

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2004

OR

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

For the Transition Period from _____ to _____

Commission File Number 000-28275

PFSweb, Inc.

(Exact name of registrant as specified in its charter)

<u>Delaware</u> (State of Incorporation)	<u>75-2837058</u> (I.R.S. Employer I.D. No.)
<u>500 North Central Expressway, Plano, Texas</u> (Address of principal executive offices)	<u>75074</u> (Zip Code)

Registrant's telephone number, including area code: (972) 881-2900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

At November 8, 2004 there were 21,449,356 shares of registrant's common stock outstanding, excluding 86,300 shares of common stock in treasury.

PFSWEB, INC. AND SUBSIDIARIES

Form 10-Q
September 30, 2004

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PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements**

PFSWEB, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Data)

	September 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,941	\$ 14,743
Restricted cash	329	1,091
Accounts receivable, net of allowance for doubtful accounts of \$436 and \$339 at September 30, 2004 and December 31, 2003, respectively	37,219	31,658
Inventories, net	42,908	44,589
Other receivables	4,679	3,091
Prepaid expenses and other current assets	3,327	2,417
Total current assets	103,403	97,589
PROPERTY AND EQUIPMENT, net	10,453	9,589
RESTRICTED CASH	675	900
OTHER ASSETS	339	281
Total assets	<u>\$114,870</u>	<u>\$108,359</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	\$ 54,972	\$ 57,085
Trade accounts payable	19,767	11,996
Accrued expenses	8,914	7,101
Total current liabilities	83,653	76,182
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, less current portion	2,781	2,762
OTHER LIABILITIES	778	998
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.001 par value; 40,000,000 shares authorized; 21,486,146 and 21,247,941 shares issued at September 30, 2004 and December 31, 2003, respectively; and 21,399,846 and 21,161,641 outstanding at September 30, 2004 and December 31, 2003, respectively	21	21
Additional paid-in capital	56,473	56,156
Accumulated deficit	(30,171)	(29,303)
Accumulated other comprehensive income	1,420	1,628
Treasury stock at cost, 86,300 shares	(85)	(85)
Total shareholders' equity	27,658	28,417
Total liabilities and shareholders' equity.	<u>\$114,870</u>	<u>\$108,359</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
REVENUES:				
Product revenue, net	\$61,561	\$60,300	\$195,435	\$183,156
Gross service fee revenue	15,456	9,100	39,087	27,908
Less pass-through charges	3,856	880	9,327	2,325
Net service fee revenues	11,600	8,220	29,760	25,583
Total net revenues	73,161	68,520	225,195	208,739
COSTS OF REVENUES:				
Cost of product revenue	58,126	56,988	184,302	172,980
Cost of net service fee revenue	7,648	5,790	19,610	17,253
Total costs of revenues	65,774	62,778	203,912	190,233
Gross profit	7,387	5,742	21,283	18,506
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,451	6,336	20,493	19,029
Income (loss) from operations	936	(594)	790	(523)
INTEREST EXPENSE, NET	373	475	1,125	1,589
Income (loss) before income taxes	563	(1,069)	(335)	(2,112)
INCOME TAX EXPENSE	143	72	533	336
NET INCOME (LOSS)	\$ 420	\$ (1,141)	\$ (868)	\$ (2,448)
NET INCOME (LOSS) PER SHARE:				
Basic	\$ 0.02	\$ (0.06)	\$ (0.04)	\$ (0.13)
Diluted	\$ 0.02	\$ (0.06)	\$ (0.04)	\$ (0.13)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:				
Basic	21,386	18,761	21,270	18,537
Diluted	23,071	18,761	21,270	18,537

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

PFSWEB, INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Nine Months Ended September 30,	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (868)	\$ (2,448)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,509	3,497
Provision for doubtful accounts	235	387
Provision for excess and obsolete inventory	1,036	1,412
Deferred income taxes	(109)	(78)
Non-cash compensation expense	14	6
Changes in operating assets and liabilities:		
Accounts receivables	(5,805)	(1,094)
Inventories, net	382	8,528
Prepaid expenses, other receivables and other current assets	(2,480)	(459)
Accounts payable, accrued expenses and deferred income	9,793	3,948
Net cash provided by operating activities	<u>5,707</u>	<u>13,699</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,442)	(1,002)
Decrease in restricted cash	258	1,700
Net cash provided by (used in) investing activities	<u>(3,184)</u>	<u>698</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(793)	(672)
Decrease (increase) in restricted cash	727	(29)
Proceeds from issuance of common stock	303	573
Payments on debt, net	(2,472)	(11,352)
Net cash used in financing activities	<u>(2,235)</u>	<u>(11,480)</u>
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(90)	(162)
NET INCREASE IN CASH AND CASH EQUIVALENTS	198	2,755
CASH AND CASH EQUIVALENTS, beginning of period	14,743	8,595
CASH AND CASH EQUIVALENTS, end of period	<u>\$14,941</u>	<u>\$ 11,350</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Non-cash investing and financing activities:		
Property and equipment acquired under capital leases	<u>\$ 1,490</u>	<u>\$ 204</u>

The accompanying notes are an integral part of these unaudited interim condensed consolidated financial statements.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

1. OVERVIEW AND BASIS OF PRESENTATION

PFSweb Overview

PFSweb, Inc. and its subsidiaries are collectively referred to as the “Company,” while the term “PFSweb” refers to PFSweb, Inc. and its subsidiaries excluding Business Supplies Distributors Holdings, LLC and its subsidiaries.

PFSweb is an international provider of integrated business process outsourcing services to major brand name companies seeking to maximize their supply chain efficiencies and to extend their traditional and e-commerce initiatives in the United States, Canada, and Europe. PFSweb offers such services as professional consulting, technology collaboration, managed hosting and internet application development, order management, web-enabled customer contact centers, customer relationship management, financial services including billing and collection services and working capital solutions, information management, option kitting and assembly services, and international fulfillment and distribution services.

Supplies Distributors Overview

In 2001, Business Supplies Distributors Holdings, LLC (“Holdings”) formed a wholly-owned subsidiary, Supplies Distributors, Inc. (“Supplies Distributors”). Concurrently, Supplies Distributors formed its wholly-owned subsidiaries, Supplies Distributors of Canada, Inc. (“SDC”) and Supplies Distributors S.A. (“SDSA”), a Belgium Corporation. Supplies Distributors and its subsidiaries are master distributors of various products, primarily International Business Machines (“IBM”) products. Pursuant to a transaction management services agreement between PFSweb and Supplies Distributors, PFSweb provides to Supplies Distributors and its subsidiaries such services as managed web hosting and maintenance, procurement support, web-enabled customer contact center services, customer relationship management, financial services including billing and collection services, information management, and international distribution services. Additionally, IBM and Supplies Distributors and its subsidiaries have outsourced the product demand generation function for the IBM products distributed by Supplies Distributors and its subsidiaries. Supplies Distributors and its subsidiaries sell their products in the United States, Canada and Europe.

Basis of Presentation

The unaudited interim condensed consolidated financial statements as of September 30, 2004, and for the three and nine months ended September 30, 2004 and 2003, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and are unaudited. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations promulgated by the SEC. In the opinion of management and subject to the foregoing, the unaudited interim condensed consolidated financial statements of the Company include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the Company’s financial position as of September 30, 2004, its results of operations for the three and nine months ended September 30, 2004 and 2003 and its results of cash flows for the three and nine months ended September 30, 2004 and 2003. Results of the Company’s operations for interim periods may not be indicative of results for the full fiscal year.

Certain prior period data has been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported net loss or shareholders’ equity.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

All intercompany accounts and transactions have been eliminated in consolidation.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Subordinated Loan to Affiliate

PFSweb has loaned Supplies Distributors monies in the form of a Subordinated Demand Note ("Subordinated Note"). Under certain terms of the Company's senior debt facilities, the outstanding balance of the Subordinated Note cannot be increased or decreased without prior approval of the Company's lenders. In March 2004, the Company's lenders agreed to reduce the required minimum Subordinated Note balance from \$8.0 million to \$7.0 million. As of September 30, 2004 and December 31, 2003, the outstanding balance of the Subordinated Note, which is eliminated upon the consolidation of Holdings' financial position, was \$7.0 million and \$8.0 million, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses, including allowances for the collectibility of accounts and other receivables and the recoverability of inventory. The recognition and allocation of certain operating expenses in these consolidated financial statements also required management estimates and assumptions. The Company's estimates and assumptions are continually evaluated based on available information and experience. Because the use of estimates is inherent in the financial reporting process, actual results could differ from estimates. If there is a significant unfavorable change to current conditions, it would likely result in a material adverse impact to the Company's business, operating results and financial condition.

Concentration of Business and Credit Risk

The Company's product revenue was primarily generated by sales of product purchased under master distributor agreements with one supplier. Sales to one customer accounted for approximately 12%, and sales to another customer accounted for approximately 10% of the Company's total product revenues for the nine months ended September 30, 2004. Service fee revenue from two clients individually accounted for approximately 44% and 16% of net service fee revenue for the nine months ended September 30, 2004. On a consolidated basis, one client accounted for approximately 16% of the Company's total revenues for the nine months ended September 30, 2004. As of September 30, 2004, one customer/client accounted for approximately 19% of accounts receivable. As of December 31, 2003, two customers/clients accounted for approximately 37% of accounts receivable.

In conjunction with Supplies Distributors' and its subsidiaries' financings, PFSweb has provided certain collateralized guarantees on behalf of Supplies Distributors and its subsidiaries. Supplies Distributors' and its subsidiaries' ability to obtain financing on similar terms would be significantly impacted without these guarantees. Additionally, since Supplies Distributors and its subsidiaries have limited personnel and physical resources, their ability to conduct business could be materially impacted by contract terminations by the party performing product demand generation for the IBM products.

The Company has multiple arrangements with IBM and is dependent upon the continuation of such arrangements. These arrangements, which are critical to the Company's ongoing operations, include Supplies Distributors' and its subsidiaries' master distributor agreements, Supplies Distributors' and its subsidiaries' working capital financing agreements, product sales to IBM business units, a general contractor relationship through PFSweb's largest client, and a term master lease agreement.

Cash and Cash Equivalents

Cash equivalents are defined as short-term highly liquid investments with original maturities of three months or less.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Inventories

Inventories (merchandise, held for resale, all of which are finished goods) are stated at the lower of cost or market. Supplies Distributors and its subsidiaries assume responsibility for slow-moving inventory under certain master distributor agreements, subject to certain termination rights, but have the right to return product rendered obsolete by engineering changes, as defined. The Company reviews inventory for impairment on a quarterly basis. Recoverability of the inventory on hand is measured by comparison of the carrying value of the inventory to the fair value of the inventory. The allowance for slow moving inventory was \$2.4 million and \$1.3 million at September 30, 2004 and December 31, 2003, respectively.

In the event PFSweb, Supplies Distributors and its subsidiaries and IBM terminate the master distributor agreements, the parties shall mutually agree on a plan of disposition of Supplies Distributors' and its subsidiaries' then existing inventory.

Inventories include merchandise in-transit that has not been received by the Company but that has been shipped and invoiced by Supplies Distributors' and its subsidiaries' vendors. The corresponding payable for inventories in-transit is included in debt in the accompanying consolidated financial statements.

Property and Equipment

The Company's property held under capital leases amounted to approximately \$3.2 million and \$3.1 million, net of accumulated amortization of approximately \$5.1 million and \$4.6 million, at September 30, 2004 and December 31, 2003, respectively.

Stock-Based Compensation

The Company accounts for stock options using the intrinsic-value method as outlined under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25") and related interpretations, including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation and Interpretation of APB No. 25*, issued in March 2000. Under this method, compensation expense is recorded on the date of the grant only if the current market price of the underlying stock exceeds the exercise price. The exercise prices of all options granted during the three and nine months ended September 30, 2004 and 2003 were equal to the market price of the Company's common stock at the date of grant. As such, no compensation cost was recognized during those periods for stock options granted to employees. The following table shows the pro forma effect on the Company's net income (loss) and income (loss) per share as if compensation cost had been recognized for stock options based on their fair value at the date of the grant. The pro forma effect of stock options on the Company's net income (loss) for those periods may not be representative of the pro forma effect for future periods due to the impact of vesting and potential future awards.

PFSweb, Inc. and Subsidiaries
Notes to Unaudited Interim Condensed Consolidated Financial Statements

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In thousands, except per share amounts)			
Net income (loss) as reported	\$ 420	\$(1,141)	\$ (868)	\$(2,448)
Add: Stock-based non-employee compensation expense included in reported net income (loss)	—	—	14	6
Deduct: Total stock-based employee and non-employee compensation expense determined under fair value based method	(128)	(110)	(400)	(422)
Pro forma net income (loss), applicable to common stock for basic and diluted computations	<u>\$ 292</u>	<u>\$(1,251)</u>	<u>\$(1,254)</u>	<u>\$(2,864)</u>
Income (loss) per common share – as reported				
Basic	<u>\$ 0.02</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.13)</u>
Diluted	<u>\$ 0.02</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.13)</u>
Income (loss) per common share – pro forma				
Basic	<u>\$ 0.01</u>	<u>\$ (0.07)</u>	<u>\$ (0.06)</u>	<u>\$ (0.15)</u>
Diluted	<u>\$ 0.01</u>	<u>\$ (0.07)</u>	<u>\$ (0.06)</u>	<u>\$ (0.15)</u>

During the nine months ended September 30, 2004, the Company issued an aggregate of 789,000 options to purchase shares of common stock to officers, directors, employees and consultants of PFSweb.

3. COMPREHENSIVE INCOME (LOSS) (in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income (loss)	\$420	\$(1,141)	\$ (868)	\$(2,448)
Other comprehensive income (loss):				
Foreign currency translation adjustment	164	104	(208)	912
Comprehensive income (loss)	<u>\$584</u>	<u>\$(1,037)</u>	<u>\$(1,076)</u>	<u>\$(1,536)</u>

4. NET INCOME (LOSS) PER COMMON SHARE AND COMMON SHARE EQUIVALENT

Basic and diluted net income (loss) per common share attributable to the Company's common stock were determined based on dividing the net income (loss) available to common stockholders by the weighted-average number of common shares outstanding. For the three months ended September 30, 2003 and the nine months ended September 30, 2004 and 2003, all outstanding options to purchase common shares were anti-dilutive and have been excluded from the weighted diluted average share computation. For the three months ended September 30, 2004, the effect of dilutive stock options increased the number of weighted average shares outstanding by 1,685,072 for computing diluted net income per share. As of September 30, 2004 and 2003 there were 5,036,251 and 4,668,292 options outstanding, respectively.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

5. DEBT AND CAPITAL LEASE OBLIGATIONS:

Debt and capital lease obligations consist of the following (in thousands):

	September 30, 2004	December 31, 2003
Inventory and working capital financing agreements:		
United States	\$21,467	\$26,034
Europe	11,220	11,526
Loan and security agreements:		
Supplies Distributors	11,602	13,146
PFSweb	5,081	3,514
Factoring agreement, Europe	4,362	2,296
Term master lease agreements	3,478	3,080
Other	543	251
Total	57,753	59,847
Less current portion of long-term debt	54,972	57,085
Long-term debt, less current portion	<u>\$ 2,781</u>	<u>\$ 2,762</u>

Inventory and Working Capital Financing Agreement, United States

Supplies Distributors has a short-term credit facility with IBM Credit LLC to finance its distribution of IBM products in the United States, providing financing for eligible IBM inventory and for certain other receivables up to \$27.5 million through its expiration on March 29, 2005. As of September 30, 2004, Supplies Distributors had \$6.0 million of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Holdings and Supplies Distributors to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of \$7.0 million and a minimum shareholders' equity of \$18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at prime rate plus 1%. The facility accrues a quarterly commitment fee of 0.375% on the unused portion of the commitment, and a monthly service fee.

Inventory and Working Capital Financing Agreement, Europe

SDSA and Supplies Distributors' wholly-owned subsidiary Business Supplies Distributors Europe B.V. ("BSD Europe") have a short-term credit facility with IBM Belgium Financial Services S.A. ("IBM Belgium") to finance their distribution of IBM products in Europe. The asset based credit facility with IBM Belgium provides up to 12.5 million Euros (approximately \$15.4 million) in financing for purchasing IBM inventory and for certain other receivables through March 29, 2005. As of September 30, 2004, SDSA and BSD Europe had 2.6 million euros (\$3.2 million) of available credit under this facility. The credit facility contains cross default provisions, various restrictions upon the ability of Holdings, Supplies Distributors, SDSA and BSD Europe to, among others, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as annualized revenue to working capital, net profit after tax to revenue, and total liabilities to tangible net worth, as defined, and are secured by all of the assets of SDSA and BSD Europe, as well as collateralized guaranties of Holdings, Supplies Distributors and PFSweb. Additionally, PFSweb is required to maintain a minimum Subordinated Note receivable balance from Supplies Distributors of \$7.0 million and a minimum shareholders' equity of \$18.0 million. Borrowings under the credit facility accrue interest, after a defined free financing period, at Euribor plus 2.5%. SDSA and BSD Europe pay a monthly service fee on the commitment.

PFSweb, Inc. and Subsidiaries**Notes to Unaudited Interim Condensed Consolidated Financial Statements*****Loan and Security Agreement – Supplies Distributors***

Supplies Distributors has a loan and security agreement with Congress Financial Corporation (Southwest) (“Congress”) to provide financing for up to \$25 million of eligible accounts receivable in the United States and Canada. As of September 30, 2004, Supplies Distributors had \$2.6 million of available credit under this agreement. The Congress facility expires on the earlier of March 29, 2007 or the date on which the parties to the IBM master distributor agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement. Borrowings under the Congress facility accrue interest at prime rate, prime rate plus up to 0.25%, Eurodollar rate or Eurodollar rate plus up to 2.75%, as defined. This agreement contains cross default provisions, various restrictions upon the ability of Holdings and Supplies Distributors to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as minimum net worth, as defined, and is secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, PFSweb is required to maintain a Subordinated Note receivable balance from Supplies Distributors of no less than \$6.5 million and restricted cash of less than \$5.0 million, and is restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure. Supplies Distributors and SDC entered into blocked account agreements with their banks and Congress whereby a security interest was granted to Congress for all customer remittances received in specified bank accounts. At September 30, 2004 and December 31, 2003, these bank accounts held \$0.1 million and \$0.8 million, respectively, which was restricted for payment to Congress.

Loan and Security Agreement – PFSweb

Priority Fulfillment Services, Inc. and Priority Fulfillment Services of Canada, Inc. (both wholly-owned subsidiaries of PFSweb and collectively the “Borrowers”) have a Loan and Security Agreement with Comerica Bank (“Comerica Agreement”). The Comerica Agreement provides for up to \$5.0 million of eligible accounts receivable financing in the United States and Canada (“Working Capital Advances”) through March 28, 2005 and up to \$2.5 million of eligible equipment purchases (“Equipment Advances”) through September 10, 2006. Outstanding Working Capital Advances, \$3.5 million as of September 30, 2004, accrue interest at prime rate plus 1%. Outstanding Equipment Advances, \$1.6 million as of September 30, 2004, accrue interest at prime rate plus 1.5%. As of September 30, 2004, the Borrowers had \$1.4 million of available credit under the Working Capital Advance portion of this facility. In October 2004, the Company repaid the \$3.5 million of Working Capital Advances outstanding as of September 30, 2004. The Comerica Agreement contains cross default provisions, various restrictions upon the Borrowers’ ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth, as defined, of \$19.0 million and a minimum liquidity ratio, as defined. The Comerica Agreement restricts the amount of the Subordinated Note to a maximum of \$8.0 million. The Comerica Agreement is secured by all of the assets of the Borrowers, as well as a guarantee of PFSweb, Inc. The Comerica Agreement requires the Borrowers to maintain a minimum cash balance of \$1.25 million at Comerica Bank.

Factoring Agreement

SDSA has a factoring agreement with Fortis Commercial Finance N.V. (“Fortis”) to provide factoring for up to 7.5 million euros (approximately \$9.2 million) of eligible accounts receivables through March 29, 2005. As of September 30, 2004, SDSA had approximately 0.4 million euros (\$0.5 million) of available credit under this agreement. Borrowings under this agreement can be either cash advances or straight loans, as defined. Cash advances accrue interest at the fixed interest rate of Belgium banks plus .75%, or on an adjusted basis as defined, but not lower than 6%; and straight loans accrue interest at Euribor plus 1.3%. This agreement contains various restrictions upon the ability of SDSA to, among other things, merge, consolidate and incur indebtedness, as well as financial covenants, such as minimum net worth. This agreement is secured by a guarantee of Supplies Distributors, up to a maximum of 200,000 euros.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

Debt Covenants

To the extent the Company fails to comply with its covenants, including the monthly financial covenant requirements and required level of consolidated shareholders' equity (\$19.0 million), and the lenders accelerate the repayment of the credit facility obligations, the Company would be required to repay all amounts outstanding thereunder. Any acceleration of the repayment of the credit facilities would have a material adverse impact on the Company's financial condition and results of operations and no assurance can be given that the Company would have the financial ability to repay all of such obligations. At September 30, 2004, the Company was in compliance with all debt covenants.

PFSweb has also provided a guarantee of the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit.

Master Lease Agreements

The Company has a Term Lease Master Agreement with IBM Credit Corporation ("Master Lease Agreement") that provides for leasing or financing transactions of equipment and other assets, which generally have terms of 3 to 5 years. The outstanding leasing transactions (\$1.3 million and \$0.1 million as of September 30, 2004 and December 31, 2003, respectively) are secured by the related equipment and a letter of credit. The outstanding financing transactions (\$0.6 million and \$0.8 million as of September 30, 2004 and December 31, 2003, respectively) are secured by a letter of credit.

