company, and each officer, director of the Company or person, if any, who controls the Company within the meaning of the Securities Act, against any losses, claims, damages or liabilities (which shall, for all purposes of this Agreement, include, but not be limited to, all reasonable costs

of defense and investigation and all reasonable attorneys' fees) to which the Company or any such officer, director or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims,



damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, or any related preliminary prospectus, final prospectus or amendment or supplement thereto, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, preliminary prospectus, final prospectus or amendment or supplement thereto in reliance upon, and in conformity with, written information furnished to the Company by such Distributing Purchaser, specifically for use in the preparation thereof. This indemnity agreement will be in addition to any liability which the Distributing Purchaser may otherwise have. Notwithstanding anything to the contrary herein, the Distributing Investor shall not be liable under this Section 6(b) for any amount in excess of the net proceeds to such Distributing Investor as a result of the sale of Registrable Securities pursuant to the Registration Statement.

(c) Promptly after receipt by an indemnified party under this Section 6 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 6, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve the indemnifying party from any liability which it may have to any indemnified party except to the extent of actual prejudice demonstrated by the indemnifying party. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, assume the defense thereof, subject to the provisions herein stated and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section 6 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation, unless the indemnifying party shall not pursue the action to its final conclusion. The indemnified party shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall not be at the expense of the indemnifying party if the indemnifying party has assumed the defense of the action with counsel reasonably satisfactory to the indemnified party; provided that if the indemnified party is the Distributing Purchaser, the fees and expenses of such counsel shall be at the expense of the indemnifying party if (i) the employment of such counsel has been specifically authorized in writing by the indemnifying party, or (ii) the named parties to any such action (including any impleaded parties) include both the Distributing Purchaser and the indemnifying party and the Distributing Purchaser shall have been advised by such counsel that there may be one or more legal defenses available to the indemnifying party different from or in conflict with any legal defenses which may be available to the Distributing Purchaser (in which case the indemnifying party shall not have the right to assume the defense of such action on behalf of the Distributing Purchaser, it being understood, however, that the indemnifying party shall, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable only for the reasonable fees and expenses of one separate firm of attorneys for the Distributing Purchaser, which firm shall be designated in writing by the Distributing Purchaser). No settlement of any action against an indemnified party shall be made without the prior written consent of the indemnified party, which consent shall not be unreasonably withheld.

All fees and expenses of the indemnified party (including reasonable costs of defense and investigation in a manner not inconsistent with this Section and all reasonable attorneys' fees and expenses) shall be paid to the indemnified party, as incurred, within ten (10) Trading Days of written notice thereof to the indemnifying party (regardless of whether it is ultimately determined that an indemnified party is not entitled to indemnification

hereunder; provided, that the indemnifying party may require such indemnified party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such indemnified party is not entitled to indemnification hereunder).

Section 7. Contribution. In order to provide for just and equitable contribution under the Securities Act in any case in which (i) the indemnified party makes a claim for indemnification pursuant to Section 6 hereof but is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such



indemnification may not be enforced in such case notwithstanding the fact that the express provisions of Section 6 hereof provide for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any indemnified party, then the Company and the applicable Distributing Purchaser shall contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (which shall, for all purposes of this Agreement, include, but not be limited to, all reasonable costs of defense and investigation and all reasonable attorneys' fees), in either such case (after contribution from others) on the basis of relative fault as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the applicable Distributing Purchaser on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Distributing Purchaser agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 7. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

Notwithstanding any other provision of this Section 7, in no event shall any (i) Purchaser be required to undertake liability to any person under this Section 7 for any amounts in excess of the dollar amount of the net proceeds to be received by such Purchaser from the sale of such Purchaser's Registrable Securities (after deducting any fees, discounts and commissions applicable thereto) pursuant to any Registration Statement under which such Registrable Securities are to be registered under the Securities Act and (ii) underwriter be required to undertake liability to any person hereunder for any amounts in excess of the aggregate discount, commission or other compensation payable to such underwriter with respect to the Registrable Securities underwritten by it and distributed pursuant to the Registration Statement.

Section 8. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be delivered as set forth in the Purchase Agreement.