The Company has a master agreement with a leasing company that has provided for leasing transactions of certain equipment. The amounts outstanding under this agreement were \$1.3 million and \$1.5 million as of September 30, 2004 and December 31, 2003, respectively, and are secured by the related equipment.

The Company enters into other leasing and financing agreements as needed to finance the purchasing or leasing of certain equipment or other assets. Borrowings under these agreements are generally secured by the related equipment.

6. SEGMENT INFORMATION

The Company is organized into two operating segments, PFSweb and Holdings. PFSweb is an international provider of integrated business process outsourcing solutions and operates as a service fee business. Holdings and its subsidiaries are master distributors of primarily IBM products, and recognize revenues and costs when product is shipped.

PFSweb, Inc. and Subsidiaries

Notes to Unaudited Interim Condensed Consolidated Financial Statements

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues (in thousands):				
PFS	\$13,452	\$10,079	\$ 35,643	\$ 31,137
Holdings	61,561	60,300	195,435	183,156
Eliminations	(1,852)	(1,859)	(5,883)	(5,554)
	<u>\$73,161</u>	<u>\$68,520</u>	<u>\$225,195</u>	<u>\$208,739</u>
Income (loss) from operations (in thousands):				
PFS	\$ (337)	\$ (1,703)	\$ (3,394)	\$ (4,134)
Holdings	1,273	1,101	4,177	3,589
Eliminations	—	8	7	22
	<u>\$ 936</u>	<u>\$ (594)</u>	<u>\$ 790</u>	<u>\$ (523)</u>
Depreciation and amortization (in thousands):				
PFS	\$ 1,173	\$ 1,136	\$ 3,502	\$ 3,476
Holdings	—	14	14	43
Eliminations	—	(8)	(7)	(22)
	<u>\$ 1,173</u>	<u>\$ 1,142</u>	<u>\$ 3,509</u>	<u>\$ 3,497</u>
Capital expenditures (in thousands):				
PFS	\$ 1,645	\$ 521	\$ 3,442	\$ 1,002
Holdings	—	—	—	—
Eliminations	—	—	—	—
	<u>\$ 1,645</u>	<u>\$ 521</u>	<u>\$ 3,442</u>	<u>\$ 1,002</u>

	September 30, 2004	December 31, 2003
Assets (in thousands):		
PFS	\$ 49,041	\$ 43,629
Holdings	79,155	77,878
Eliminations	(13,326)	(13,148)
	<u>\$114,870</u>	<u>\$108,359</u>

7. COMMITMENTS AND CONTINGENCIES

In August 2004, the Company entered into a three-year contract relationship with a new client. To fulfill its obligations under this relationship, the Company entered into a three-year operating lease arrangement for a new distribution facility in Southaven, MS, near its existing distribution complex in Memphis, TN.

The Company receives municipal tax abatements in certain locations. During 2004 the Company received notice from a municipality that it did not satisfy certain criteria necessary to maintain the abatements. The Company has disputed the notice and has had preliminary discussions with the municipality. If the dispute is not resolved favorably, the Company could be assessed additional taxes for calendar year 2004. The Company has not accrued for the additional taxes, which through September 30, 2004 could be \$0.3 million to \$0.4 million, as it does not believe that it is probable that an additional assessment will be incurred.

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

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes appearing elsewhere in this Form 10-Q.

Forward-Looking Information

We have made forward-looking statements in this Report on Form 10-Q. These statements are subject to risks and uncertainties, and there can be no guarantee that these statements will prove to be correct. Forward-looking statements include assumptions as to how we may perform in the future. When we use words like "seek," "strive," "believe," "expect," "anticipate," "predict," "potential," "continue," "will," "may," "could," "intend," "plan," "target" and "estimate" or similar expressions, we are making forward-looking statements. You should understand that the following important factors, in addition to those set forth above or elsewhere in this Report on Form 10-Q and our Form 10-K for the year ended December 31, 2003, could cause our results to differ materially from those expressed in our forward-looking statements. These factors include:

- our ability to retain and expand relationships with existing clients and attract and implement new clients;
- our reliance on the fees generated by the transaction volume or product sales of our clients;
- our reliance on our clients' projections or transaction volume or product sales;
- our dependence upon our agreements with IBM;
- our dependence upon our agreements with our major clients;
- our client mix, their business volumes and the seasonality of their business;
- our ability to finalize pending contracts;
- the impact of strategic alliances and acquisitions;
- trends in the market for our services;
- trends in e-commerce;
- whether we can continue and manage growth;
- changes in the trend toward outsourcing;
- increased competition;
- our ability to generate more revenue and achieve sustainable profitability;
- effects of changes in profit margins;
- the customer and supplier concentration of our business;
- the unknown effects of possible system failures and rapid changes in technology;
- trends in government regulation both foreign and domestic;
- foreign currency risks and other risks of operating in foreign countries;
- potential litigation;
- our dependency on key personnel;
- our ability to raise additional capital or obtain additional financing; and
- our ability or the ability of our subsidiaries to borrow under current financing arrangements and maintain compliance with debt covenants.

We have based these statements on our current expectations about future events. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee you that these expectations actually will be achieved. In addition, some forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from what is expected or forecasted in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statement for any reason, even if new information becomes available or other events occur in the future. There may be additional risks that we do not currently view as material or that are not presently known.

Overview

We are an international provider of integrated business process outsourcing solutions to major brand name companies seeking to maximize their supply chain efficiencies and to extend their traditional business and e-commerce initiatives. We derive our revenues from a broad range of services, including professional consulting, technology collaboration, order management, managed web hosting and web development, customer relationship management, financial services including billing and collection services and working capital solutions, options kitting and assembly services, information management and international fulfillment and distribution services. We offer our services as an integrated solution, which enables our clients to outsource their complete infrastructure needs to a single source and to focus on their core competencies. Our distribution services are primarily conducted at our warehouses and include real-time inventory management and customized picking, packing and shipping of our clients' customer orders. We currently provide infrastructure and distribution solutions to clients that operate in a range of vertical markets, including technology manufacturing, computer products, printers, cosmetics, fragile goods, high security collectibles, pharmaceuticals, contemporary home furnishings, apparel, telecommunications and consumer electronics, among others.

We provide these services, and earn our revenue, through two separate business segments, which have operationally similar business models. The first business segment is a service fee revenue model. In this segment, we do not own the underlying inventory or the resulting accounts receivable, but provide management services for these client-owned assets. We typically charge our service fee revenue on a percent of shipped revenue basis or a per-transaction basis, such as a per-minute basis for web-enabled customer contact center services and a per-item basis for fulfillment services. Additional fees are billed for other services. We price our services based on a variety of factors, including the depth and complexity of the services provided, the amount of capital expenditures or systems customization required, the length of contract and other factors.

Many of our service fee contracts involve third-party vendors who provide additional services such as package delivery. The costs we are charged by these third-party vendors for these services are often passed on to our clients (and, in many cases, our clients' customers). Our billings for reimbursements of these and other 'out-of-pocket' expenses, such as travel, shipping and handling costs and telecommunication charges are included in gross service fee revenue. The related reimbursable costs for pass-through expenditures are reflected as pass-through charges and reduce total gross service fee revenue in computing net service fee revenue.

Our second business segment is a product revenue model. In this segment, we are a master distributor of product for IBM and certain other clients. In this capacity, we purchase, and thus own, inventory. As a result, upon the sale of inventory, we own the accounts receivable. This business segment requires significant working capital requirements, for which we have senior financing facilities to provide for up to approximately \$77 million of available financing. Our services include purchasing and reselling client product inventory within this product revenue segment. In these arrangements, our product revenue is recognized at the time product is shipped. Product revenue includes freight costs billed to customers and is reduced for pass through customer marketing programs.

Growth is a key element to us achieving our future goals, including reaching sustainable profitability. Our growth is driven by two main elements: new client relationships and organic growth from existing clients. On an overall basis, we have experienced an increase in service fee revenues from existing clients and an increase in product revenues in recent periods. In recent months we have also seen an increase in the activity with new service contract relationships. While the lead times to close new deals continue to be unpredictable, our recent closure rate has been more successful than in the past. Due to the time period estimated to fully implement recent new client contracts, we expect to realize the majority of the service fee revenue and gross margin benefit of these recent contracts in calendar year 2005. However, we do expect to recognize some revenue contributions as well as incremental implementation costs for certain of these recent contracts during the quarter ending December 31, 2004.

Our expenses comprise primarily three categories: 1) cost of service fee revenue, 2) cost of product revenue and 3) selling, general and administrative ("SG&A") expenses.

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Cost of service fee revenue – consists primarily of compensation and related expenses for our web-enabled customer contact center services, international fulfillment and distribution services and professional consulting services, and other fixed and variable expenses directly related to providing services under the terms of fee based contracts, including certain occupancy and information technology costs and depreciation and amortization expenses.

Cost of product revenue — cost of product revenue consists of the purchase price of product sold and freight costs, which are reduced by certain reimbursable expenses. These reimbursable expenses include pass through customer marketing programs, direct costs incurred in passing on any price decreases offered by IBM to us or our customers to cover price protection and certain special bids, the cost of products provided to replace defective product returned by customers and certain other expenses as defined under the master distributor agreements.

SG&A expenses — consist primarily of compensation and related expenses for sales and marketing staff, executive, management and administrative personnel and other overhead costs, including certain occupancy and information technology costs and depreciation and amortization expenses. In addition, certain direct contract costs related to our IBM and other master distributor agreements are reflected as selling and administrative expenses.

Monitoring and controlling our available cash balances continues to be a primary focus. Our cash and liquidity positions are important components of our financing of both current operations and our targeted growth. During 2003 we added to our available cash and liquidity positions through two primary transactions. First, we entered into a working capital financing agreement with a bank that currently provides financing for up to \$5 million of eligible accounts receivable and financing for up to \$2.5 million of eligible capital expenditures. Secondly, we completed a private placement of approximately 1.6 million shares of our common stock to certain investors that provided net proceeds of approximately \$3.2 million.

Results of Operations

The following table sets forth certain historical financial information from our unaudited interim condensed consolidated statements of operations expressed as a percent of revenue.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudited)
Product revenue	84.1%	88.0%	86.8%	87.7%
Gross service fee revenue	21.1	13.3	17.4	13.4
Pass-through charges	(5.3)	(1.3)	(4.1)	(1.1)
Net service fee revenue	15.9	12.0	13.2	12.3
Total net revenues	100.0	100.0	100.0	100.0
Cost of product revenue (as % of product revenue)	94.4	94.5	94.3	94.4
Cost of service fee revenue (as % of net service fee revenue)	65.9	70.4	65.9	67.4
Total costs of revenues	89.9	91.6	90.5	91.1
Gross profit	10.1	8.4	9.5	8.9
Selling, general and administrative expenses	8.8	9.3	9.1	9.1
Income (loss) from operations	1.3	(0.9)	0.4	(0.2)
Interest expense, net	0.5	0.7	0.5	0.8
Income (loss) before income taxes	0.8	(1.6)	(0.1)	(1.0)
Income tax expense	0.2	0.1	0.3	0.2
Net income (loss)	0.6%	(1.7)%	(0.4)%	(1.2)%

Results of Operations for the Interim Periods Ended September 30, 2004 and 2003

Product Revenue. Product revenue was \$61.6 million for the three months ended September 30, 2004, as compared to \$60.3 million for the three months ended September 30, 2003, an increase of \$1.3 million, or 2.1%. The increase in product revenue resulted primarily from the favorable impact of exchange rates on

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our European and Canadian operations. Product revenue was \$195.4 million for the nine months ended September 30, 2004, as compared to \$183.2 million for the nine months ended September 30, 2003, an increase of \$12.2 million, or 6.7%. The increase in product revenue resulted primarily from the favorable impact of exchange rates on our European and Canadian operations, increased sales volumes of certain existing products and the addition of certain new products.

Net Service Fee Revenue. Net service fee revenue was \$11.6 million for the three months ended September 30, 2004 as compared to \$8.2 million for the three months ended September 30, 2003, an increase of \$3.4 million or 41.1%. Net service fee revenue for both the three months ended September 30, 2004 and 2003 included increased service fees generated from incremental projects with certain client relationships. Net service fee revenue was \$29.8 million for the nine months ended September 30, 2004 as compared to \$25.6 million for the nine months ended September 30, 2003, an increase of \$4.2 million or 16.3%. The change in net service fee revenue is shown below (\$ millions):

	<u>Three Months</u>	<u>Nine Months</u>
Period ended September 30, 2003	\$ 8.2	\$25.6
New service contract relationships, including certain incremental projects under new contracts	1.5	2.7
Increase in existing client service fees from organic growth and certain incremental projects with existing clients	2.4	2.6
Terminated clients not included in 2004 revenue	(0.5)	(1.1)
Period ended September 30, 2004	<u>\$11.6</u>	<u>\$29.8</u>

Net service fee revenue for the three and nine months ended September 30, 2004 included approximately \$0.02 million and \$1.0 million, respectively, of fees earned from clients contracts terminated during 2004.

Cost of Product Revenue. Cost of product revenue was \$58.1 million for the three months ended September 30, 2004, as compared to \$57.0 million for the three months ended September 30, 2003, an increase of \$1.1 million or 2.0%. Cost of product revenue as a percent of product revenue was 94.4% during the three months ended September 30, 2004 and 94.5% during the three months ended September 30, 2003. The resulting gross profit margin was 5.6% for the three months ended September 30, 2004 and 5.5% for the three months ended September 30, 2003. Cost of product revenue was \$184.3 million for the nine months ended September 30, 2004, as compared to \$173.0 million for the nine months ended September 30, 2003, an increase of \$11.3 million or 6.5%. Cost of product revenue as a percent of product revenue was 94.3% during the nine months ended September 30, 2004 and 94.4% during the nine months ended September 30, 2003. The resulting gross profit margin was 5.7% for the nine months ended September 30, 2004 and 5.6% for the nine months ended September 30, 2003. Cost of product revenue increased during each period primarily as the result of the impact of exchange rates on our European and Canadian operations, increased volumes of certain existing products and the addition of certain new products and additional reserves for inventory impairment.

Cost of Net Service Fee Revenue. Cost of net service fee revenue was \$7.6 million for the three months ended September 30, 2004, as compared to \$5.8 million during the three months ended September 30, 2003, an increase of \$1.8 million or 32.1%. The resulting service fee gross profit was \$4.0 million or 34.1% of net service fee revenue, during the three months ended September 30, 2004 as compared to \$2.4 million, or 29.6% of net service fee revenue for the three months ended September 30, 2003. Our gross profit as a percent of net service fees increased in the current period primarily due to incremental projects with certain client relationships offset by incremental costs on new contracts. Cost of net service fee revenue was \$19.6 million for the nine months ended September 30, 2004, as compared to \$17.3 million during the nine months ended September 30, 2003, an increase of \$2.3 million or 13.7%. The resulting service fee gross profit was \$10.2 million or 34.1% of net service fee revenue, during the nine months ended September 30, 2004 as compared to \$8.3 million, or 32.6% of net service fee revenue for the nine months ended September 30, 2003. Our gross profit as a percent of net service fees increased primarily due to incremental projects with certain client relationships offset by incremental costs on new contracts. As we add new service fee revenue in the future, we currently intend to target the underlying contracts to earn an

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average gross profit percentage of 30-40%, but we have and may continue to accept lower gross margin percentages on certain contracts depending on contract scope and other factors.

Selling, General and Administrative Expenses. SG&A expenses were \$6.5 million for the three months ended September 30, 2004, or 8.8% of total net revenues, as compared to \$6.3 million, or 9.3% of total net revenues, for the three months ended September 30, 2003. SG&A expenses were \$20.5 million for the nine months ended September 30, 2004, or 9.1% of total net revenues, as compared to \$19.0 million, or 9.1% of total net revenues, for the nine months ended September 30, 2003. SG&A expenses for the nine months ended September 30, 2004 increased from the prior year period primarily due to additional expenses incurred in preparation of complying with the Sarbanes-Oxley Act and incremental sales and marketing expenses. SG&A expenses declined from the quarter ended June 30, 2004 primarily due to the timing of certain expenditures, including professional fees and sales and marketing costs. Due to the timing of certain expenditures, we expect an increase in SG&A expenses in the quarter ending December 31, 2004 from the amount incurred during the quarter ended September 30, 2004.

Interest Expense, net. Net interest expense was \$0.4 million for the three months ended September 30, 2004 as compared to \$0.5 million for the three months ended September 30, 2003. Net interest expense was \$1.1 million for the nine months ended September 30, 2004 as compared to \$1.6 million for the nine months ended September 30, 2003. The decrease in net interest expense is primarily due to lower average loan balances as a result of reduced inventory levels.

Income Taxes. For the three months ended September 30, 2004 and 2003, we recorded a tax provision of \$0.1 million primarily associated with our subsidiary Supplies Distributors' Canadian and European operations. For the nine months ended September 30, 2004 and 2003, we recorded a tax provision of \$0.5 million and \$0.3 million, respectively, primarily associated with our subsidiary Supplies Distributors' Canadian and European operations. We did not record an income tax benefit associated with our consolidated net loss in our U.S. operations. A valuation allowance has been provided for our net deferred tax assets as of September 30, 2004, which are primarily related to our net operating loss carryforwards. We did not record an income tax benefit for our PFSweb European pre-tax losses in the current or prior periods. Due to the consolidation of Supplies Distributors, in the future we anticipate that we will continue to record an income tax provision associated with Supplies Distributors' Canadian and European results of operations.

Liquidity and Capital Resources

Net cash provided by operating activities was \$5.7 million for the nine months ended September 30, 2004, and primarily resulted from a \$9.8 million increase in accounts payable, accrued expenses and deferred income partially offset by increases in accounts receivable of \$5.8 million and prepaid expenses, other receivables and other current assets of \$2.5 million. The increase in accounts payable was due to the timing of invoice processing by one of our master distribution vendors and an increase in certain liabilities due to clients for unremitted funds collected on their behalf and reimbursable expense deposits. The increase in accounts receivable was partially due to increased service fee billings for certain client relationships and increased receivables from our Supplies Distributors business segment. Net cash provided by operating activities was \$13.7 million for the nine months ended September 30, 2003, and primarily resulted from a \$8.5 million decrease in inventory and an increase in accounts payable and accrued expenses of \$3.9 million, partially offset by an increase in accounts receivable of \$1.1 million.

Net cash used in investing activities for the nine months ended September 30, 2004 totaled \$3.2 million, primarily representing capital expenditures. Net cash provided by investing activities for the nine months ended September 30, 2003 totaled \$0.7 million, resulting from a decrease in restricted cash offset by capital expenditures. Capital expenditures have historically consisted primarily of additions to upgrade our management information systems, including our Internet-based customer tools, other methods of e-commerce and general expansion of and upgrades to our facilities, both domestic and foreign. We expect to incur capital expenditures in order to support new contracts and anticipated future growth opportunities. Based on our current client business activity, we anticipate that our total investment in upgrades and additions to facilities and information technology services for the upcoming twelve months will be approximately \$7 to \$10 million, including expenditures to equip our new leased facility in Southaven, MS as discussed below. Future client contracts may require additional capital expenditures to support the

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services to such clients. A portion of these expenditures may be financed through operating or capital leases. We may elect to modify or defer a portion of such anticipated investments in the event that we do not achieve the revenue necessary to support such investments.

Net cash used in financing activities was approximately \$2.2 million for the nine months ended September 30, 2004, primarily representing \$0.8 million of payments on our capital lease obligations and \$2.5 million of payments on debt partially offset by a \$0.7 million decrease in restricted cash. Net cash used in financing activities was approximately \$11.5 million for the nine months ended September 30, 2003, primarily representing \$0.7 million of payments on our capital lease obligations and \$11.4 million of payments on debt, offset by \$0.6 million of proceeds from the issuance of common stock pursuant to our employee stock purchase and stock option programs.

During the nine months ended September 30, 2004, our working capital decreased to \$19.8 million from \$21.4 million at December 31, 2003, primarily as a result of funding operating losses and capital expenditures. To obtain additional financing in the future, in addition to our current cash position, we plan to evaluate various financing alternatives including utilizing capital or operating leases, borrowing under our credit facilities, expanding our current credit facilities, entering into new debt agreements or transferring a portion of our subordinated loan balance due from our subsidiary Supplies Distributors, Inc. ("Supplies Distributors") to third-parties. In conjunction with certain of these alternatives, we may be required to provide certain letters of credit to secure these arrangements. No assurances can be given that we will be successful in obtaining any additional financing or the terms thereof. We currently believe that our cash position, financing available under our credit facilities and funds generated from operations (including our anticipated revenue growth and/or cost reductions to offset lower than anticipated revenue growth) will satisfy our presently known operating cash needs, our working capital and capital expenditure requirements, our lease obligations, and additional subordinated loans to our subsidiary Supplies Distributors, if necessary, for at least the next twelve months.

Supplies Distributors has a short-term credit facility with IBM Credit LLC ("IBM Credit") and its subsidiaries Supplies Distributors S.A. ("SDSA") and Business Supplies Distributors Europe B.V., European corporations, have a short-term credit facility with IBM Belgium Financial Services S.A. ("IBM Belgium") to finance their distribution of IBM products. We have provided a collateralized guaranty to secure the repayment of these credit facilities. As of September 30, 2004, the asset-based credit facilities provided financing for up to \$27.5 million and up to 12.5 million Euros (approximately \$15.4 million) with IBM Credit and IBM Belgium, respectively. These agreements expire in March 2005.

Supplies Distributors also has a loan and security agreement with Congress Financial Corporation (Southwest) ("Congress") to provide financing for up to \$25 million of eligible accounts receivables in the United States and Canada. The Congress facility expires on the earlier of March 29, 2007 or the date on which the parties to the IBM master distributor agreement shall no longer operate under the terms of such agreement and/or IBM no longer supplies products pursuant to such agreement.

SDSA has a factoring agreement with Fortis Commercial Finance N.V. ("Fortis") to provide factoring for up to 7.5 million Euros (approximately \$9.2 million) of eligible accounts receivables through March 29, 2005. Borrowings under this agreement can be either cash advances or straight loans, as defined.

These credit facilities contain cross default provisions, various restrictions upon the ability of our subsidiaries Business Supplies Distributors Holdings, LLC ("Holdings"), Supplies Distributors and SDSA to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, provide guarantees, make investments and loans, pledge assets, make changes to capital stock ownership structure and pay dividends, as well as financial covenants, such as cash flow from operations, annualized revenue to working capital, net profit after tax to revenue, minimum net worth and total liabilities to tangible net worth, as defined, and are secured by all of the assets of Supplies Distributors, as well as collateralized guaranties of Holdings and PFSweb. Additionally, we are required to maintain a subordinated loan to Supplies Distributors of no less than \$7.0 million, maintain restricted cash of less than \$5.0 million, are restricted with regard to transactions with related parties, indebtedness and changes to capital stock ownership structure and a minimum shareholders' equity of at least \$19.0 million. Furthermore, we are obligated to repay any over-advance made to Supplies Distributors or SDSA under these facilities if Supplies Distributors or SDSA is unable to do so. We have also provided a guarantee of

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the obligations of Supplies Distributors and SDSA to IBM, excluding the trade payables that are financed by IBM credit.

Priority Fulfillment Services, Inc. and Priority Fulfillment Services of Canada, Inc., (both wholly-owned subsidiaries of PFSweb and collectively the “Borrowers”) have a Loan and Security Agreement (the “Agreement”) with Comerica Bank (“Comerica”). The Agreement provides for up to \$5.0 million of eligible accounts receivable financing in the U.S. and Canada through March 28, 2005, and up to \$2.5 million of eligible equipment purchases through September 10, 2006. We entered this Agreement to supplement our existing cash position, and provide funding for our future operations, including our targeted growth. The Agreement contains cross default provisions, various restrictions upon the Borrowers’ ability to, among other things, merge, consolidate, sell assets, incur indebtedness, make loans and payments to related parties, make investments and loans, pledge assets, make changes to capital stock ownership structure, as well as financial covenants of a minimum tangible net worth, as defined, and a minimum liquidity ratio, as defined. The Agreement also limits our ability to increase the subordinated loan to Supplies Distributors without the lender’s approval. The Agreement is secured by all of the assets of the Borrowers, as well as a guarantee of PFSweb.

In August 2004, we entered into a three-year contract relationship with a new client. To fulfill our obligations under this relationship, we entered into a three-year operating lease arrangement for a new distribution facility in Southaven, MS, near our existing distribution complex in Memphis, TN. Additionally, we expect to incur capital expenditures of \$4 million to \$5 million to equip the new facility. We intend to finance these capital expenditures through leases or debt financing, however we can provide no assurance that we will be able to obtain such financing.

The following is a schedule of our total contractual cash and other obligations as of September 30, 2004, which is comprised of operating leases, debt and capital leases, including interest (in millions):

Contractual Obligations	Payments Due By Period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Debt	\$54,829	\$53,908	\$ 921	\$ —	\$ —
Capital lease obligations	3,294	1,269	1,742	283	—
Operating leases	22,167	6,188	11,132	3,700	1,147
Total	<u>\$80,290</u>	<u>\$61,365</u>	<u>\$13,795</u>	<u>\$3,983</u>	<u>\$1,147</u>

In support of certain debt instruments and leases, as of September 30, 2004, we had \$0.9 million of cash restricted as collateral for a letter of credit. The letter of credit automatically decreases at certain dates through its expiration in March 2007. In addition, as described above, we have provided collateralized guarantees to secure the repayment of certain Supplies Distributors’ credit facilities. Many of the debt facilities include both financial and non-financial covenants, and also include cross default provisions applicable to other agreements. To the extent we fail to comply with our debt covenants, including the monthly financial covenant requirements and our required level of shareholders’ equity, and the lenders accelerate the repayment of the credit facility obligations, we would be required to repay all amounts outstanding thereunder. Any requirement to accelerate the repayment of the credit facility obligations would have a material adverse impact on our financial condition and results of operations. We can provide no assurance that we will have the financial ability to repay all of such obligations. As of September 30, 2004, we were in compliance with all debt covenants and we believe that we will maintain such compliance throughout calendar year 2004. Other than those noted herein, we do not have any other material financial commitments, although future client contracts may require capital expenditures and lease commitments to support the services provided to such clients.

In the future, we may attempt to acquire other businesses or seek an equity or strategic partner to generate capital or expand our services or capabilities in connection with our efforts to grow our business. Acquisitions involve certain risks and uncertainties and may require additional financing. Therefore, we can give no assurance with respect to whether we will be successful in identifying businesses to acquire or an equity or strategic partner, whether we or they will be able to obtain financing to complete a transaction, or whether we or they will be successful in operating the acquired business.

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Seasonality

The seasonality of our business is dependent upon the seasonality of our clients' business and sales of their products. Accordingly, our management must rely upon the projections of our clients in assessing quarterly variability. We believe that with our current client mix, our PFSweb service fee business activity will be at its lowest in the quarter ended March 31 and at its highest in the quarter ended June 30. We expect our Supplies Distributors business to be seasonally strong in the December quarter of each year.

We believe that results of operations for a quarterly period may not be indicative of the results for any other quarter or for the full year.

Inflation

Management believes that inflation has not had a material effect on our operations.

Critical Accounting Policies

A description of critical accounting policies is included in Note 2 to the accompanying unaudited interim condensed consolidated financial statements. For other significant accounting policies, see Note 2 to the consolidated financial statements in our December 31, 2003 Annual Report on Form 10-K.

ITEM 3. Quantitative and Qualitative Disclosure about Market Risk

We are exposed to various market risks including interest rates on its financial instruments and foreign exchange rates.

Interest Rate Risk

Our interest rate risk is limited to our outstanding balances on our inventory and working capital financing agreements, loan and security agreements and factoring agreement for the financing of inventory, accounts receivable and certain other receivables, which amounted to \$54.3 million at September 30, 2004. A 100 basis point movement in interest rates would result in approximately \$0.2 million annualized increase or decrease in interest expense based on the outstanding balance of these agreements at September 30, 2004.

Foreign Exchange Risk

Currently, our foreign currency exchange rate risk is primarily limited to the Canadian Dollar and the Euro. In the future, our foreign currency exchange risk may also include other currencies applicable to certain of our international operations. From time to time, we employ derivative financial instruments to manage our exposure to fluctuations in foreign currency rates. To hedge our net investment and intercompany payable or receivable balances in foreign operations, from time to time we may enter into forward currency exchange contracts.

ITEM 4. Controls and Procedures

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of management, including our Chief Executive Officer and Principal Financial and Accounting Officer, within 90 days prior to the filing date of this report. Based upon the evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. No significant changes were made to our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None

ITEM 2. Changes in Securities and Use of Proceeds

None

ITEM 3. Defaults Upon Senior Securities

None

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 5. Other Information

None.

ITEM 6. Exhibits and Reports on Form 8-K

a) Exhibits:

Exhibit No.	Description of Exhibits
3.1*	Amended and Restated Certificate of Incorporation
3.2*	Amended and Restated Bylaws
10.1**	Industrial Lease Agreement by and between Industrial Developments International, Inc. and Priority Fulfillment Services, Inc.
10.2**	Guaranty by PFSweb, Inc. in favor of Industrial Developments International, Inc.
10.3**	Lease between Fleet National Bank and Priority Fulfillment Services, Inc.
10.4**	Guaranty by PFSweb, Inc. in favor of Fleet National Bank
10.5**	Amendment No. 3 to Lease dated as of March 3, 1999 between Fleet National Bank and Priority Fulfillment Services, Inc.
31.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Incorporated by reference from PFSweb, Inc. Registration Statement on Form S-1 (Commission File No. 333-87657).

** Filed herewith

b) Reports on Form 8-K:

Form 8-K furnished on August 16, 2004 reporting Item 12, Results of Operations and Financial Condition, that on August 16, 2004, PFSweb, Inc. issued a press release announcing its financial results for the quarter ended March 31, 2004.

Form 8-K filed on August 30, 2004 reporting Item 1.01, Entry into a Material Definitive Agreement, that on August 25, 2004, Priority Fulfillment Services, Inc., a wholly-owned subsidiary of PFSweb, Inc., entered into a Lease with Fleet National Bank.

SIGNATURES

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

Date: November 15, 2004

PFSweb, Inc.

By: /s/ Thomas J. Madden
Thomas J. Madden
Chief Financial Officer, Chief Accounting Officer,
Executive Vice President

INDEX TO EXHIBITS

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** Filed herewith

INDUSTRIAL LEASE AGREEMENT

THIS LEASE AGREEMENT (the "Lease") is made as of the "Effective Lease Date" (as defined in Section 37 herein) by and between Industrial Developments International, Inc., a Delaware corporation ("Landlord"), and Priority fulfillment services, inc., a Delaware corporation ("Tenant") (the words "Landlord" and "Tenant" to include their respective legal representatives, successors and permitted assigns where the context requires or permits).

W I T N E S S E T H:

1. Basic Lease Provisions. The following constitute the basic provisions of this Lease:
 - (a) Demised Premises Address: 8474 Market Place
Suite 101
Southaven, Mississippi 38671
 - (b) Demised Premises Square Footage: approximately 434,900 sq. ft.
 - (c) Building Square Footage: approximately 602,500 sq. ft.
 - (d) Annual Base Rent:

Lease Years 1-4	\$1,226,418.00 (plus the prorated amount for any Fractional Month per Section 3 hereof, if applicable) (annualized, where applicable)
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 - (e) Monthly Base Rent Installments:

Lease Years 1-4	\$102,201.50 (plus the prorated amount for any Fractional Month per Section 3 hereof, if applicable)
-----------------	--
 - (f) Lease Commencement Date: October 1, 2004
 - (g) Base Rent Commencement Date: October 1, 2004
 - (h) Expiration Date: December 31, 2007
 - (i) Primary Term: Thirty-nine (39) months plus, in the event the Base Rent Commencement Date does not occur on the first (1st) day of a calendar month, the period from and including the Base Rent Commencement Date to and including the last day of the calendar month in which the Base Rent Commencement Date occurs (if applicable, the "Fractional Month")
 - (j) Tenant's Operating Expense Percentage: 72.18%
 - (k) Security Deposit: \$102,201.50
 - (l) Permitted Use: Storage and distribution of durable and non-durable consumer and business goods and products, and office and administrative uses reasonably ancillary thereto (collectively, the "Initial Use"), or, subject to the limitations hereinafter specified, for any other lawful distribution center and/or warehousing use; provided, however, that Tenant shall obtain Landlord's prior written consent to a use which is different from the Initial Use and which involves the distribution, warehousing or other handling or use of either (1) Hazardous Substances (as defined in Section 16) not used by Tenant in its Initial Use and which would materially increase the risk of Contamination (as defined in Section 16) or materially adversely affect the value or marketability of the Demised Premises if a Contamination involving such Hazardous Substances were to occur, or (2) noxious substances not used by Tenant in its Initial Use and which would likely cause or create a nuisance or trespass for, or otherwise disturb the quiet enjoyment of, any other tenant and occupant of the Building (as hereinafter defined), and provided further, however, that Tenant's use of the Demised Premises (i) shall never include any use prohibited by any provision contained in this Lease (including, without limitation, Section 16 hereof), (ii) shall never extend to or allow the use or storage of radioactive or biohazardous materials at the

Demised Premises, or any use

wherein a Hazardous Substance (as defined in Section 16) constitutes the principal or primary product of the business to be conducted at the Demised Premises, (iii) shall never include any heavy manufacturing, and (iv) must not result in a material increase in the wear and tear on the Demised Premises, as compared to the Initial Use.

(m) Address for notice:

Landlord: Industrial Developments International, Inc.
c/o IDI, Inc.
3424 Peachtree Road, N.E., Suite 1500
Atlanta, Georgia 30326
Attn: Manager - Lease Administration

Tenant: Priority Fulfillment Services, Inc.
500 North Central Expressway
Plano, Texas 75074
Attn: Chief Financial Officer

(n) Address for rental payments:

Industrial Developments International, Inc.
c/o IDI Services Group, LLC
P.O. Box 281464
Atlanta, Georgia 30384-1464

(o) Broker(s): Commercial Advisors

(p) Guarantor(s): PFSWeb, Inc.
500 North Central Expressway
Plano, Texas 74074
Attn: Chief Financial Officer

2. Demised Premises. For and in consideration of the rent hereinafter reserved and the mutual covenants hereinafter contained, Landlord does hereby lease and demise unto Tenant, and Tenant does hereby hire, lease and accept, from Landlord all upon the terms and conditions hereinafter set forth the following premises, referred to as the "Demised Premises", as outlined on Exhibit A attached hereto and incorporated herein: an agreed upon approximately 434,900 square feet of space, approximately 6,000 square feet of which is office space, having an address as set forth in Section 1(a), located within Building E (the "Building"), which contains a total of an agreed upon approximately 602,500 square feet and is located within Airways Distribution Center (the "Project"), located in DeSoto County, Mississippi. The parties acknowledge that the number of square feet recited above has been conclusively determined and is not subject to contest by either party.

3. Term. To have and to hold the Demised Premises for a preliminary term (the "Preliminary Term") commencing on the Effective Lease Date and ending on the day immediately preceding the Lease Commencement Date as set forth in Section 1(f), and a primary term (the "Primary Term") commencing on the Lease Commencement Date and terminating on the Expiration Date as set forth in Section 1(h), as the Lease Commencement Date and the Expiration Date may be revised pursuant to Section 17 (the Preliminary Term, the Primary Term, and any and all extensions thereof, herein referred to as the "Term"). The term "Lease Year", as used in this Lease, shall mean the 12-month period commencing on the Base Rent Commencement Date, and each 12-month period thereafter during the Term; provided, however, that (i) if the Base Rent Commencement Date occurs after the Lease Commencement Date, the first Lease Year will include the period between the Lease Commencement Date and the Base Rent Commencement Date, and (ii) if the Base Rent Commencement Date is a day other than the first day of a calendar month, the first Lease Year shall include the resulting Fractional Month and shall extend through the end of the twelfth (12th) full calendar month following the Base Rent Commencement Date.

4. Base Rent. Tenant shall pay to Landlord at the address set forth in Section 1(n), as base rent for the Demised Premises, commencing on the Base Rent Commencement Date and continuing throughout the Term in lawful money of the United States, the annual amount set forth in Section 1(d) payable in equal monthly installments as set forth in Section 1(e) (the "Base Rent"), payable in advance, without demand and without abatement, reduction, set-off or deduction, on the first day of each calendar month during the Term. If the Base Rent Commencement Date shall fall on a day other than the first day of a calendar month, the Base Rent shall be apportioned pro rata on a per diem basis for the resulting Fractional Month (which pro rata payment shall be due and payable on the Base Rent Commencement Date). No payment by Tenant or receipt by Landlord of rent hereunder shall be deemed to be other than on account of the amount due,

and no endorsement or statement on any check or any letter accompanying any check or payment of rent shall be deemed an accord and satisfaction, and Landlord may accept such check as payment without prejudice to Landlord's right to recover the balance of such installment or payment of rent or pursue any other remedies available to Landlord.

5. Security Deposit.

(a) Upon Tenant's execution of this Lease, Tenant will pay to Landlord the sum set forth in Section 1(k) (the "Cash Security Deposit") as security for the full and faithful performance by Tenant of each and every term, covenant and condition of this Lease. In the alternative, Tenant shall have the right, within five (5) business days of Tenant's execution of this Lease, to deliver to Landlord an Irrevocable Letter of Credit (the "Letter of Credit") in the amount set forth in Section 1(k) (the "LC Security Deposit"; the Cash Security Deposit or the LC Security Deposit, as applicable, being referred to herein as the "Security Deposit"), in a form and from a financial institution acceptable to Landlord, and shall cause the same to be maintained in full force and effect throughout the Term, as may be extended, and during the thirty (30) day period after the later of (a) the Expiration Date or (b) the date that Tenant delivers possession of the Demised Premises to Landlord, as security for the full and faithful performance by Tenant of each and every term, covenant and condition of this Lease. In the event that, during the Term, Tenant fails to deliver to Landlord a renewal of or replacement to the letter of credit by a date no later than thirty (30) days prior to its expiration date, Landlord shall have the right to demand and receive payment in full under the letter of credit and to hold the cash proceeds as the Security Deposit under this Lease. The acceptance by Landlord of the Security Deposit paid by Tenant shall not render this Lease effective unless and until Landlord shall have executed and delivered to Tenant a fully executed copy of this Lease. The Security Deposit, if in the form of cash, may be commingled with Landlord's other funds or held by Landlord in a separate interest bearing account, with interest paid to Landlord, as Landlord may elect. In the event that Tenant is in default under this Lease, Landlord may retain or draw on the security Deposit for the payment of any sum due Landlord or which Landlord may expend or be required to expend by reason of Tenant's default or failure to perform; provided, however, that any such retention by Landlord shall not be or be deemed to be an election of remedies by Landlord or viewed as liquidated damages, it being expressly understood and agreed that Landlord shall have the right to pursue any and all other remedies available to it under the terms of this Lease or otherwise. In the event all or any portion of the Security Deposit is so retained by Landlord, Tenant shall, within five (5) days of demand therefor from Landlord, replenish the Security Deposit to the full amount set forth in Section 1(k) (and Tenant's failure to do so shall constitute an immediate "Event of Default", as defined in Section 22 hereof, without any further notice or demand from Landlord). In the event that Tenant shall comply with all of the terms, covenants and conditions of this Lease, the security deposit shall be returned to Tenant within thirty (30) days after the later of (a) the Expiration Date or (b) the date that Tenant delivers possession of the Demised Premises to Landlord. In the event of a sale of the Building, Landlord shall have the right to transfer the security deposit to the purchaser, and upon acceptance by such purchaser, Landlord shall be released from all liability for the return of the security deposit. Tenant shall not assign or encumber the money deposited as security, and neither Landlord nor its successors or assigns shall be bound by any such assignment or encumbrance.

(b) Notwithstanding the foregoing, if at the end of the first (1st) Lease Year, (i) Tenant has not previously committed an Event of Default (as defined below) and (ii) as of the date on which such reduction is to occur, no Event of Default exists and no facts exist which, with the passage of time or giving of notice would constitute an Event of Default, the amount of the Security Deposit shall be reduced by Fifty-One Thousand One Hundred and 75/100 Dollars (\$51,100.75) (the "Reduction Amount") (such that, after such reduction, the Security Deposit shall be in an amount equal to \$51,100.75, which is the equivalent of one half (1/2) installment of monthly Base Rent). In connection with each such reduction, if applicable, Landlord will either (i) refund to Tenant the Reduction Amount within thirty (30) days after the expiration of the first (1st) Lease Year (if the Security Deposit is in the form of a cash deposit), or (ii) within thirty (30) days of demand therefor from Tenant, execute any reasonable documentation presented to Landlord by Tenant which is necessary to cause a reduction in the Letter of Credit by the Reduction Amount (if the Security Deposit is in the form of the Letter of Credit). If the Security Deposit is initially in the form of a Letter of Credit, Tenant shall nevertheless have the right at any time after the reduction in the Security Deposit in accordance herewith to deliver to Landlord, in cash, the amount of the then required Security Deposit (i.e., \$51,100.75), which shall thereafter be held by Landlord as a cash Security Deposit pursuant to the terms of subsection (a) above, whereupon Landlord shall surrender the Letter of Credit to Tenant

6. Operating Expenses and Additional Rent.

(a) Tenant agrees to pay as Additional Rent (as defined in Section 6(b) below) its proportionate share of Operating Expenses (as hereinafter defined). "Operating Expenses" shall be defined as, without duplication, all reasonable expenses for operation, repair, replacement and maintenance as

necessary to keep the Building and the common areas, driveways, and parking areas associated therewith (collectively, the "Building Common Area") fully operational and in good order, condition and repair, including but not limited to, utilities for the Building Common Area, expenses associated with the driveways and parking areas (including sealing and restriping, and trash, snow and ice removal), security systems, fire detection and prevention systems, lighting facilities, landscaped areas, walkways, painting and caulking, directional signage, curbs, drainage strips, sewer lines, all charges assessed against or attributed to the Building pursuant to any applicable easements, covenants, restrictions, agreements, declaration of protective covenants or development standards, property management fees, all real property taxes and special assessments imposed upon the Building, the Building Common Area and the land on which the Building and the Building Common Area are constructed, all costs of insurance paid by Landlord with respect to the Building and the Building Common Area (including, without limitation, commercially reasonable deductibles), and costs of improvements to the Building and the Building Common Area

required by any law, ordinance or regulation enacted or promulgated after the Lease Commencement Date and applicable to the Building and the Building Common Area generally (and not because of the particular use of the Building or the Building Common Area by a particular tenant), which cost shall be amortized on a straight line basis over the useful life of such improvement, as reasonably determined by Landlord. Operating Expenses shall not include expenses for the costs of any maintenance and repair required to be performed by Landlord at its own expense under Section (10)(b) or advertising, marketing or commission expenses. Further, Operating Expenses shall not include the costs for capital improvements unless such costs are incurred for the purpose of causing a material decrease in the Operating Expenses of the Building or the Building Common Area or are incurred with respect to improvements made to comply with laws, ordinances or regulations as described above. Operating Expenses shall be accounted for in accordance with generally accepted accounting principles consistently applied ("GAAP"). The proportionate share of Operating Expenses to be paid by Tenant shall be a percentage of the Operating Expenses based upon the proportion that the square footage of the Demised Premises bears to the total square footage of the Building (such figure referred to as "Tenant's Operating Expense Percentage" and set forth in Section 1(j)); provided that, as to management fees, Tenant shall pay Landlord the management fees directly attributable to the Rent (as hereinafter defined) payable hereunder with respect to the Demised Premises, and not Tenant's Operating Expense Percentage of the management fees payable on the entire Building, and, for each Lease Year during the Primary Term (and in no event during any extended term), such management fees shall not exceed two percent (2%) of the total amount of Base Rent and Operating Expenses payable hereunder during each such Lease Year during the Primary Term. Notwithstanding the foregoing, Landlord shall, in Landlord's reasonable discretion, have the right to adjust Tenant's proportionate share of individual components of Operating Expenses if Tenant's Operating Expense Percentage thereof would not equitably allocate to Tenant its share of such component of Operating Expenses in light of Tenant's particular use, manner of use and/or level of tenant improvements in the Demised Premises (and Landlord shall use good faith, diligent efforts to include in every other lease in the Building language substantially similar to the foregoing so as to entitle Landlord to make similar adjustments with respect to such other tenants' Operating Expenses as and where appropriate). Prior to or promptly after the beginning of each calendar year during the Term, Landlord shall estimate the total amount of Operating Expenses to be paid by Tenant during each such calendar year and Tenant shall pay to Landlord one-twelfth (1/12) of such sum on the first day of each calendar month during each such calendar year, or part thereof, during the Term. Within a reasonable time after the end of each calendar year, Landlord shall submit to Tenant a statement of the actual amount of Operating Expenses for such calendar year, and the actual amount owed by Tenant, and within thirty (30) days after receipt of such statement, Tenant shall pay any deficiency between the actual amount owed and the estimates paid during such calendar year, or in the event of overpayment, Landlord shall credit the amount of such overpayment toward the next installment of Operating Expenses owed by Tenant or remit such overpayment to Tenant if the Term has expired or has been terminated and no Event of Default exists hereunder. The obligations in the immediately preceding sentence shall survive the expiration or any earlier termination of this Lease. If the Lease Commencement Date shall fall on other than the first day of the calendar year, and/or if the Expiration Date shall fall on other than the last day of the calendar year, Tenant's proportionate share of the Operating Expenses for such calendar year shall be apportioned prorata.