Section 9. Assignment. Neither this Agreement nor any rights of the Purchaser or the Company hereunder may be assigned by either party to any other person. Notwithstanding the foregoing, (a) the provisions of this Agreement shall inure to the benefit of, and be enforceable by, any transferee of any of the Common Stock purchased by the Purchaser pursuant to the Purchase Agreement other than through open-market sales, and (b) upon the prior written consent of the Company, which consent shall not be unreasonably withheld or delayed in the case of an assignment to an affiliate of the Purchaser, the Purchaser's interest in this Agreement may be assigned at any time, in whole or in part, to any other person or entity (including any affiliate of the Purchaser) who agrees to be bound hereby.

Section 10. Counterparts/Facsimile. This Agreement may be executed in

two or more counterparts, each of which shall constitute an original, but all of which, when together shall constitute but one and the same instrument, and shall become effective when one or more counterparts have been signed by each party hereto and delivered to the other party. In lieu of the original, a facsimile transmission or copy of the original shall be as effective and enforceable as the original.

Section 11. Remedies. The remedies provided in this Agreement are cumulative and not exclusive of any remedies provided by law. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and



restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

Section 12. Conflicting Agreements. The Company shall not enter into any agreement with respect to its securities that is inconsistent with the rights granted to the holders of Registrable Securities in this Agreement or otherwise prevents the Company from complying with all of its obligations hereunder.

Section 13. Headings. The headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 14. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made in New York by persons domiciled in New York City and without regard to its principles of conflicts of laws. Any action may be brought as set forth in the Purchase Agreement. Any party shall have the right to seek injunctive relief from any court of competent jurisdiction in any case where such relief is available. Any dispute under this Agreement shall be submitted to arbitration under the American Arbitration Association (the "AAA") in New York City, New York, and shall be finally and conclusively determined by the decision of a board of arbitration consisting of three (3) members (hereinafter referred to as the "Board of Arbitration") selected as according to the rules governing the AAA. The Board of Arbitration shall meet on consecutive business days in New York City, New York, and shall reach and render a decision in writing (concurred in by a majority of the members of the Board of Arbitration) with respect to the amount, if any, which the losing party is required to pay to the other party in respect of a claim filed. In connection with rendering its decisions, the Board of Arbitration shall adopt and follow the laws of the State of New York. To the extent practical, decisions of the Board of Arbitration shall be rendered no more than thirty (30) calendar days following commencement of proceedings with respect thereto. The Board of Arbitration shall cause its written decision to be delivered to all parties involved in the dispute. The Board of Arbitration shall be authorized and is directed to enter a default judgment against any party refusing to participate in the arbitration proceeding with thirty days of any deadline for such participation. Any decision made by the Board of Arbitration (either prior to or after the expiration of such thirty (30) calendar day period) shall be final, binding and conclusive on the parties to the dispute, and entitled to be enforced to the fullest extent permitted by law and entered in any court of competent jurisdiction. The prevailing party shall be awarded its costs, including attorneys' fees, from the non-prevailing party as part of the arbitration award. Any party shall have the right to seek injunctive relief from any court of competent jurisdiction in any case where such relief is available. The prevailing party in such injunctive action shall be awarded its costs, including attorney's fees, from the non-prevailing party.

Section 15. Severability. If any provision of this Agreement shall for any reason be held invalid or unenforceable, such invalidity or unenforceablity shall not affect any other provision hereof and this Agreement shall be construed as if such invalid or unenforceable provision had never been contained

herein. Terms not otherwise defined herein shall be defined in accordance with the Purchase Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Registration Rights Agreement to be duly executed, on this ___ day of May, 2000.

First Priority Group, Inc.

By: /s/ Barry Siegel
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Barry Siegel, Chairman & CEO

Suerez Enterprises Limited

By: /s/ Hans Gassner
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Hans Gassner, Authorized Signatory

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the use in this registration statement on Form SB-2, of our report dated March 13, 2000, relating to the consolidated financial statements of First Priority Group, Inc., and to the reference to our Firm under the caption "Experts" in the Prospectus.

/s/ Nussbaum Yates & Wolpow, P.C.

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Nussbaum Yates & Wolpow, P.C.

October 18, 2000
Melville, New York