(b) Any amounts required to be paid by Tenant hereunder (in addition to Base Rent) and any charges or expenses incurred by Landlord on behalf of Tenant under the terms of this Lease shall be considered "Additional Rent" payable in the same manner and upon the same terms and conditions as the Base Rent reserved hereunder except as set forth herein to the contrary (all such Base Rent and Additional Rent sometimes being referred to collectively herein as "Rent"). Any failure on the part of Tenant to pay such Additional Rent when and as the same shall become due shall entitle Landlord to the remedies available to it for non-payment of Base Rent. Tenant's obligations for payment of Additional Rent shall begin to accrue on the Lease Commencement Date regardless of the Base Rent Commencement Date.

(c) If applicable in the jurisdiction where the Demised Premises are located, Tenant shall pay and be liable for all rental, sales, use and inventory taxes or other similar taxes, if any, on the amounts payable by Tenant hereunder levied or imposed by any city, state, county or other governmental body having authority, such payments to be in addition to all other payments required to be paid Landlord by Tenant under the terms of this Lease. Such payment shall be made by Tenant directly to such governmental body if billed to Tenant, or if billed to Landlord, such payment shall be paid concurrently with the payment of the Base Rent, Additional Rent, or such other charge upon which the tax is based, all as set forth herein.

(d) Landlord currently reasonably estimates that Tenant's proportionate share of Operating Expenses for calendar year 2004 (not including property taxes and property insurance) will be \$.17 per square foot of the Demised Premises.

7. Use of Demised Premises.

(a) The Demised Premises shall be used for the Permitted Use set forth in Section 1(1) and for no other purpose without Landlord's prior written consent, which consent shall not be unreasonably withheld.

(b) Tenant will permit no liens to attach or exist against the Demised Premises, and shall not commit any waste.

(c) The Demised Premises shall not be used for any illegal purposes, and Tenant shall not allow, suffer, or permit any vibration, noise, odor, light or other effect to occur within or around the Demised Premises that could constitute a nuisance or trespass for Landlord or any occupant of the Building or an adjoining building, its customers, agents, or invitees. Upon notice by Landlord to Tenant that any of the aforesaid prohibited uses are occurring, Tenant agrees to promptly remove or control the same.

(d) Tenant shall not in any way violate any law, ordinance or restrictive covenant affecting the Demised Premises, and shall not in any manner use the Demised Premises so as to cause cancellation of, prevent the use of, or increase the rate of, the fire and extended coverage insurance policy required hereunder. Landlord makes no (and does hereby expressly disclaim any) covenant, representation or warranty as to the Permitted Use being allowed by or being in compliance with any applicable laws, rules, ordinances or restrictive covenants now or hereafter affecting the Demised Premises, and any zoning letters, copies of zoning ordinances or other information from any governmental agency or other third party provided to Tenant by Landlord or any of Landlord's agents or employees shall be for informational purposes only, Tenant hereby expressly acknowledging and agreeing that Tenant shall conduct and rely solely on its own due diligence and investigation with respect to the compliance of the Permitted Use with all such applicable laws, rules, ordinances and restrictive covenants and not on any such information provided by Landlord or any of its agents or employees.

(e) In the event insurance premiums pertaining to the Demised Premises, the Building, or the Building Common Area, whether paid by Landlord or Tenant, are increased over the least hazardous rate available due to the nature of the use of the Demised Premises by Tenant, Tenant shall pay such additional amount as Additional Rent. Landlord shall promptly notify Tenant of any such increase.

8. Insurance.

(a) Tenant covenants and agrees that from and after the Lease Commencement Date or any earlier date upon which Tenant enters or occupies the Demised Premises or any portion thereof, Tenant will carry and maintain, at its sole cost and expense, the following types of insurance, in the amounts specified and in the form hereinafter provided for:

(i) Liability insurance in the Commercial General Liability form (including Broad Form Property Damage and Contractual Liabilities or reasonable equivalent thereto) covering the Demised Premises and Tenant's use thereof against claims for bodily injury or death, property damage and product liability occurring upon, in or about the Demised Premises, such insurance to be written on an occurrence basis (not a claims made basis), to be in combined single limits amounts not less than \$1,000,000.00 and to have general aggregate limits of not less than \$2,000,000.00 with "umbrella" coverage with limits of not less than \$5,000,000.00 for each policy year. The insurance coverage required under this Section 8(a)(i) shall, in addition, extend to any liability of Tenant arising out of the indemnities provided for in Section 11 and, if necessary, the policy shall contain a contractual endorsement to that effect.

(ii) Insurance covering (A) all of the items included in the leasehold improvements constructed in the Demised Premises by or at the expense of Landlord (collectively, the "Improvements"; and, except to the extent otherwise provided herein, the Improvements shall be deemed to include any "Additional Improvements" constructed pursuant to Special Stipulation 1 on Exhibit C hereto), including but not limited to demising walls and the heating, ventilating and air conditioning system and (B) Tenant's trade fixtures, merchandise and personal property from time to time in, on or upon the Demised Premises, in an amount not less than one hundred percent (100%) of their full replacement value from time to time during the Term, providing protection against perils included within the standard form of "all-risk" fire and casualty insurance policy, together with insurance against sprinkler damage, vandalism and malicious mischief. Any policy proceeds from such insurance relating to the Improvements shall be used solely for the repair, construction and restoration or replacement of the Improvements damaged or destroyed unless this Lease shall cease and terminate under the provisions of Section 20.

(b) All policies of the insurance provided for in Section 8(a) shall be issued in form reasonably acceptable to Landlord by insurance companies with a rating of not less than "A," and financial size of not less than Class X, in the most current available "Best's Insurance Reports", and licensed to do business in the state in which the Building is located. Each and every such policy:

(i) shall name Landlord, Lender (as defined in Section 24),

and any other party reasonably designated by Landlord, as an additional insured. In addition, the coverage described in Section 8(a)(ii)(A) relating to the Improvements shall also name Landlord as "loss payee";

(ii) shall be delivered to Landlord, in the form of an insurance certificate acceptable to Landlord as evidence of such policy, prior to the Lease Commencement Date and thereafter within thirty (30) days prior to the expiration of each such policy, and, as often as any such policy shall expire or terminate. Renewal or additional policies shall be procured and maintained by Tenant in like manner and to like extent;

(iii) shall contain a provision that the insurer will give to Landlord and such other parties in interest at least thirty (30) days notice in writing in advance of any material change, cancellation, termination or lapse, or the effective date of any reduction in the amounts of insurance; and

(iv) shall be written as a primary policy which does not contribute to and is not in excess of coverage which Landlord may carry.

(c) In the event that Tenant shall fail to carry and maintain the insurance coverages set forth in this Section 8, Landlord may upon thirty (30) days notice to Tenant (unless such coverages will lapse in which event no such notice shall be necessary) procure such policies of insurance and Tenant shall promptly reimburse Landlord therefor.

(d) Landlord and Tenant hereby waive any rights each may have against the other on account of any loss or damage occasioned to Landlord or Tenant, as the case may be, their respective property, the Demised Premises, its contents or to the other portions of the Building, arising from any risk covered by "all-risk" fire and extended coverage insurance of the type and amount required to be carried hereunder, provided that such waiver does not invalidate such policies or prohibit recovery thereunder. The parties hereto shall cause their respective insurance companies insuring the property of either Landlord or Tenant against any such loss, to waive any right of subrogation that such insurers may have against Landlord or Tenant, as the case may be.

9. Utilities. During the Term, Tenant shall promptly pay as billed to Tenant all rents and charges for water and sewer services and all costs and charges for gas, steam, electricity, fuel, light, power, telephone, heat and any other utility or service used or consumed in or servicing the Demised Premises and all other costs and expenses involved in the care, management and use thereof as charged by the applicable utility companies to Tenant. All such utilities shall be separately metered and billed to Tenant, and Tenant shall establish an account with the utility provider with respect to each such separately metered utility. Tenant's obligation for payment of all utilities shall commence on the earlier of the Lease Commencement Date or the date of Tenant's actual occupancy of all or any portion of the Demised Premises, including any period of occupancy prior to the Lease Commencement Date, regardless of whether or not Tenant conducts business operations during such period of occupancy. If Tenant fails to pay any utility bills or charges, Landlord may, at its option and upon reasonable notice to Tenant, pay the same and in such event, the amount of such payment, together with interest thereon at the Interest Rate as defined in Section 32 from the date of such payment by Landlord, will be added to Tenant's next payment due as Additional Rent.

10. Maintenance and Repairs.

(a) Tenant shall, at its own cost and expense, maintain in good condition and repair and replace as necessary the interior of the Demised Premises, including but not limited to the heating, air conditioning and ventilation systems, glass, windows and doors, sprinkler, all plumbing and sewage systems, fixtures, interior walls, floors (including floor slabs), ceilings, storefronts, plate glass, skylights (excluding seals between skylights and the roof, which shall be a Landlord obligation as hereinafter set forth), all electrical facilities and equipment including, without limitation, lighting fixtures, lamps, fans and any exhaust equipment and systems, electrical motors, and all other appliances and equipment (including, without limitation, dock levelers, dock shelters, dock seals and dock lighting) of every kind and nature located in, upon or about the Demised Premises, except as to such maintenance, repair and replacement as is the obligation of Landlord pursuant to Section 10(b). During the Term, Tenant shall maintain in full force and effect a service contract for the maintenance of the heating, ventilation and air conditioning systems with an entity reasonably acceptable to Landlord; provided, however, that during the one year period following the Lease Commencement Date, such service contract shall be maintained with the contractor that installed the heating, ventilation and air conditioning systems and shall provide for at least two preventive maintenance service calls during such one year period. Tenant shall deliver to Landlord (i) a copy of said service contract prior to the Lease Commencement Date, and (ii) thereafter, a copy of a renewal or substitute service contract within thirty (30) days prior to the expiration of the existing service contract. Tenant's obligation shall exclude any maintenance, repair and replacement required because of the act or negligence of Landlord, its employees, contractors or agents, which shall be the responsibility of Landlord.

(b) Landlord shall, at its own cost and expense, maintain in good condition and repair the foundation (beneath the floor slab), structural frame, external walls (exclusive of painting and caulking, the cost of which will be included in Operating Expenses in accordance with Section 6 hereof) and roof of the Building (including the seals between the skylights and the roof). Landlord's

obligation shall exclude the cost of any maintenance or repair required because of the act (exclusive of ordinary wear and tear resulting from the Permitted Use) or negligence of Tenant or any of Tenant's subsidiaries or affiliates, or any of Tenant's or such subsidiaries' or affiliates' agents, contractors, employees, licensees or invitees (collectively, "Tenant's Affiliates"), the cost of which shall be the responsibility of Tenant. Landlord shall never have any obligation to repair, maintain or replace, pursuant to this subsection 10(b) or any other provision of this Lease, any Tenant's Change (as defined in Section 18 hereof).

(c) Unless the same is caused solely by the negligent action or inaction of Landlord, its employees or agents, and is not covered by the insurance required to be carried by Tenant pursuant to the terms of this Lease, Landlord shall not be liable to Tenant or to any other person for any damage occasioned

by failure in any utility system or by the bursting or leaking of any vessel or pipe in or about the Demised Premises, or for any damage occasioned by water coming into the Demised Premises or arising from the acts or neglects of occupants of adjacent property or the public.

11. Tenant's Personal Property; Indemnity. All of Tenant's personal property in the Demised Premises shall be and remain at Tenant's sole risk. Landlord, its agents, employees and contractors, shall not be liable for, and Tenant hereby releases Landlord from, any and all liability for theft thereof or any damage thereto occasioned by any act of God or by any acts, omissions or negligence of any persons. Landlord, its agents, employees and contractors, shall not be liable for any injury to the person or property of Tenant or other persons in or about the Demised Premises, Tenant expressly agreeing to indemnify and save Landlord, its agents, employees and contractors, harmless, in all such cases, except, in the case of personal injury only, to the extent caused by the negligence of Landlord, its agents, employees and contractors. Tenant further agrees to indemnify and reimburse Landlord for any costs or expenses, including, without limitation, reasonable attorneys' fees, that Landlord reasonably may incur in investigating, handling or litigating any such claim against Landlord by a third person, unless such claim arose from the negligence of Landlord, its agents, employees or contractors. The provisions of this Section 11 shall survive the expiration or earlier termination of this Lease with respect to any damage, injury or death occurring before such expiration or termination.

12. Tenant's Fixtures. Tenant shall have the right to install in the Demised Premises trade fixtures required by Tenant or used by it in its business, and if installed by Tenant, to remove any or all such trade fixtures from time to time during and upon termination or expiration of this Lease, provided no Event of Default, as defined in Section 22, then exists; provided, however, that Tenant shall repair and restore any damage or injury to the Demised Premises (to the condition in which the Demised Premises existed prior to such installation) caused by the installation and/or removal of any such trade fixtures. In all cases, however, any fixtures, equipment and personal property contained in the Demised Premises owned by Philip Morris (as hereinafter defined) may be removed at any time, and Landlord shall not prohibit access to the Demised Premises for such purpose, provided that prior to any such entry and removal Philip Morris shall have executed and delivered for the benefit of Landlord an entry and indemnification agreement in form reasonably acceptable to Landlord.

13. Signs. No sign, advertisement or notice shall be inscribed, painted, affixed, or displayed on the windows or exterior walls of the Demised Premises or on any public area of the Building, except in such places, numbers, sizes, colors and styles as are approved in advance in writing by Landlord, and which conform to all applicable laws, ordinances, or covenants affecting the Demised Premises. Notwithstanding the foregoing, Tenant shall have the right to affix one (1) identification sign to the exterior of the Demised Premises and to install one (1) monument identification sign in the Building Common Area, provided Tenant and such signs otherwise comply with the terms and conditions of this Section 13. Any and all signs installed or constructed by or on behalf of Tenant pursuant hereto shall be installed, maintained and removed by Tenant at Tenant's sole cost and expense.

14. Reserved.

15. Governmental Regulations. Tenant shall promptly comply throughout the Term, at Tenant's sole cost and expense, with all present and future laws, ordinances, orders, rules, regulations or requirements of all federal, state and municipal governments and appropriate departments, commissions, boards and officers thereof (collectively, "Governmental Requirements") relating to (a) all or any part of the Demised Premises, and (b) the use or manner of use of the Demised Premises and the Building Common Area; provided, however, that Landlord shall be solely responsible for making all changes necessitated by violations of applicable Governmental Requirements that are in effect as of the Lease Commencement Date. Tenant shall also observe and comply with the requirements of all policies of public liability, fire and other policies of insurance at any time in force with respect to the Demised Premises. Without limiting the foregoing, if as a result of one or more Governmental Requirements it is necessary, from time to time during the Term, to perform an alteration or modification of the Demised Premises, the Building, or the Building Common Area (a "Code Modification") which is made necessary as a result of the specific use being made by Tenant of the Demised Premises or a Tenant's Change, then such Code Modification shall be the sole and exclusive responsibility of Tenant in all respects; any such Code Modification shall be promptly performed by Tenant at its expense in accordance with the applicable Governmental Requirement and with Section 18 hereof. If as a result of one or more Governmental Requirements it is necessary from time to time during the Term to perform a Code Modification which (i) would be characterized as a capital expenditure under GAAP and (ii) is

not made necessary as a result of the specific use being made by Tenant of the Demised Premises (as distinguished from an alteration or modification which would be required to be made by the owner of any warehouse-office building comparable to the Building irrespective of the use thereof by any particular occupant) or a Tenant's Change, then (a) Landlord shall have the obligation to perform the Code Modification at its expense, (b) the cost of such Code Modification shall be amortized on a straight-line basis over the useful life of the item in question, in accordance with GAAP, and (c) to the extent the Code Modification relates to the Building or the Building Common Area (and not to any portion of the Demised Premises), Tenant shall be obligated to pay (as Additional Rent, payable in the same manner and upon the same terms and conditions as the Base Rent reserved hereunder) for (i) Tenant's proportionate share (based on Tenant's Operating Expense Percentage) of the portion of such amortized costs attributable to the remainder of the Term, including any extensions thereof, with respect to any Code Modification respecting the Building or the Building Common Area, and (ii) to the extent the Code

Modification relates to the Demised Premises (and not any other portion of the Building), the entire portion of such amortized costs attributable to the remainder of the Term, including any extensions thereof, with respect to any Code Modification respecting the Demised Premises. Tenant shall promptly send to Landlord a copy of any written notice received by Tenant requiring a Code Modification.

16. Environmental Matters.

(a) For purposes of this Lease:

(i) "Contamination" as used herein means the presence of or release of Hazardous Substances (as hereinafter defined) into any environmental media from, upon, within, below, into or on any portion of the Demised Premises, the Building, the Building Common Area or the Project so as to require remediation, cleanup or investigation under any applicable Environmental Law (as hereinafter defined).

(ii) "Environmental Laws" as used herein means all federal, state, and local laws, regulations, orders, permits, ordinances or other requirements, which exist now or as may exist hereafter, concerning protection of human health, safety and the environment, all as may be amended from time to time including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. 9601 et seq. ("CERCLA") and the Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq. ("RCRA").

(iii) "Hazardous Substances" as used herein means any hazardous or toxic substance, material, chemical, pollutant, contaminant or waste as those terms are defined by any applicable Environmental Laws and any solid wastes, polychlorinated biphenyls, urea formaldehyde, asbestos, radioactive materials, radon, explosives, petroleum products and oil.

(b) Landlord represents that, except as revealed to Tenant in writing by Landlord, to Landlord's actual knowledge, Landlord has not treated, stored or disposed of any Hazardous Substances upon or within the Demised Premises, nor, to Landlord's actual knowledge, has any predecessor owner of the Demised Premises.

(c) Tenant covenants that all its activities, and the activities of Tenant's Affiliates (as defined in Section 10(b)), on the Demised Premises, the Building, or the Project during the Term will be conducted in compliance with Environmental Laws. Tenant warrants that it is currently in compliance with all applicable Environmental Laws and that there are no pending or threatened notices of deficiency, notices of violation, orders, or judicial or administrative actions involving alleged violations by Tenant of any Environmental Laws. Tenant, at Tenant's sole cost and expense, shall be responsible for obtaining all permits or licenses or approvals under Environmental Laws necessary for Tenant's operation of its business on the Demised Premises and shall make all notifications and registrations required by any applicable Environmental Laws. Tenant, at Tenant's sole cost and expense, shall at all times comply with the terms and conditions of all such permits, licenses, approvals, notifications and registrations and with any other applicable Environmental Laws. Tenant warrants that it has obtained, or will obtain prior to the date required by the applicable Governmental Requirements, all such permits, licenses or approvals and made, or will make prior to the date required by the applicable Governmental Requirements, all such notifications and registrations required by any applicable Environmental Laws necessary for Tenant's operation of its business on the Demised Premises.

(d) Tenant shall not cause or permit any Hazardous Substances to be brought upon, kept or used in or about the Demised Premises, the Building, or the Project in violation of any Environmental Law without the prior written consent of Landlord, which consent shall not be unreasonably withheld; provided, however, that the consent of Landlord shall not be required for the use at the Demised Premises of cleaning supplies, toner for photocopying machines and other similar materials, in containers and quantities reasonably necessary for and consistent with normal and ordinary use by Tenant in the routine operation or maintenance of Tenant's office equipment or in the routine janitorial service, cleaning and maintenance for the Demised Premises. For purposes of this Section 16, Landlord shall be deemed to have reasonably withheld consent if Landlord determines that the presence of such Hazardous Substance within the Demised Premises could result in a risk of harm to person or property or otherwise negatively affect the value or marketability of the Building or the Project.

(e) Tenant shall not cause or permit the release of any Hazardous Substances by Tenant or Tenant's Affiliates into any environmental media such as air, water or land, or into or on the Demised Premises, the Building or the Project in any manner that violates any Environmental Laws. If such release

shall occur, Tenant shall (i) take all steps reasonably necessary to contain and control such release and any associated Contamination, (ii) clean up or otherwise remedy such release and any associated Contamination to the extent required by, and take any and all other actions required under, applicable Environmental Laws and (iii) notify and keep Landlord reasonably informed of such release and response.

(f) Regardless of any consents granted by Landlord pursuant to Section 16(d) allowing Hazardous Substances upon the Demised Premises, Tenant shall under no circumstances whatsoever cause or permit (i) any activity on the Demised Premises which would cause the Demised Premises to become subject to regulation as a hazardous waste treatment, storage or disposal facility under

RCRA or the regulations promulgated thereunder, (ii) the discharge of Hazardous Substances into the storm sewer system serving the Project or (iii) the installation of any underground storage tank or underground piping on or under the Demised Premises.

(g) Tenant shall and hereby does indemnify Landlord and hold Landlord harmless from and against any and all expense, loss, and liability suffered by Landlord (except to the extent that such expenses, losses, and liabilities arise out of Landlord's own negligence or willful act), by reason of the storage, generation, release, handling, treatment, transportation, disposal, or arrangement for transportation or disposal, of any Hazardous Substances (whether accidental, intentional, or negligent) by Tenant or Tenant's Affiliates or by reason of Tenant's breach of any of the provisions of this Section 16. Such expenses, losses and liabilities shall include, without limitation, (i) any and all reasonable expenses that Landlord may incur to comply with any Environmental Laws; (ii) any and all reasonable costs that Landlord may incur in studying or remedying any Contamination at or arising from the Demised Premises, the Building, or the Project; (iii) any and all reasonable costs that Landlord may incur in studying, removing, disposing or otherwise addressing any Hazardous Substances; (iv) any and all fines, penalties or other sanctions assessed upon Landlord; and (v) any and all reasonable legal and professional fees and costs incurred by Landlord in connection with the foregoing. The indemnity contained herein shall survive the expiration or earlier termination of this Lease.

17. Construction of Demised Premises.

(a) Within thirty (30) days after the Effective Lease Date, Landlord shall prepare, at Landlord's sole cost and expense, and submit to Tenant a set of plans and specifications and/or construction drawings (collectively, the "Plans and Specifications") based on the preliminary plans and specifications and/or preliminary floor plans set forth on Exhibit B attached hereto and incorporated herein, covering all work to be performed by Landlord in constructing the Improvements (as defined in Section 8(a)(ii)). Tenant shall have ten (10) days after receipt of the plans and specifications in which to review and to give to Landlord written notice of its approval of the plans and specifications or its requested changes to the Plans and Specifications. Tenant shall have no right to request any changes to the plans and specifications which would materially alter either the Demised Premises or the exterior appearance or basic nature of the Building, as the same are contemplated by the preliminary Plans. If Tenant fails to approve or request changes to the Plans and Specifications by ten (10) days after its receipt thereof, then Tenant shall be deemed to have approved the Plans and Specifications and the same shall thereupon be final. If Tenant requests any changes to the Plans and Specifications, Landlord shall make those changes which are reasonably requested by Tenant and shall within ten (10) days of its receipt of such request submit the revised portion of the Plans and specifications to Tenant. Tenant may not thereafter disapprove the revised portions of the Plans and specifications unless Landlord has unreasonably failed to incorporate reasonable comments of Tenant and, subject to the foregoing, the Plans and specifications, as modified by said revisions, shall be deemed to be final upon the submission of said revisions to Tenant. Landlord and Tenant shall at all times in their respective preparation or review of the plans and specifications, and of any revisions thereto, act reasonably and in good faith. Tenant acknowledges that the Improvements are being constructed on a "fast track" basis and that Landlord shall have the right and option to submit various parts of the proposed Plans and Specifications from time to time during said thirty (30) day period and the time period for approval of any part of the proposed plans and specifications shall commence upon receipt of each submission. After Tenant has approved the Plans and Specifications or the Plans and Specifications have otherwise been finalized pursuant to the procedures set forth hereinabove, any subsequent changes to the Plans and Specifications requested by Tenant (herein referred to as a "Change Order") shall be at Tenant's sole cost and expense and subject to Landlord's written approval, which approval shall not be unreasonably withheld, conditioned or delayed. In the event Landlord approves any such requested Change Order, Landlord shall give written notice thereof to Tenant, which notice will specify the Change Order approved by Landlord as well as the estimated incremental cost thereof. The cost to Tenant for Change Orders shall be Landlord's incremental cost plus fifteen percent (15%) of such amount as Landlord's overhead. Tenant acknowledges and agrees that Landlord shall be under no obligation to proceed with any work related to the approved Change Order unless and until Tenant delivers to Landlord an amount equal to the full estimated incremental cost of such approved Change Order as set forth in Landlord's notice. When the final incremental cost of any such Change Order has been determined and incurred, Landlord and Tenant each agree to pay or refund the amounts owed to the other with respect to such Change Order, based on the estimated payment made to Landlord. If after the Plans and specifications have been finalized pursuant to the procedures set forth hereinabove Tenant requests a Change Order or any further changes to the Plans and specifications and, as a

result thereof, Substantial Completion (as hereinafter defined) of the Improvements is delayed, then for purposes of establishing the Lease Commencement Date and any other date tied to the date of Substantial Completion, Substantial Completion shall be deemed to mean the date when Substantial Completion would have been achieved but for such Tenant delay.

(b) Landlord shall use reasonable speed and diligence to Substantially Complete the Improvements, at Landlord's sole cost and expense, and have the Demised Premises ready for occupancy on or before the anticipated Lease Commencement Date of October 1, 2004 set forth in Section 1(f). If the Demised Premises are not Substantially Complete on that date, such failure to complete shall not in any way affect the obligations of Tenant hereunder except that the Lease Commencement Date and the Base Rent Commencement Date shall be postponed one day for each day Substantial Completion is delayed until the Demised Premises are Substantially Complete, unless the delay is caused by (i) Tenant's failure to approve or disapprove the Plans and Specifications as set forth in Section 17(a), (ii) change orders requested by

Tenant after approval of the Plans and Specifications, (iii) this Lease not being executed and delivered by Tenant on or before August 17, 2004, (iv) any delay in construction of the Improvements as a result of the construction of any Additional Improvements required pursuant to Special Stipulation 1 on Exhibit C attached hereto, and/or (v) any other act or omission of Tenant or Tenant's Affiliates (collectively, "Tenant Delays"). No liability whatsoever shall arise or accrue against Landlord by reason of its failure to deliver or afford possession of the Demised Premises, and Tenant hereby releases and discharges Landlord from and of any claims for damage, loss, or injury of every kind whatsoever as if this Lease were never executed. Notwithstanding the foregoing, if Landlord fails to achieve Substantial Completion on or before the seventieth (70th) day following the date on which the Plans and Specifications are finalized pursuant to subsection 17(a) above, as such date may be extended by Delay (as hereinafter defined) (the "Outside Improvements Date"), Tenant will have the right, as its sole and exclusive remedy (subject to the additional termination remedy set forth hereinbelow), to a credit against Base Rent equal to \$1,000.00 for each day Substantial Completion of the Improvements was delayed beyond the Outside Improvements Date (excluding any days of Delay, as defined below) until said credit is fully realized by Tenant. Notwithstanding the foregoing, in the event that Landlord is unable to Substantially Complete the Improvements on or before the one hundredth twentieth (120th) day after the Outside Improvements Date, as extended by Delay, Tenant may, at its option and as its sole and exclusive remedy, terminate this Lease by written notice to Landlord given within thirty (30) days following the expiration of such one hundred twenty (120)-day period (provided that Substantial Completion has not occurred prior to Landlord's receipt of said termination notice), and thereafter neither Landlord nor Tenant shall have any further obligation hereunder. For purposes of this Lease, "Delay" shall mean (i) Tenant Delays, and (ii) such additional time as is equal to the time lost by Landlord or Landlord's contractors or suppliers in connection with the construction of the Improvements due to strikes or other labor troubles (but in no event due to Landlord's failure to pay such contractors or suppliers as and when due), governmental restrictions and limitations, war or other national emergency, non-availability of materials or supplies, delay in transportation, accidents, floods, fire, damage or other casualties, weather or other conditions, and other matters not within the reasonable control of Landlord.

(c) Upon Substantial Completion of the Demised Premises, a representative of Landlord and a representative of Tenant together shall inspect the Demised Premises and generate a punchlist of defective or uncompleted items relating to the completion of construction of the Improvements (the "Punchlist"). Landlord shall, within a reasonable time after the Punchlist is prepared and agreed upon by Landlord and Tenant, complete such incomplete work and remedy such defective work as is set forth on the Punchlist. All construction work performed by Landlord shall be deemed approved by Tenant in all respects except for items of said work which are not completed or do not conform to the Plans and Specifications and which are included on the Punchlist.

(d) Reserved.

(e) Landlord hereby warrants to Tenant, which warranty shall survive for the one (1) year period following the Lease Commencement Date, that (i) the materials and equipment furnished by Landlord's contractors in the completion of the Improvements will be of good quality and new, and (ii) such materials and equipment and the work of such contractors shall comply with all applicable laws, rules, regulations, building codes and insurance requirements and shall be completed in accordance with the Plans and Specifications in all material respects in a good and workmanlike manner and free from defects not inherent in the quality required or permitted hereunder. This warranty shall exclude damages or defects caused by Tenant or Tenant's Affiliates, improper or insufficient maintenance, improper operation, and normal wear and tear under normal usage.

(f) For purposes of this Lease, the term "Substantial Completion" (or any variation thereof) shall mean completion of construction of the Improvements in accordance with the Plans and Specifications, subject only to Punchlist items established pursuant to Section 17(c), as established by the delivery by Landlord to Tenant of a certificate of occupancy or its equivalent (or temporary certificate of occupancy or its equivalent) for the Demised Premises issued by the appropriate governmental authority, if a certificate is so required by a governmental authority, or if not so required or if unavailable because of unfinished work to be performed by Tenant, then by the delivery by Landlord to Tenant of a Certificate of Substantial Completion for the Improvements on Standard AIA Form G-704 certified by Landlord's architect. In the event Substantial Completion is delayed because of Tenant's failure to approve or disapprove the Plans and Specifications as set forth in Section 17(a), by change orders requested by Tenant after approval of the Plans and Specifications (including, without limitation, Tenant's request for additional improvements in accordance with Special Stipulation 2 on Exhibit C hereto) or by

any other delay caused by Tenant or Tenant's Affiliates, then for the purpose of establishing the Lease Commencement Date and any other date tied to the date of Substantial Completion, Substantial Completion shall be deemed to mean the date when Substantial Completion would have been achieved but for such delay.

18. Tenant Alterations and Additions.

(a) Tenant shall not make or permit to be made any alterations, improvements, or additions to the Demised Premises (a "Tenant's Change"), without first obtaining on each occasion Landlord's prior written consent (which consent Landlord agrees not to unreasonably withhold) and Lender's prior written consent (if such consent is required). As part of its approval process, Landlord may require that Tenant submit plans and specifications to Landlord, for Landlord's approval or disapproval, which approval shall

not be unreasonably withheld. All Tenant's Changes shall be performed in accordance with all legal requirements applicable thereto and in a good and workmanlike manner with first-class materials. Tenant shall maintain insurance reasonably satisfactory to Landlord during the construction of all Tenant's Changes. If Landlord at the time of giving its approval to any Tenant's Change notifies Tenant in writing that approval is conditioned upon restoration, then Tenant shall, at its sole cost and expense and at Landlord's option upon the termination or expiration of this Lease, remove the same and restore the Demised Premises to its condition prior to such Tenant's Change. Landlord may withhold consent to any Tenant's Change which is structural in nature or impairs the structural strength of the Building, in Landlord's sole discretion, or reduces its value, in Landlord's reasonable discretion. Tenant shall pay the full cost of any Tenant's Change. Except as otherwise provided herein and in Section 12, or as otherwise agreed at the time of a Tenant's Change is approved, all Tenant's Changes and all repairs and all other property attached to or installed on the Demised Premises by or on behalf of Tenant (excluding racks, conveyers and related equipment) shall immediately upon completion or installation thereof be and become part of the Demised Premises and the property of Landlord without payment therefor by Landlord and shall be surrendered to Landlord upon the expiration or earlier termination of this Lease.

(b) To the extent permitted by law, all of Tenant's contracts and subcontracts for such Tenant's Changes shall provide that no lien shall attach to or be claimed against the Demised Premises or any interest therein other than Tenant's leasehold interest in the Demised Premises, and that all subcontracts let thereunder shall contain the same provision. Whether or not Tenant furnishes the foregoing, Tenant agrees to hold Landlord harmless from, and defend against (with legal counsel acceptable to Landlord) all liens, claims and liabilities of every kind, nature and description which may arise out of or in any way be connected with such work. Tenant shall not permit the Demised Premises to become subject to any mechanics', laborers' or materialmen's lien on account of labor, material or services furnished to Tenant or claimed to have been furnished to Tenant in connection with work of any character performed or claimed to have been performed for the Demised Premises by, or at the direction or sufferance of Tenant and if any such liens are filed against the Demised Premises, Tenant shall promptly discharge the same; provided, however, that Tenant shall have the right to contest, in good faith and with reasonable diligence, the validity of any such lien or claimed lien if Tenant shall give to Landlord, within fifteen days after demand, such security as may be reasonably satisfactory to Landlord to assure payment thereof and to prevent any sale, foreclosure, or forfeiture of Landlord's interest in the Demised Premises by reason of non-payment thereof; provided further that on final determination of the lien or claim for lien, Tenant shall immediately pay any judgment rendered, with all proper costs and charges, and shall have the lien released and any judgment satisfied. If Tenant fails to post such security or does not diligently contest such lien, Landlord may, without investigation of the validity of the lien claim, discharge such lien and Tenant shall reimburse Landlord upon demand for all costs and expenses incurred in connection therewith, which expenses shall include any attorneys' fees, paralegals' fees and any and all costs associated therewith, including litigation through all trial and appellate levels and any costs in posting bond to effect a discharge or release of the lien. Nothing contained in this Lease shall be construed as a consent on the part of Landlord to subject the Demised Premises to liability under any lien law now or hereafter existing of the state in which the Demised Premises are located.

19. Services by Landlord. Landlord shall be responsible for providing for maintenance of the Building Common Area, and, except as required by Section 10(b) hereof or as otherwise specifically provided for herein, Landlord shall be responsible for no other services whatsoever. Tenant, by payment of Tenant's share of the Operating Expenses, shall pay Tenant's pro rata share of the expenses incurred by Landlord hereunder.

20. Fire and Other Casualty. In the event the Demised Premises are damaged by fire or other casualty insured by Landlord, Landlord agrees to promptly restore and repair the Demised Premises at Landlord's expense, including the Improvements to be insured by Tenant, but only to the extent Landlord receives insurance proceeds therefor, including the proceeds from the insurance required to be carried by Tenant on the Improvements (Landlord being responsible for any deductible under Landlord's insurance policies and the amount of any risk retained by Landlord to the extent Landlord does not carry coverage at one hundred percent (100%) of the replacement value of the Building, exclusive of fixtures and property required to be insured by Tenant under this Lease). Notwithstanding the foregoing, in the event that the Demised Premises are (i) in the reasonable opinion of Landlord, so destroyed that they cannot be repaired or rebuilt within one hundred eighty (180) days after the date of such damage; or (ii) destroyed by a casualty which is not covered by Landlord's insurance, or if such casualty is covered by Landlord's insurance but Lender or other party entitled to insurance proceeds fails to make such proceeds available to Landlord

in an amount sufficient for restoration of the Demised Premises, then Landlord shall give written notice to Tenant of such determination (the "Determination Notice") within sixty (60) days of such casualty. Either Landlord or Tenant may terminate and cancel this Lease effective as of the date of such casualty by giving written notice to the other party within thirty (30) days after Tenant's receipt of the Determination Notice. Upon the giving of such termination notice, all obligations hereunder with respect to periods from and after the effective date of termination shall thereupon cease and terminate. If no such termination notice is given, Landlord shall, to the extent of the available insurance proceeds, make such repair or restoration of the Demised Premises to the approximate condition existing prior to such casualty, promptly and in such manner as not to unreasonably interfere with Tenant's use and occupancy of the Demised Premises (if Tenant is still occupying the Demised Premises). Base Rent and Additional Rent and all other amounts payable by Tenant hereunder shall equitably abate during the time that the Demised Premises or any part thereof are unusable by reason of any such damage thereto.

21. Condemnation.

(a) If all of the Demised Premises is taken or condemned for a public or quasi-public use, or if a material portion of the Demised Premises is taken or condemned for a public or quasi-public use and the remaining portion thereof is not usable by Tenant in the reasonable opinion of Landlord, this Lease shall terminate as of the earlier of the date title to the condemned real estate vests in the condemnor or the date on which Tenant is deprived of possession of the Demised Premises. In such event, the Base Rent herein reserved and all Additional Rent and other sums payable hereunder shall be apportioned and paid in full by Tenant to Landlord to that date, all Base Rent, Additional Rent and other sums payable hereunder prepaid for periods beyond that date shall forthwith be repaid by Landlord to Tenant, and neither party shall thereafter have any liability hereunder, except that any obligation or liability of either party, actual or contingent, under this Lease which has accrued on or prior to such termination date shall survive.

(b) If only part of the Demised Premises is taken or condemned for a public or quasi-public use and this Lease does not terminate pursuant to Section 21(a), Landlord shall, to the extent of the award it receives, restore the Demised Premises to a condition and to a size as nearly comparable as reasonably possible to the condition and size thereof immediately prior to the taking, and there shall be an equitable adjustment to the Base Rent and Additional Rent based on the actual loss of use of the Demised Premises suffered by Tenant from the taking.

(c) Landlord shall be entitled to receive the entire award in any proceeding with respect to any taking provided for in this Section 21, without deduction therefrom for any estate vested in Tenant by this Lease, and Tenant shall receive no part of such award. Nothing herein contained shall be deemed to prohibit Tenant from making a separate claim, against the condemnor, to the extent permitted by law, for the value of Tenant's moveable trade fixtures, machinery and moving expenses, provided that the making of such claim shall not and does not adversely affect or diminish Landlord's award.

22. Tenant's Default.

(a) The occurrence of any one or more of the following events shall constitute an "Event of Default" of Tenant under this Lease:

(i) if Tenant fails to pay Base Rent or any Additional Rent hereunder as and when such rent becomes due and such failure shall continue for more than ten (10) days after Landlord gives written notice to Tenant of such failure; provided, however, that Landlord shall only be required to give such a notice of default three (3) times in any twelve (12) month period during the Term, it being understood and agreed that any failure to pay Base Rent or any Additional Rent on time thereafter within such twelve (12) month period shall constitute an immediate Event of Default hereunder;

(ii) reserved;

(iii) if the Demised Premises become deserted or abandoned for more than twenty (20) consecutive days or if Tenant fails to take possession of the Demised Premises on the Lease Commencement Date or within twenty (20) days thereafter;

(iv) if Tenant permits to be done anything which creates a lien upon the Demised Premises and fails to discharge or bond such lien, or post security with Landlord acceptable to Landlord within thirty (30) days after receipt by Tenant of written notice thereof;

(v) if Tenant fails to maintain in force all policies of insurance required by this Lease and such failure shall continue for more than ten (10) business days after Landlord gives Tenant written notice of such failure;

(vi) if any petition is filed by or against Tenant or any guarantor of this Lease under any present or future section or chapter of the Bankruptcy Code, or under any similar law or statute of the United States or any state thereof (which, in the case of an involuntary proceeding, is not permanently discharged, dismissed, stayed, or vacated, as the case may be, within ninety (90) days of commencement), or if any order for relief shall be entered against Tenant or any guarantor of this Lease in any such proceedings;

(vii) if Tenant or any guarantor of this Lease becomes insolvent or makes a transfer in fraud of creditors or makes an assignment for the benefit of creditors;

(viii) if a receiver, custodian, or trustee is appointed for the Demised Premises or for all or substantially all of the assets of Tenant or of any guarantor of this Lease, which appointment is not vacated within ninety (90) days following the date of such appointment; or

(ix) if Tenant fails to perform or observe any other term of this Lease and such failure shall continue for more than thirty (30) days after Landlord gives Tenant written notice of such failure, or, if such failure cannot be corrected within such thirty (30) day period, if Tenant does not

commence to correct such default within said thirty (30) day period and thereafter diligently prosecute the correction of same to completion within a reasonable time.

(b) Upon the occurrence of any one or more Events of Default, Landlord may, at Landlord's option, without any demand or notice whatsoever (except as expressly required in this Section 22):

(i) Terminate this Lease by giving Tenant notice of termination, in which event this Lease shall expire and terminate on the date specified in such notice of termination and all rights of Tenant under this Lease and in and to the Demised Premises shall terminate. Tenant shall remain liable for all obligations under this Lease arising up to the date of such termination, and Tenant shall surrender the Demised Premises to Landlord on the date specified in such notice; or

(ii) Terminate this Lease as provided in Section 22(b)(i) hereof and recover from Tenant all damages Landlord may incur by reason of Tenant's default, which shall be calculated at the date of such termination, as follows: (1) the value of the excess, if any, of (A) the Base Rent, Additional Rent and all other sums which would have been payable hereunder by Tenant for the period commencing with the day following the date of such termination and ending with the Expiration Date had this Lease not been terminated (the "Remaining Term"), over (B) the aggregate reasonable rental value of the Demised Premises for the Remaining Term (which excess, if any shall be discounted to present value at the "Treasury Yield" as defined below for the Remaining Term); plus (2) the costs of recovering possession of the Demised Premises and all other expenses incurred by Landlord due to Tenant's default, including, without limitation, reasonable attorney's fees; plus (3) the unpaid Base Rent and Additional Rent earned as of the date of termination plus any interest and late fees due hereunder, plus other sums of money and damages owing on the date of termination by Tenant to Landlord under this Lease or in connection with the Demised Premises. The amount as calculated above shall be deemed immediately due and payable. The payment of the amount calculated in subparagraph (ii)(1) shall not be deemed a penalty but shall merely constitute payment of liquidated damages, it being understood and acknowledged by Landlord and Tenant that actual damages to Landlord are extremely difficult, if not impossible, to ascertain. "Treasury Yield" shall mean the rate of return in percent per annum of Treasury Constant Maturities for the length of time specified as published in document H.15(519) (presently published by the Board of Governors of the U.S. Federal Reserve System titled "Federal Reserve Statistical Release") for the calendar week immediately preceding the calendar week in which the termination occurs. If the rate of return of Treasury Constant Maturities for the calendar week in question is not published on or before the business day preceding the date of the Treasury Yield in question is to become effective, then the Treasury Yield shall be based upon the rate of return of Treasury Constant Maturities for the length of time specified for the most recent calendar week for which such publication has occurred. If no rate of return for Treasury Constant Maturities is published for the specific length of time specified, the Treasury Yield for such length of time shall be the weighted average of the rates of return of Treasury Constant Maturities most nearly corresponding to the length of the applicable period specified. If the publishing of the rate of return of Treasury Constant Maturities is ever discontinued, then the Treasury Yield shall be based upon the index which is published by the Board of Governors of the U.S. Federal Reserve System in replacement thereof or, if no such replacement index is published, the index which, in Landlord's reasonable determination, most nearly corresponds to the rate of return of Treasury Constant Maturities. In determining the aggregate reasonable rental value pursuant to subparagraph (ii)(1)(B) above, the parties hereby agree that, at the time Landlord seeks to enforce this remedy, all relevant factors should be considered, including, but not limited to, (a) the length of time remaining in the Remaining Term, (b) the then current market conditions in the general area in which the Building is located, (c) the likelihood of reletting the Demised Premises for a period of time equal to the remainder of the Term, (d) the net effective rental rates then being obtained by landlords for similar type space of similar size in similar type buildings in the general area in which the Building is located, (e) the vacancy levels in the general area in which the Building is located, (f) current levels of new construction that will be completed during the Remaining Term and how this construction will likely affect vacancy rates and rental rates and (g) inflation; or

(iii) without terminating this Lease, declare immediately due and payable the sum of the following: (1) the present value (calculated using the "Treasury Yield") of all Base Rent and Additional Rent due and coming due under this Lease for the entire remaining Term (as if by the terms of this Lease they were payable in advance), plus (2) the cost of recovering and reletting the Demised Premises and all other expenses incurred by Landlord in connection with Tenant's default, plus (3) any unpaid Base Rent, Additional Rent and other

rentals, charges, assessments and other sums owing by Tenant to Landlord under this Lease or in connection with the Demised Premises as of the date this provision is invoked by Landlord, plus (4) interest on all such amounts from the date due at the Interest Rate, and Landlord may immediately proceed to distrain, collect, or bring action for such sum, or may file a proof of claim in any bankruptcy or insolvency proceedings to enforce payment thereof; provided, however, that such payment shall not be deemed a penalty or liquidated damages, but shall merely constitute payment in advance of all Base Rent and Additional Rent payable hereunder throughout the Term, and provided further, however, that upon Landlord receiving such payment, Tenant shall be entitled to receive from Landlord all rents received by Landlord from other assignees, tenants and subtenants on account of said Demised Premises during the remainder of the Term (provided that the monies to which Tenant shall so become entitled shall in no event exceed the entire amount actually paid by Tenant to Landlord pursuant to this subparagraph (iii)), less all costs, expenses and attorneys' fees of Landlord incurred but not yet reimbursed by Tenant in connection with recovering and reletting the Demised Premises; or

(iv) Without terminating this Lease, in its own name but as agent for Tenant, enter into and upon and take possession of the Demised Premises or any part thereof. Any property remaining in the Demised Premises may be removed and stored in a warehouse or elsewhere at the cost of, and for the account of, Tenant without Landlord being deemed guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby unless caused by Landlord's negligence, provided, however, that to the extent any property contained in the Demised Premises is owned by Philip Morris, Landlord shall give Philip Morris five (5) days prior written notice of such removal, provided that Philip Morris shall have executed and delivered for the benefit of Landlord an entry and indemnification agreement in form reasonably acceptable to Landlord. Thereafter, Landlord may, but shall not be obligated to, lease to a third party the Demised Premises or any portion thereof as the agent of Tenant upon such terms and conditions as Landlord may deem necessary or desirable in order to relet the Demised Premises. The remainder of any rentals received by Landlord from such reletting, after the payment of any indebtedness due hereunder from Tenant to Landlord, and the payment of any costs and expenses of such reletting, shall be held by Landlord to the extent of and for application in payment of future rent owed by Tenant, if any, as the same may become due and payable hereunder. If such rentals received from such reletting shall at any time or from time to time be less than sufficient to pay to Landlord the entire sums then due from Tenant hereunder, Tenant shall pay any such deficiency to Landlord. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for any such previous default provided same has not been cured; or

(v) Without terminating this Lease, and with or without notice to Tenant, enter into and upon the Demised Premises and, without being liable for prosecution or any claim for damages therefor, maintain the Demised Premises and repair or replace any damage thereto or do anything or make any payment for which Tenant is responsible hereunder. Tenant shall reimburse Landlord immediately upon demand for any expenses which Landlord incurs in thus effecting Tenant's compliance under this Lease and Landlord shall not be liable to Tenant for any damages with respect thereto; or

(vi) Without liability to Tenant or any other party and without constituting a constructive or actual eviction, suspend or discontinue furnishing or rendering to Tenant any property, material, labor, utilities or other service, wherever Landlord is obligated to furnish or render the same as long as an Event of Default exists under this Lease; or

(vii) With or without terminating this Lease, allow the Demised Premises to remain unoccupied and collect rent from Tenant as it comes due; or

(viii) Pursue such other remedies as are available at law or equity.

(c) If this Lease shall terminate as a result of or while there exists an Event of Default hereunder, any funds of Tenant held by Landlord may be applied by Landlord to any damages payable by Tenant (whether provided for herein or by law) as a result of such termination or default.

(d) Neither the commencement of any action or proceeding, nor the settlement thereof, nor entry of judgment thereon shall bar Landlord from bringing subsequent actions or proceedings from time to time, nor shall the failure to include in any action or proceeding any sum or sums then due be a bar to the maintenance of any subsequent actions or proceedings for the recovery of such sum or sums so omitted.

(e) No agreement to accept a surrender of the Demised Premises and no act or omission by Landlord or Landlord's agents during the Term shall constitute an acceptance or surrender of the Demised Premises unless made in writing and signed by Landlord. No re-entry or taking possession of the Demised Premises by Landlord shall constitute an election by Landlord to terminate this Lease unless a written notice of such intention is given to Tenant. No provision of this Lease shall be deemed to have been waived by either party unless such waiver is in writing and signed by the party making such waiver. Landlord's acceptance of Base Rent or Additional Rent in full or in part following an Event of Default hereunder shall not be construed as a waiver of such Event of Default. No custom or practice which may grow up between the parties in connection with the terms of this Lease shall be construed to waive or lessen either party's right to insist upon strict performance of the terms of this Lease, without a written notice thereof to the other party.

(f) If an Event of Default shall occur, Tenant shall pay to Landlord, on demand, all reasonable expenses incurred by Landlord as a result thereof, including reasonable attorneys' fees, court costs and expenses actually

incurred.

23. Landlord's Right of Entry. Tenant agrees to permit Landlord and the authorized representatives of Landlord and of Lender to enter upon the Demised Premises at all reasonable times for the purposes of inspecting the Demised Premises and Tenant's compliance with this Lease, and making any necessary repairs thereto; provided that, except in the case of an emergency, Landlord shall give Tenant reasonable prior notice of Landlord's intended entry upon the Demised Premises. Nothing herein shall imply any duty upon the part of Landlord to do any work required of Tenant hereunder, and the performance thereof by Landlord shall not constitute a waiver of Tenant's default in failing to perform it. Landlord shall not be liable for inconvenience, annoyance, disturbance or other damage to Tenant by reason

of making such repairs or the performance of such work in the Demised Premises or on account of bringing materials, supplies and equipment into or through the Demised Premises during the course thereof, and the obligations of Tenant under this Lease shall not thereby be affected; provided, however, that Landlord shall use reasonable efforts not to disturb or otherwise interfere with Tenant's operations in the Demised Premises in making such repairs or performing such work. Landlord also shall have the right to enter the Demised Premises at all reasonable times to exhibit the Demised Premises to any prospective purchaser, mortgagee or, during the last six (6) months of the Term, tenant thereof.

24. Lender's Rights.

(a) For purposes of this Lease:

(i) "Lender" as used herein means the holder of a Mortgage;

(ii) "Mortgage" as used herein means any or all mortgages, deeds to secure debt, deeds of trust or other instruments in the nature thereof which may now or hereafter affect or encumber Landlord's title to the Demised Premises, and any amendments, modifications, extensions or renewals thereof.

(b) Subject to the receipt by Tenant of a non-disturbance agreement, substantially in the form of Exhibit F attached hereto, this Lease and all rights of Tenant hereunder are and shall be subject and subordinate to the lien and security title of any Mortgage. Tenant recognizes and acknowledges the right of Lender to foreclose or exercise the power of sale against the Demised Premises under any Mortgage.

(c) Tenant shall, in confirmation of the subordination set forth in Section 24(b) and notwithstanding the fact that such subordination is self-operative, and no further instrument or subordination shall be necessary, upon demand, at any time or times, execute, acknowledge, and deliver to Landlord or to Lender any and all reasonable instruments requested by either of them to evidence such subordination which are consistent with the form of Exhibit F attached hereto.

(d) At any time during the Term, Lender may, by written notice to Tenant, make this Lease superior to the lien of its Mortgage. If requested by Lender, Tenant shall, upon demand, at any time or times, execute, acknowledge, and deliver to Lender, any and all reasonable instruments that may be necessary to make this Lease superior to the lien of any Mortgage.

(e) If Lender (or Lender's nominee, or other purchaser at foreclosure) shall hereafter succeed to the rights of Landlord under this Lease, whether through possession or foreclosure action or delivery of a new lease, Tenant shall, if requested by such successor, attorn to and recognize such successor as Tenant's landlord under this Lease without change in the terms and provisions of this Lease and shall promptly execute and deliver any reasonable instrument that may be necessary to evidence such attornment, provided that such successor shall not be bound by (i) any payment of Base Rent or Additional Rent for more than one month in advance, except prepayments in the nature of security for the performance by Tenant of its obligations under this Lease, and then only if such prepayments have been deposited with and are under the control of such successor, (ii) any provision of any amendment to the Lease to which Lender has not consented, (iii) the defaults of any prior landlord under this Lease, or (iv) any offset rights arising out of the defaults of any prior landlord under this Lease. Upon such attornment, this Lease shall continue in full force and effect as a direct lease between each successor landlord and Tenant, subject to all of the terms, covenants and conditions of this Lease.

(f) In the event there is a Mortgage at any time during the Term, Landlord shall, at Tenant's request, use reasonable efforts to cause the Lender to enter into a subordination, nondisturbance and attornment agreement with Tenant reasonably satisfactory to Tenant and consistent with this Section 24.

25. Estoppel Certificate and Financial Statement.

(a) Landlord and Tenant agree, at any time, and from time to time, within ten (10) business days after written request of the other, to execute, acknowledge and deliver a statement in writing in recordable form to the requesting party and/or its designee certifying that: (i) this Lease is unmodified and in full force and effect (or, if there have been modifications, that the same is in full force and effect, as modified), (ii) the dates to which Base Rent, Additional Rent and other charges have been paid, (iii) whether or not, to the best of its knowledge, there exists any failure by the requesting party to perform any term, covenant or condition contained in this Lease, and, if so, specifying each such failure, (iv) (if such be the case) Tenant has unconditionally accepted the Demised Premises and is conducting its business

therein, and (v) and as to such additional matters as may be requested, it being intended that any such statement delivered pursuant hereto may be relied upon by the requesting party and by any purchaser of title to the Demised Premises or by any mortgagee or any assignee thereof or any party to any sale-leaseback of the Demised Premises, or the landlord under a ground lease affecting the Demised Premises.

(b) If Landlord desires to finance, refinance, or sell the Building, Tenant and all guarantors of Tenant's obligations hereunder, if any, shall deliver to any potential lender or purchaser designated by Landlord such financial statements of Tenant and such guarantors as may be reasonably

required by such lender or purchaser, including but not limited to Tenant's financial statements for the past 3 years; provided, however, that if Priority Fulfillment Services, Inc. is the Tenant at the time that Landlord desires to finance, or sell the Building, then only the guarantors of such Tenant's obligations hereunder shall be required to provide their financial statements, in the manner described in this subsection (b), to any such lender or purchaser. All such financial statements shall be received by Landlord and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

26. Landlord Liability. NO OWNER OF THE DEMISED PREMISES, WHETHER OR NOT NAMED HEREIN, SHALL HAVE LIABILITY HEREUNDER AFTER IT CEASES TO HOLD TITLE TO THE DEMISED PREMISES. NEITHER LANDLORD NOR ANY OFFICER, DIRECTOR, SHAREHOLDER, PARTNER OR PRINCIPAL OF LANDLORD, WHETHER DISCLOSED OR UNDISCLOSED, SHALL BE UNDER ANY PERSONAL LIABILITY WITH RESPECT TO ANY OF THE PROVISIONS OF THIS LEASE. IN THE EVENT LANDLORD IS IN BREACH OR DEFAULT WITH RESPECT TO LANDLORD'S OBLIGATIONS OR OTHERWISE UNDER THIS LEASE, TENANT SHALL LOOK SOLELY TO THE EQUITY OF LANDLORD IN THE BUILDING FOR THE SATISFACTION OF TENANT'S REMEDIES. IT IS EXPRESSLY UNDERSTOOD AND AGREED THAT LANDLORD'S LIABILITY UNDER THE TERMS, COVENANTS, CONDITIONS, WARRANTIES AND OBLIGATIONS OF THIS LEASE SHALL IN NO EVENT EXCEED LANDLORD'S EQUITY INTEREST IN THE BUILDING.

27. Notices. Any notice required or permitted to be given or served by either party to this Lease shall be deemed given when made in writing, and either (i) personally delivered, (ii) deposited with the United States Postal Service, postage prepaid, by registered or certified mail, return receipt requested, or (iii) delivered by a nationally recognized overnight delivery service providing proof of delivery, properly addressed to the address set forth in Section 1(m) (as the same may be changed by giving written notice of the aforesaid in accordance with this Section 27). If any notice mailed is properly addressed with appropriate postage but returned for any reason, such notice shall be deemed to be effective notice and to be given on the date of mailing. Any notice required or permitted to be given or served by Landlord or Tenant to this Lease may be given by either an agent, law firm or attorney acting on behalf of Landlord or Tenant.

28. Brokers. Tenant represents and warrants to Landlord that, except for those parties set forth in Section 1(o) (the "Brokers"), Tenant has not engaged or had any conversations or negotiations with any broker, finder or other third party concerning the leasing of the Demised Premises to Tenant who would be entitled to any commission or fee based on the execution of this Lease. Tenant hereby further represents and warrants to Landlord that Tenant is not receiving and is not entitled to receive any rebate, payment or other remuneration, either directly or indirectly, from the Brokers, and that it is not otherwise sharing in or entitled to share in any commission or fee paid to the Brokers by Landlord or any other party in connection with the execution of this Lease, either directly or indirectly. Tenant hereby indemnifies Landlord against and from any claims for any brokerage commissions (except those payable to the Brokers, all of which are payable by Landlord pursuant to a separate agreement) and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, for any breach of the foregoing. Landlord represents and warrants to Tenant that, except for those parties set forth in Section 1(o) (the "Brokers"), Landlord has not engaged or had any conversations or negotiations with any broker, finder or other third party concerning the leasing of the Demised Premises to Tenant who would be entitled to any commission or fee based on the execution of this Lease. Landlord hereby further represents and warrants to Tenant that Landlord, apart from the standard brokerage commission, is not receiving and is not entitled to receive any rebate, payment or other remuneration, either directly or indirectly, from the Brokers. Landlord hereby indemnifies Tenant against and from any claims for any brokerage commissions (except those payable to the Brokers, all of which are payable by Landlord pursuant to a separate agreement) and all costs, expenses and liabilities in connection therewith, including, without limitation, reasonable attorneys' fees and expenses, for any breach of the foregoing. The foregoing indemnification shall survive the termination of this Lease for any reason.

29. Assignment and Subleasing.

(a) Tenant may not assign, mortgage, pledge, encumber or otherwise transfer this Lease, or any interest hereunder, or sublet the Demised Premises, in whole or in part, without on each occasion first obtaining the prior express written consent of Landlord, which consent Landlord shall not unreasonably withhold, delay or condition. Any change in control of Tenant resulting from a merger, consolidation, stock transfer or asset sale shall be considered an assignment or transfer which requires Landlord's prior written consent. For purposes of this Section 29, by way of example and not limitation, Landlord shall be deemed to have reasonably withheld consent if Landlord determines (i)

that the prospective assignee or subtenant is not of a financial strength similar to Tenant as of the Effective Lease Date, (ii) that the prospective assignee or subtenant has a poor business reputation, (iii) that the proposed use of the Demised Premises by such prospective assignee or subtenant (including, without limitation, a use involving the use or handling of Hazardous Substances) will negatively affect the value or marketability of the Building or the Project or (iv) that the prospective assignee or subtenant is a current tenant in the Project or is a bona-fide third-party prospective tenant.

(b) Notwithstanding Section 29(a) above, provided that there then exists no Event of Default under this Lease which remains uncured, Tenant shall have the right, upon forty-five (45) days' prior written notice to Landlord but without Landlord's prior consent, to assign this Lease to Philip Morris

USA, Inc. or to Altria Group, Inc. (either being referred to herein as a "Pre-Approved Assignee"), provided that upon any such assignment the Pre-Approved Assignee assumes all of the obligations and liabilities of Tenant arising under this Lease and shall then have assets, capitalization, tangible net worth and creditworthiness at least equal to the assets, capitalization, tangible net worth and creditworthiness of the Guarantor as of the Effective Lease Date as determined by GAAP. For the purpose hereof, "tangible net worth" shall mean the excess of the value of tangible assets (i.e. assets excluding those which are intangible such as goodwill, patents and trademarks) over liabilities. Following an assignment to a Pre-Approved Assignee as described hereinabove, such Pre-Approved Assignee may assign this Lease to: (a) an affiliate of such Pre-Approved Assignee, or (b) as part of a merger or consolidation or to an entity which acquires the business which is operated by such Pre-Approved Assignee in the Demised Premises, without Landlord's consent, but with notice to Landlord, provided such successor entity under (a) or (b) above assumes the obligations of such Pre-Approved Assignee in writing, and provided, further, that no such further assignment by such Pre-Approved Assignee shall relieve such Pre-Approved Assignee from or reduce its obligations under this Lease. Any sublease or assignment pursuant to and in compliance with this subsection (b) shall be referred to herein as a "Pre-Approved Assignment". The provisions of subsection 29(c) below shall not apply to any Pre-Approved Assignment; provided, however, that the written notice given by Tenant to Landlord pursuant to this subsection 29(b) must contain sufficient information and documentation to enable Landlord to confirm that all of the requirements of this subsection 29(b) have been satisfied.

(c) If Tenant desires to assign this Lease or sublet the Demised Premises or any part thereof, other than in connection with a Pre-Approved Assignment, Tenant shall give Landlord written notice no later than forty-five (45) days in advance of the proposed effective date of any proposed assignment or sublease, specifying (i) the name and business of the proposed assignee or sublessee, (ii) the amount and location of the space within the Demised Premises proposed to be subleased, (iii) the proposed effective date and duration of the assignment or subletting and (iv) the proposed rent or consideration to be paid to Tenant by such assignee or sublessee. Tenant shall promptly supply Landlord with financial statements and other information as Landlord may reasonably request to evaluate the proposed assignment or sublease. Landlord shall have a period of thirty (30) days following receipt of such notice and other information requested by Landlord within which to notify Tenant in writing that Landlord elects: (i) to terminate this Lease as to the space so affected as of the proposed effective date set forth in Tenant's notice, in which event Tenant shall be relieved of all further obligations hereunder as to such space, except for obligations under Sections 11 and 28 and all other provisions of this Lease which expressly survive the termination hereof; or (ii) to permit Tenant to assign or sublet such space; provided, however, that, if the rent rate agreed upon between Tenant and its proposed subtenant is greater than the rent rate that Tenant must pay Landlord hereunder for that portion of the Demised Premises, or if any consideration shall be promised to or received by Tenant in consideration of such proposed assignment or sublease (in addition to rent), then one half (1/2) of such excess rent and other consideration (after payment of brokerage commissions, attorneys' fees and other disbursements reasonably incurred by Tenant for such assignment and subletting if acceptable evidence of such disbursements is delivered to Landlord) shall be considered Additional Rent owed by Tenant to Landlord, and shall be paid by Tenant to Landlord, in the case of excess rent, in the same manner that Tenant pays Base Rent and, in the case of any other consideration, within ten (10) business days after receipt thereof by Tenant; or (iii) to refuse, in Landlord's reasonable discretion (taking into account all relevant factors including, without limitation, the factors set forth in the Section 29(a) above), to consent to Tenant's assignment or subleasing of such space and to continue this Lease in full force and effect as to the entire Demised Premises. If Landlord should fail to notify Tenant in writing of such election within the aforesaid thirty (30) day period, Landlord shall be deemed to have elected option (iii) above. Tenant agrees to reimburse Landlord for reasonable legal fees and any other reasonable costs incurred by Landlord in connection with any requested assignment or subletting, and such payments shall not be deducted from the Additional Rent owed to Landlord pursuant to subsection (ii) above. Tenant shall deliver to Landlord copies of all documents executed in connection with any permitted assignment or subletting, which documents shall be in form and substance reasonably satisfactory to Landlord and which shall require such assignee to assume performance of all terms of this Lease on Tenant's part to be performed.

(d) No acceptance by Landlord of any rent or any other sum of money from any assignee, sublessee or other category of transferee shall be deemed to constitute Landlord's consent to any assignment, sublease, or transfer. Permitted subtenants or assignees shall become liable directly to Landlord for all obligations of Tenant hereunder, without, however, relieving Tenant of any of its liability hereunder. No such assignment, subletting, occupancy or

collection shall be deemed the acceptance of the assignee, tenant or occupant, as Tenant, or a release of Tenant from the further performance by Tenant of Tenant's obligations under this Lease. Any assignment or sublease consented to by Landlord shall not relieve Tenant (or its assignee) from obtaining Landlord's consent to any subsequent assignment or sublease.

30. Termination or Expiration.

(a) No termination of this Lease prior to the normal ending thereof, by lapse of time or otherwise, shall affect Landlord's right to collect rent for the period prior to termination thereof. Notwithstanding anything to the contrary contained herein, if this Lease is rejected in any bankruptcy action or proceeding filed by or against Tenant, and the effective date of rejection is on or after the date upon

which that month's Rent is due and owing, then the Rent owing under this Lease for the month during which the effective date of such rejection occurs shall be due and payable in full and shall not be prorated.

(b) At the expiration or earlier termination of the Term of this Lease, Tenant shall surrender the Demised Premises and all improvements, alterations and additions thereto, and keys therefor to Landlord, clean and neat, and in the same condition as at the Lease Commencement Date, excepting normal wear and tear, condemnation and casualty other than that required to be insured against by Tenant hereunder.

(c) If Tenant remains in possession of the Demised Premises after expiration of the Term, with or without Landlord's acquiescence and without any express agreement of the parties, Tenant shall be a tenant-at-sufferance at the greater of (i) one hundred fifty percent (150%) of the then current fair market base rental value of the Demised Premises or (ii) one hundred fifty percent (150%) of the Base Rent in effect at the end of the Term. Tenant shall also continue to pay all other Additional Rent due hereunder. Notwithstanding the foregoing, there shall be no renewal of this Lease by operation of law or otherwise, and, in addition to and without limiting such rights and remedies as may be available to Landlord at law or in equity as a result of Tenant's holding over beyond the Term, Landlord shall be entitled to exercise any and all rights and remedies available to Landlord in respect of an Event of Default hereunder (it being agreed that any such holdover shall be deemed an immediate Event of Default hereunder). In addition to the foregoing, Tenant shall be liable for all damages, direct and consequential, incurred by Landlord as a result of such holdover. No receipt of money by Landlord from Tenant after the termination of this Lease or Tenant's right of possession of the Demised Premises shall reinstate, continue or extend the Term or Tenant's right of possession. The provisions of this subsection 30(c) shall survive the expiration of the Term.

31. Reserved.

32. Late Payments. In the event any installment of rent, inclusive of Base Rent, or Additional Rent or other sums due hereunder, if any, is not paid within five (5) days after the due date therefor, Tenant shall pay an administrative fee (the "Administrative Fee") equal to five percent (5%) of such past due amount, plus interest on the amount past due at the lesser of (i) the maximum interest rate allowed by law or (ii) a rate of fifteen percent (15%) per annum (the "Interest Rate"), in order to defray the additional expenses incurred by Landlord as a result of such late payment. The Administrative Fee is in addition to, and not in lieu of, any of the Landlord's remedies hereunder.

33. Rules and Regulations. Tenant agrees to abide by the rules and regulations set forth on Exhibit D attached hereto, as well as other reasonable rules and regulations reasonably promulgated by Landlord from time to time, so long as such rules and regulations are uniformly enforced against all tenants of Landlord in the Building and not intended to modify or amend the basic Lease terms, or that would materially and adversely impact Tenant's cost or ability to operate.

34. Quiet Enjoyment. So long as Tenant pays its rent and performs its obligations hereunder, Landlord agrees that Tenant shall have the right to quietly use and enjoy the Demised Premises for the Term free from the disturbance by Landlord or any party by, through or under Landlord.

35. Miscellaneous.

(a) The parties hereto hereby covenant and agree that Landlord shall receive the Base Rent, Additional Rent and all other sums payable by Tenant hereinabove provided as net income from the Demised Premises, without any abatement (except as set forth in Section 20 and Section 21), reduction, set-off, counterclaim, defense or deduction whatsoever.

(b) If any clause or provision of this Lease is determined to be illegal, invalid or unenforceable under present or future laws effective during the Term, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and that in lieu of such illegal, invalid or unenforceable clause or provision there shall be substituted a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

(c) All rights, powers, and privileges conferred hereunder upon the parties hereto shall be cumulative, but not restrictive to those given by law.

(d) Time is of the essence of this Lease.

(e) No failure of Landlord or Tenant to exercise any power given Landlord or Tenant hereunder or to insist upon strict compliance by Landlord or Tenant with its obligations hereunder, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Landlord's or Tenant's rights to demand exact compliance with the terms hereof.

(f) This Lease contains the entire agreement of the parties hereto as to the subject matter of this Lease and no prior representations, inducements, letters of intent, promises or agreements, oral or otherwise, between the parties not embodied herein shall be of any force and effect. Any future

amendment to this Lease must be in writing and signed by the parties hereto. The masculine (or neuter) pronoun, singular number shall include the masculine, feminine and neuter gender and the singular and plural number.

(g) This contract shall create the relationship of landlord and tenant between Landlord and Tenant; no estate shall pass out of Landlord; Tenant has a usufruct, not subject to levy and sale, and not assignable by Tenant except as expressly set forth herein.

(h) Under no circumstances shall Tenant have the right to record this Lease or a memorandum thereof.

(i) The captions of this Lease are for convenience only and are not a part of this Lease, and do not in any way define, limit, describe or amplify the terms or provisions of this Lease or the scope or intent thereof.

(j) This Lease may be executed in multiple counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same agreement.

(k) This Lease shall be interpreted under the laws of the State where the Demised Premises are located.

(l) The parties acknowledge that this Lease is the result of negotiations between the parties, and in construing any ambiguity hereunder no presumption shall be made in favor of either party. No inference shall be made from any item which has been stricken from this Lease other than the deletion of such item.

36. Special Stipulations. The Special Stipulations, if any, attached hereto as Exhibit C, are incorporated herein and made a part hereof, and to the extent of any conflict between the foregoing provisions and the Special Stipulations, the Special Stipulations shall govern and control.

37. Effective Lease Date. For purposes of this Lease, the term "Effective Lease Date" shall mean the later date upon which this Lease is signed by Landlord and Tenant.

38. Authority. If Tenant is not a natural person, Tenant shall cause its corporate secretary or general partner, as applicable, to execute the certificate attached hereto as Exhibit E. Tenant is authorized by all required corporate or partnership action to enter into this Lease and the individual(s) signing this Lease on behalf of Tenant are each authorized to bind Tenant to its terms.

39. No Offer Until Executed. The submission of this Lease by Landlord to Tenant for examination or consideration does not constitute an offer by Landlord to lease the Demised Premises and this Lease shall become effective, if at all, only upon the execution and delivery thereof by Landlord and Tenant. Execution and delivery of this Lease by Tenant to Landlord constitutes an offer to lease the Demised Premises on the terms contained herein. The offer by Tenant will be irrevocable until 6:00 p.m. Eastern time for fifteen (15) days after the date of execution of this Lease by Tenant and delivery to Landlord. This Lease may be executed and delivered by facsimile or electronic media and in multiple counterparts.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands under seals, the day and year first above written.

LANDLORD:

Date: _____

INDUSTRIAL DEVELOPMENTS INTERNATIONAL, a delaware corporation

By: _____
Name: _____
Title: _____

Attest: _____
Name: _____
Title: _____

[CORPORATE SEAL]

TENANT:

Date: _____

PRIORITY FULFILLMENT SERVICES, INC., a
delaware corporation

By: _____

Name: _____

Title: _____

Attest: _____

Name: _____

Title: _____

[CORPORATE SEAL]

ATTESTATION

Landlord - Corporation:

STATE OF _____

COUNTY OF _____

BEFORE ME, a Notary Public in and for said County, personally appeared _____ and _____, known to me to be the person(s) who, as _____ and _____, respectively, of Industrial Developments International, Inc., the corporation which executed the foregoing instrument in its capacity as Landlord, signed the same, and acknowledged to me that they did so sign said instrument in the name and upon behalf of said corporation as officers of said corporation, that the same is their free act and deed as such officers, respectively, and they were duly authorized thereunto by its board of directors; and that the seal affixed to said instrument is the corporate seal of said corporation.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name, and affixed my official seal, this day of _____, 20__.

Notary Public
My Commission Expires:

Tenant - Corporation:

STATE OF _____

COUNTY OF _____

BEFORE ME, a Notary Public in and for said County, personally appeared _____ and _____, known to me to be the person(s) who, as _____ and _____, respectively, of Priority Fulfillment Services, Inc., the corporation which executed the foregoing instrument in its capacity as Tenant, signed the same, and acknowledged to me that they did so sign said instrument in the name and upon behalf of said corporation as officers of said corporation, that the same is their free act and deed as such officers, respectively, and they were duly authorized thereunto by its board of directors; and that the seal affixed to said instrument is the corporate seal of said corporation.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name, and affixed my official seal, this day of _____, 20__.

Notary Public
My Commission Expires:

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38 Authority

39 No Offer Until Executed

Exhibit "A" Demised Premises
Exhibit "A-1" Parking
Exhibit "A-2" Access
Exhibit "A-3" Adjacent Space
Exhibit "B" Preliminary Plans and Specifications/Work
Exhibit "C" Special Stipulations
Exhibit "D" Rules and Regulations
Exhibit "E" Certificate of Authority
Exhibit "F" SNDA
Exhibit "G" Guaranty

GUARANTY

THIS GUARANTY (this "Guaranty"), made and entered into this ___ day of August, 2004, by PFSWeb, Inc., a Delaware corporation (hereinafter referred to as "Guarantor") in favor of Industrial Developments International, Inc., a Delaware corporation (hereinafter called "Landlord") and any subsequent owner or holder of the Lease (as hereinafter defined).

R E C I T A L S :

Landlord has entered into an Industrial Lease Agreement ("Lease") with Priority Fulfillment Services, Inc., a Delaware corporation ("Tenant"), in which Guarantor has a direct or indirect financial interest or affiliation, which Lease was executed by Tenant on August __, 2004, and provides for the leasing to Tenant of approximately 434,900 square feet of space located in Building E, Airways Distribution Center, DeSoto County, Mississippi; and

Landlord will not enter into the Lease unless Guarantor guarantees the obligations of Tenant under the Lease as set forth herein; and

Guarantor derives benefits from the Lease to Tenant.

NOW THEREFORE, as a material inducement to Landlord to enter into the Lease with Tenant, and for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged and confessed, Guarantor does hereby, irrevocably and unconditionally, warrant and represent unto and covenant and agree with Landlord as follows:

1. Guaranty - Guarantor hereby unconditionally guarantees the full, faithful and punctual payment of all rent, additional rent and other amounts due to Landlord under the Lease by Tenant and the full, faithful and punctual performance by Tenant of all the terms, provisions and conditions of the Lease, together with interest or late charges on all of the foregoing as provided in the Lease and all other costs and expenses of collection (all of the foregoing sometimes hereinafter referred to as the "Obligations").

2. No Discharge - This Guaranty by Guarantor shall continue for the benefit of Landlord notwithstanding (a) any extension, modification, amendment or alteration of the Lease entered into by Tenant, (b) any assignment of the Lease, with or without the consent of Landlord, (c) any bankruptcy, reorganization, or insolvency of Tenant or any successor or assignee thereof, or (d) any release, extension or modification of the liability of Tenant or any other party liable under the Lease or any other guaranty of the Lease. This Guaranty shall in all respects be a continuing, absolute and unconditional guaranty of payment and performance and shall remain in full force and effect notwithstanding, without limitation, the death or incompetency of Guarantor or Tenant, or any proceeding, voluntary or involuntary, involving the bankruptcy, insolvency, receivership, reorganization, liquidation or arrangement of Guarantor or Tenant or by any defense which Tenant may have by reason of the order, decree or decision of any court or administrative body resulting from any such proceeding.

3. Primarily Liable - This Guaranty is a guaranty of payment and not of collection. The liability of Guarantor under this Guaranty shall be joint and several and primary and direct and in addition to any right of action which shall accrue to Landlord under the Lease. Landlord shall have the right, at its option, to proceed against Guarantor (or any one or more parties constituting Guarantor) without having commenced any action, or having obtained any judgment, against Tenant or any other party liable under the Lease or any other guaranty of the Lease.

4. Default - In the event of a default by Tenant under the Lease, Landlord shall have the right to enforce its rights, powers and remedies under the Lease, any other guaranty of the Lease, and under this Guaranty and all rights, powers and remedies available to Landlord shall be non-exclusive and cumulative of all other rights, powers and remedies under the Lease, any other guaranty of the Lease or under this Guaranty or by law or in equity. The obligations of Guarantor hereunder are independent of the obligations of Tenant or any other guarantor, and Landlord may proceed directly to enforce all rights under this Guaranty without proceeding against or joining Tenant, any other guarantor or any other person or entity. Until all of the

Obligations have been performed and paid in full, Guarantor shall have no right of subrogation to Landlord, and Guarantor hereby waives any rights to enforce any remedy which Landlord may have against Tenant.

5. Waivers - Guarantor expressly waives and agrees not to assert or take advantage of: (a) the defense of the statute of limitations in any action hereunder or in any action for collection of the Obligations, (b) any defense that may arise by reason of the failure of the Landlord to file or enforce a claim against Guarantor or Tenant in bankruptcy or in any other proceeding, (c) any defense based on the failure of Landlord to give notice to Guarantor of the creation, existence or incurring of any new obligations or on the action or non-action of any person or entity in connection with the Obligations, (d) any duty on the part of Landlord to disclose to Guarantor any facts it may know or may hereafter acquire regarding Tenant, (e) any defense based on lack of diligence on the part of Landlord in the collection of any and all of the Obligations, or (f) any demand for payment, presentment, notice of protest or dishonor, notice of acceptance of this Guaranty and any and all other notices or demands to which Guarantor might otherwise be entitled by law.

6. Subordination; Waiver of Subrogation; Preference and Fraudulent Transfer Indemnity. After a default under the Lease, any indebtedness (including, without limitation, interest obligations but excluding trade receivables and trade payables accruing in the ordinary course of business for fair value) of Tenant to Guarantor now or hereafter existing shall be deferred, postponed and subordinated to the Obligations. Subject to the limitation on survival hereinafter set forth, Guarantor hereby unconditionally and irrevocably agrees that (a) Guarantor will not at any time assert against Tenant (or Tenant's estate in the event Tenant becomes bankrupt or becomes the subject of any case or proceeding under the bankruptcy laws of the United States of America) any right or claim to indemnification, reimbursement, contribution or payment for or with respect to any and all amounts Guarantor may pay or be obligated to pay Landlord, including, without limitation, any and all Obligations which Guarantor may perform, satisfy or discharge, under or with respect to this Guaranty; (b) Guarantor waives and releases all such rights and claims and any other rights and claims to indemnification, reimbursement, contribution or payment which Guarantor, or any of them, may have now or at any time against Tenant (or Tenant's estate in the event Tenant becomes bankrupt or becomes the subject of any case or proceeding under any bankruptcy laws); (c) Guarantor shall have no right of subrogation, and Guarantor waives any right to enforce any remedy which Landlord now has or may hereafter have against Tenant; (d) Guarantor waives any benefit of, and any right to participate in, any security now or hereafter held by Landlord; and (e) Guarantor waives any defense based upon an election of remedies by Landlord which destroys or otherwise impairs any subrogation rights of Guarantor or the right of Guarantor to proceed against Tenant for reimbursement. The waivers hereunder shall continue and survive only until the ninety first (91st) day after the Obligations are satisfied in full, provided Tenant has not filed a petition or had a petition filed against it under any present or future section or chapter of the United States Bankruptcy Code during the ninety (90) day period following the date on which the Obligations are so satisfied in full (in which event the same shall survive without limitation). Guarantor further hereby unconditionally and irrevocably agrees and guarantees (on a joint and several basis) to make full and prompt payment to Landlord of any of the Obligations or other sums paid to Landlord pursuant to the Lease which Landlord is subsequently ordered or required to pay or disgorge on the grounds that such payments constituted an avoidable preference or a fraudulent transfer under applicable bankruptcy, insolvency or fraudulent transfer laws; and Guarantor shall fully and promptly indemnify Landlord for all costs (including, without limitation, attorney's fees) incurred by Landlord in defense of such claims of avoidable preference or fraudulent transfer.

7. Choice of Law - This Guaranty is to be performed in the State of Mississippi and shall be governed by and construed in accordance with the laws of the State of Mississippi, without regard to its conflicts laws or choice of law rules.

8. Time of Essence - Time is of the essence of this Guaranty.

9. Notices - Wherever any notice or other communication is required or permitted hereunder, such notice or other communication shall be in writing and shall be delivered by hand, or by nationally-recognized overnight express delivery service, by U. S. registered or certified mail, return receipt requested, postage prepaid to the

addresses set out below or at such other addresses as are specified by written notice delivered in accordance herewith:

Landlord: Industrial Developments International, Inc.
c/o IDI, Inc.
3424 Peachtree Road, N.E., Suite 1500
Atlanta, Georgia 30326
Attn: Manager - Lease Administration

Guarantor: PFSWeb, Inc.
500 North Central Expressway
Plano, Texas 74074
Attn: Chief Financial Officer

with a copy to: PFSWeb, Inc.
500 North Central Expressway
Plano, Texas 74074
Attn: General Manager

Any notice or other communication mailed as hereinabove provided shall be deemed effectively given (a) on the date of delivery, if delivered by hand; or (b) on the date mailed if sent by overnight express delivery or if sent by U.S. mail. Such notices shall be deemed received (a) on the date of delivery, if delivered by hand or overnight express delivery service; or (b) on the date indicated on the return receipt if mailed. If any notice mailed is properly addressed but returned for any reason, such notice shall be deemed to be effective notice and to be given on the date of mailing.

10. Authority - If Guarantor is not a natural person, Guarantor shall cause its corporate secretary or general partner, as applicable, to execute the certificate attached hereto as Exhibit A. Guarantor is authorized by all required corporate or partnership action to enter into this Guaranty and the individual(s) signing this Guaranty on behalf of Guarantor are each authorized to bind Guarantor to its terms.

11. Successors and Assigns - This Guaranty shall be binding upon and inure to the benefit of the parties hereto and their heirs, legal representatives, successors and assigns.

IN WITNESS WHEREOF, Guarantor has executed under seal and delivered this Guaranty to Landlord on the date and year above first written.

GUARANTOR:

PFSWEB, INC., a Delaware corporation

By: _____

Name: _____

Title: _____

Attest: _____

Name: _____

Title: _____

[CORPORATE SEAL]

EXHIBIT A

CERTIFICATE OF AUTHORITY
CORPORATION

The undersigned, Secretary of PFSWeb, Inc., a Delaware corporation ("Guarantor"), hereby certifies as follows to Industrial Developments International, Inc., a Delaware corporation ("Landlord"), in connection with the execution of a Guaranty by Guarantor (the "Guaranty") of that certain Industrial Lease Agreement dated August __, 2004 between Landlord and Priority Fulfillment Services, Inc. ("Tenant") (the "Lease") relating to the lease of approximately 434,900 square feet within Building E, at Airways Distribution Center, DeSoto County, Mississippi (the "Premises"):

1. Guarantor is duly organized, validly existing and in good standing under the laws of the State of Delaware, and duly qualified to do business in the State of Mississippi.

2. That the following named persons, acting individually, are each authorized and empowered to negotiate and execute, on behalf of Guarantor, a Guaranty of the Lease and that the signature opposite the name of each individual is an authentic signature:

_____	_____	_____
(name)	(title)	(signature)
_____	_____	_____
(name)	(title)	(signature)
_____	_____	_____
(name)	(title)	(signature)

3. That the foregoing authority was conferred upon the person(s) named above by the Board of Directors of Guarantor, at a duly convened meeting held _____, 20__.

Secretary

[CORPORATE SEAL]

LEASE
(S/N 143)

DATED AS OF AUGUST 25, 2004

BETWEEN

FLEET NATIONAL BANK
AS LESSOR

AND

PRIORITY FULFILLMENT SERVICES, INC.
AS LESSEE

THIS IS COUNTERPART NO. ___ OF A TOTAL OF 3 COUNTERPARTS. ONLY COUNTERPART NO. 1
SHALL BE CONSIDERED CHATTEL PAPER FOR PURPOSES OF THE UNIFORM COMMERCIAL CODE
AND A SECURITY INTEREST MAY BE PERFECTED ONLY BY POSSESSION OF COUNTERPART NO.
1.

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This LEASE (S/N 143) (together with all Supplements, Exhibits, Riders and Addenda hereto, the "Lease") is made and entered into as of AUGUST 25, 2004, by and between FLEET NATIONAL BANK ("Lessor"), a Rhode Island corporation having an office at One Financial Plaza, Providence, RI 02903, and PRIORITY FULFILLMENT SERVICES, INC. ("Lessee"), a Delaware corporation having an office at 500 North Central Expressway, 5th Floor, Plano, Texas 75074. Certain capitalized terms as used in this Lease are defined in Exhibit A hereto, and such definitions are incorporated herein and made a part hereof as though set forth in full herein.

SECTION 1. LEASE. Subject to the terms and conditions provided in this Lease, Lessor agrees to lease the Aircraft to Lessee, and Lessee agrees to lease the Aircraft from Lessor. Lessor hereby appoints Lessee as Lessor's agent for the sole and limited purpose of accepting delivery of the Aircraft from the Supplier. The execution by Lessee of the Lease Supplement will evidence that the Aircraft is leased under, and is subject to all of the terms, provisions and conditions of, this Lease and shall constitute Lessee's unconditional and irrevocable acceptance of the Aircraft for all purposes of this Lease.

SECTION 2. CLOSING CONDITIONS. Lessor's obligations to purchase the Aircraft from the Supplier and to lease the Aircraft to Lessee shall be conditioned upon the satisfaction of all of the following conditions: (a) Lessor receives the Required Documents and Purchase Documents, in form and substance satisfactory to Lessor, at least one (1) Business Day prior to the anticipated closing date; (b) all representations and warranties in this Lease, including the Lease Supplement, are materially true and correct; (c) Lessee accepts the Aircraft from Supplier on Lessor's behalf, under the Purchase Documents and under this Lease, on the Acceptance Date (which date shall be no later than the Last Acceptance Date); and (d) (i) FAA Counsel confirms to Lessor that (A) it has received in escrow all of the FAA Documents, and (B) upon filing the FAA Documents, (1) title to the Airframe and the Engines will be vested in Lessor, and (2) the Aircraft (including the Airframe and Engines) will be free and clear of all Liens, other than this Lease, and (ii) Lessee authorizes (A) the release from escrow of all Required Documents and FAA Documents held by Lessor or its FAA Counsel or other counsel, and (B) Lessor or FAA Counsel to file the FAA Documents and any other filings at the FAA and any other applicable filing offices; provided, such authorization shall be deemed to have been automatically made by Lessee (whether or not so confirmed) immediately upon the receipt by Lessee, Supplier or any other Person (as directed in any pay proceeds letter executed by Lessee in connection with this Lease) of the funds constituting the Lessor's Cost. Lessee acknowledges and agrees that (i) any advance of funds by Lessor prior to the satisfaction of all of the preceding conditions shall not constitute a waiver by Lessor of any such condition, and (ii) Lessee shall be irrevocably obligated to satisfy all of such conditions prior to the FAA filing deadline on the day on which such funds are received.

SECTION 3. TERM AND RENT.

(a) Term. The lease of the Aircraft to Lessee shall commence on the Acceptance Date and end on the Expiration Date, unless extended or earlier terminated or cancelled pursuant to this Lease.

(b) Rent. Lessee shall pay to Lessor the following daily and periodic rent amounts ("Basic Rent") (i) on the Acceptance Date, an amount equal to the product of the Daily Rent Percentage times the Lessor's Cost, for each day starting with the Acceptance Date, to but excluding the Rent Commencement Date ("Daily Rent"), and (ii) on the First Basic Rent Date and on each Basic Rent Date following that date, an amount equal to the product of the Lessor's Cost multiplied by the applicable Basic Rent Percentage set forth on Schedule No. 2A for the Basic Rent number corresponding to any such Basic Rent Date. Lessee shall also pay the following amounts as "Supplemental Rent" (together with all Basic Rent, the "Rent"): (i) as and when due, any other amount that Lessee is obligated to pay under this Lease to Lessor or others (including, Casualty Value and/or any amounts due pursuant to any Addendum), (ii) interest accruing at the Late Payment Rate on any Rent not paid when due, until paid, and (iii) the Administrative Charge with respect to any Rent not paid when due (as compensation to Lessor for the expenses attributable to Lessee's failure to pay, and not as a penalty). Lessee's obligation to pay Supplemental Rent shall survive the expiration, cancellation or other termination of this Lease. All payments of Rent shall be made to Lessor, in United States Dollars ("U.S. Dollars"), in immediately available funds on the date payable hereunder at the address designated by Lessor for payment, or by wire transfer to an account

specified by Lessor, or at such other address or to such other Person as Lessor may direct by notice in writing to Lessee.

SECTION 4. TITLE; QUIET ENJOYMENT. Lessee acknowledges and agrees that upon Lessor's acquiring the Aircraft on the Acceptance Date, Lessor is and shall remain the owner of the Aircraft (unless Lessor sells the Aircraft pursuant to an applicable provision of this Lease), and Lessee shall not acquire any right, title or interest in or to the Aircraft except the right to use the Aircraft pursuant to the terms of this Lease. Lessor warrants that during the Term, so long as no Event of Default has occurred, Lessee's possession and use of the Aircraft shall not be interfered with by Lessor or anyone rightfully claiming an interest through Lessor. The preceding warranty is in lieu of all other warranties by Lessor, whether written, oral or implied, with respect to this Lease or the Aircraft, and without limiting the provisions of Section 7, any actual or purported breach of this warranty shall not give rise to any Abatement, and Lessor shall not be deemed to have modified in any respect the obligations of Lessee pursuant to Section 7, which obligations are and shall remain absolute, irrevocable and unconditional under all events and circumstances whatsoever.

SECTION 5. DISCLAIMER AND ASSIGNMENT OF WARRANTIES. LESSOR SHALL NOT BE DEEMED TO HAVE MADE, AND HEREBY DISCLAIMS, ANY REPRESENTATION OR WARRANTY, EITHER EXPRESS OR IMPLIED, AS TO THE AIRCRAFT, INCLUDING ANY ENGINE, PART OR RECORD, OR ANY MATTER WHATSOEVER, INCLUDING, THE AIRCRAFT'S DESIGN, CONDITION, MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE, TITLE, ABSENCE OF ANY PATENT, TRADEMARK OR COPYRIGHT INFRINGEMENT OR LATENT DEFECT (WHETHER OR NOT DISCOVERABLE BY LESSEE), COMPLIANCE OF THE AIRCRAFT WITH ANY APPLICABLE LAW, CONFORMITY OF THE AIRCRAFT TO THE PROVISIONS AND SPECIFICATIONS OF ANY PURCHASE DOCUMENT OR TO THE DESCRIPTION SET FORTH IN THIS LEASE, OR ANY INTERFERENCE OR INFRINGEMENT (EXCEPT AS EXPRESSLY PROVIDED IN SECTION 4), OR ARISING FROM ANY DEFECTS OR FROM ANY COURSE OF DEALING, COURSE OF PERFORMANCE, OR USAGE OF TRADE, NOR SHALL LESSOR BE LIABLE, FOR ANY INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES OR FOR STRICT OR ABSOLUTE LIABILITY IN TORT; AND LESSEE HEREBY WAIVES ANY CLAIMS ARISING OUT OF ANY OF THE FOREGOING. Without limiting the foregoing, Lessor will not be responsible to Lessee or any other Person with respect to, and Lessee agrees to bear sole responsibility for, any risk or other matter that is the subject of Lessor's disclaimer. So long as no Event of Default has occurred, Lessee may exercise Lessor's rights, if any, under any warranty of Manufacturer or Supplier with respect to the Aircraft. Lessee's exercise of such rights shall be at its sole cost and risk, shall not result in any prejudice to Lessor, and may be exercised only during the Term. Lessee shall not attempt to enforce any such warranty by legal proceeding without Lessor's prior written approval.

SECTION 6. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF LESSEE. Lessee represents, warrants and agrees as follows:

(a) Due Organization, Name, Organizational Number, Etc. Lessee has the form of business organization indicated and is and will remain duly organized and existing in good standing under the laws of the state specified in Schedule No. 2 and is duly qualified to do business wherever necessary to perform its obligations under this Lease, including the jurisdiction of the Primary Hangar Location. Lessee's exact legal name is as shown in the caption of this Lease; Lessee's organizational identification number and the address of Lessee's mail, chief executive offices and principal place of business are all as respectively set forth in Schedule No. 2. Lessee agrees that it shall not change its name, organizational number or any such address without prior written notice to Lessor. Within the previous four (4) years Lessee has not changed its name, done business under any other name, changed its chief place of business from its present location, or merged or been the surviving entity of any merger, except as disclosed to Lessor in writing.

(b) Due Authorization; No Violation. This Lease has been duly authorized by all necessary action on the part of Lessee consistent with its form of organization, does not require the approval of, or giving notice to, any governmental authority and does not contravene or constitute a default under any Applicable

Law, certificate or articles of incorporation or organization or by-laws or partnership certificate or agreement, or any agreement, indenture, or other instrument to which Lessee is a party or by which it may be bound.

(c) Enforceability. This Lease has been duly executed and delivered by authorized representatives of Lessee and constitutes a legal, valid and binding obligation of Lessee enforceable in accordance with its terms except to the extent that the enforcement of remedies may be limited under applicable bankruptcy and insolvency laws, and the equitable discretion of any court of competent jurisdiction.

(d) Litigation; Claims There are no proceedings pending or, so far as the officers, managers, or members of Lessee know, threatened against or affecting Lessee or any of its property before any court, administrative officer or administrative agency that could impair Lessor's title to the Aircraft, or that, if decided adversely, could affect the financial condition or operations of Lessee or the ability of Lessee to perform its obligations under this Lease. Lessee has no pending claims and has no knowledge of any facts upon which a future claim may be based, against any prior owner, the Manufacturer or Supplier of the Aircraft, or of any Engine or part thereof for breach of warranty or otherwise.

(e) Good Title. Lessor will be the owner of the Aircraft as of the Acceptance Date and will have good and marketable title to the Aircraft, free and clear of all Liens other than any Liens created in favor of Lessor under this Lease.

(f) No Competing Lienholders. No Lien exists, or will hereafter attach, against the Aircraft, the Rent or any other rights under this Lease, or any Collateral, or any interest of Lessee or Lessor therein (other than any Lessor's Liens), pursuant to any mortgage, conditional sale or security agreement or other agreement to which Lessee or any Person claiming through Lessee is a party, nor will any of the transactions contemplated under this Lease constitute a breach of any provision of any such agreement.

(g) MSP Contract. Commencing on the Acceptance Date and continuing throughout the Term, the MSP Contract shall be maintained in full force and effect and Lessee will provide Lessor with evidence satisfactory to Lessor of the acknowledgment of Honeywell, Inc. of the Lessor's rights and interests under such MSP Contract.

(h) Wholly-owned Corporation. Lessee shall at all times during the Term of this Lease be a wholly-owned and controlled corporation of the Guarantor; provided, however, that any such ownership and/or control shall be in compliance with all Applicable Law and any and all FARs.

(i) Due Organization and Authorization, Etc. Guarantor has the form of business organization indicated and is and will remain duly organized and existing in good standing under the laws of the state as specified in the Guaranty and is duly qualified to perform its obligations under the Guaranty. The Guaranty has been duly authorized by all necessary action on the part of Guarantor consistent with its form of organization, does not require the approval of, or giving notice to, any governmental authority and does not contravene or constitute a default under any Applicable Law, certificate or articles of incorporation or organization or by-laws or partnership certificate or agreement, or any agreement, indenture, or other instrument to which Guarantor is a party or by which it may be bound.

(j) Binding Obligation. The Guaranty does not contravene or constitute a default under any Applicable Law, or any contract, mortgage, agreement, indenture, or other instrument to which Guarantor is a party or by which it may be bound.

(k) Enforceability. The Guaranty has been duly executed and delivered by Guarantor and constitutes a legal, valid and binding obligation of Guarantor enforceable in accordance with its terms except to the extent that the enforcement of remedies may be limited under applicable bankruptcy and insolvency laws, and the equitable discretion of any court of competent jurisdiction.

(l) Litigation. There are no proceedings pending or, so far as the officers, managers, or members of Guarantor know, threatened against or affecting Guarantor or any of its property before any court, administrative officer or administrative agency that, if decided adversely, could materially affect the

financial condition or operations of Guarantor or the ability of Guarantor to perform its obligations under the Guaranty.

(m) Not a Consumer Transaction. The transaction contemplated in this Lease is not a "consumer transaction" as defined in the UCC and the Aircraft and any Collateral was not or will not be purchased or held primarily for personal, family, or household purposes.

(n) Guarantor Obligations. Lessee shall cause the Guarantor to fully and timely comply with all the terms and provisions of the Guaranty, including, without limitation, any financial reporting requirements or obligations, and/or any financial covenants, requirements or obligations, set forth in such Guaranty.

SECTION 7. NET LEASE. This Lease is a net lease, and Lessee acknowledges and agrees that (a) Lessee's obligation to pay, and Lessor's right to receive, all Rent in accordance with this Lease shall be absolute, irrevocable, independent and unconditional and shall not be subject to (and Lessee hereby waives and agrees not to assert) any abatement, reduction, setoff, defense, counterclaim or recoupment (collectively, "Abatements") for any reason or under any circumstance whatsoever as to any such Rent, and without limiting the foregoing, Lessee also hereby waives any and all existing and future claims to any Abatement against or as to such Rent, (b) it will pay all such Rent regardless of any Abatement, and (c) this Lease, and Lessee's payment and other obligations hereunder, are non-cancelable and non-terminable by Lessee (except as expressly provided in any Addendum).

SECTION 8. TAXES. Lessee agrees to: (a) (i) if permitted by law, file in Lessee's own name or on Lessor's behalf, directly with all appropriate taxing authorities all registrations, declarations, returns, inventories and other documentation with respect to any personal property taxes (or any other taxes in the nature of or imposed in lieu of property taxes) due or to become due with respect to the Aircraft, and if not so permitted by law, to promptly notify Lessor and provide it with all information required in order for Lessor to timely file all such declarations, returns, inventories, or other documentation, and (ii) pay on or before the date when due all such taxes assessed, billed or otherwise payable with respect to the Aircraft directly to the appropriate taxing authorities, (b) (i) pay when due as requested by Lessor, and (ii) defend and indemnify Lessor on a net after-tax basis against liability for all license and/or registration fees, assessments, and sales, use, property, excise, privilege, value added and other taxes (including any related interest or penalties) or other charges or fees now or hereafter imposed by any governmental body or agency upon the Aircraft or with respect to landing, airport use, manufacturing, ordering, shipment, purchase, ownership, delivery, installation, leasing (pursuant to this Lease, any sublease, or otherwise), chartering, operation, possession, use, return, or other disposition thereof or the Rent or other rentals hereunder (other than taxes on or measured solely by the net income of Lessor), and (c) defend and indemnify Lessor against any penalties, charges, interest or costs imposed with respect to any items referred to in (a) and (b) above (the items referred to in (a), (b), and (c) above being referred to herein as "Impositions"). Any Impositions which are not paid when due and which are paid by Lessor shall, at Lessor's option, become immediately due from Lessee to Lessor. Notwithstanding the foregoing, Lessee shall pay, indemnify Lessor for, and hold Lessor harmless on a net after-tax basis from and against, any Imposition on or measured by the net income of Lessor imposed against Lessor by any local or foreign government or other local or foreign taxing authority if and to the extent that Lessor would not have incurred such Imposition but for the operation or presence of the Aircraft within the jurisdiction imposing it. Lessee's obligations under this Section 8 shall survive any expiration, cancellation or other termination of this Lease.

SECTION 9. COMPLIANCE, USE AND MAINTENANCE.

(a) Compliance and Use. On the Acceptance Date, and at all times thereafter until the Aircraft is returned to Lessor pursuant to this Lease, Lessee shall cause the Aircraft to be and remain duly registered in only the Lessor's name at the FAA, in accordance with the Transportation Code. Lessee agrees to comply with all Applicable Law related to this Lease and/or the Aircraft, including its operation, maintenance and security. Lessee will operate the Aircraft under and in compliance with Part 91 of the FARS, for purposes that are incidental to Lessee's business, and in a manner that is consistent with the transactions hereunder being deemed commercial (and not consumer) transactions under Applicable Law. This Lease is being made and the Aircraft will be used for business or commercial purposes, and not primarily for personal, family, or household purposes. Unless otherwise expressly permitted hereunder, Lessee shall not operate or permit the Aircraft to be operated for air taxi operations or otherwise under Part 135 of the FARS. The Aircraft shall be used solely in a passenger configuration for which Lessee is duly authorized by the FAA. Lessee will not operate or permit the Aircraft to be operated in any manner at any time or in any geographic area when or where insurance required by the provisions hereof shall not be in effect. Unless otherwise expressly permitted by Section 12 of this Lease, Lessee shall (i) retain operational control of the Aircraft at all times from the Acceptance Date until returning the Aircraft in accordance with this Lease; and (ii) base the Aircraft at the Primary Hangar Location set forth in Schedule No. 2. The Aircraft will, at all times be operated by duly qualified pilots having (a) the required FAA type rating for the Aircraft, (b) the required FAA pilot certificates and ratings, (c) a valid FAA Medical Certificate, (d) satisfied all security requirements imposed by any governmental authority having jurisdiction and (e) met any and all requirements established and specified by (i) the FAA, the Transportation Security Administration and any other applicable governmental authority and (ii) the insurance policies required under this Lease.

(b) Use Outside of U.S. The Aircraft shall not be operated, used or located outside the Continental U.S. except that it may be flown temporarily to any country in the world for any purpose expressly permitted under this Lease. Notwithstanding the foregoing, the Aircraft shall not be flown, operated, used or located in, to or over any such country or area (temporarily or otherwise), (i) which is excluded from the required insurance coverages, or would otherwise cause Lessee to be in breach of the insurance requirements or other provisions, of this Lease, (ii) with which the U.S. does not maintain favorable diplomatic relations, (iii) in any area of recognized or threatened hostilities, (iv) in violation of any Applicable Law, including any U.S. law or United Nations Security Council Directive, or (v) in a manner that causes it to be deemed to have been used or operated "predominantly" outside of the United States, as that phrase is used in Section 168(g)(1)(A) of the Code.

(c) Maintenance and Operation. During the Term, Lessee shall (i) maintain, inspect, service, repair, overhaul and test the Airframe and each Engine and any APU in accordance with all Maintenance Requirements, all Applicable Law, and (ii) maintain (in the English language) all Records in accordance with the Applicable Law and all Maintenance Requirements, and as required under this Lease. All maintenance procedures shall be performed in accordance with all Applicable Law and by properly trained, licensed, and certified maintenance sources and maintenance personnel utilizing replacement parts approved by the FAA and the Manufacturer, so as to keep the Airframe and each Engine, any APU and each Part in good operating condition, ordinary wear and tear, from proper use alone, excepted, and to enable the airworthiness certificate for the Aircraft to be continually maintained. Without limiting the foregoing, Lessee shall comply with all mandatory service bulletins and airworthiness directives by causing compliance to such bulletins and/or directives to be completed through corrective modification in lieu of operating manual restrictions.

(d) Loaner Engines. In the event any Engine is damaged, being inspected, repaired or overhauled and provided no Event of Default or Default has occurred and is continuing, Lessee, at its option, may temporarily substitute another engine of the same make and model as the Engine being repaired or overhauled (any such substitute engine being hereinafter referred to as a "Loaner Engine") during the period of such repair or overhaul, and provided further (i) installation of the Loaner Engine is performed by a maintenance facility certified by the FAA and manufacturer with respect to an aircraft of this type, (ii) the Loaner Engine is removed and the repaired or overhauled original Engine is reinstalled on the Airframe promptly upon completion of the repair or overhaul but in no event later than the earlier of ninety (90) days

after removal, or the expiration, cancellation or earlier termination of this Lease, and (iii) the Loaner Engine is free and clear of any Lien that might impair Lessor's rights or interests in the Aircraft and is maintained in accordance herewith.

(e) Additions, Alterations and Replacement Parts. Lessee may install on the Aircraft any additional accessory, device or equipment ("Additions") but only if such Additions (i) are ancillary to the Aircraft; (ii) are not required to render the Aircraft complete for its intended use by Lessee; (iii) will not impair the originally intended function or use of the Aircraft or diminish the value of the same; (iv) can be readily removed without causing material damage to the Aircraft; and (v) do not result in a Tax Loss. Title to each Addition not removed prior to the return of the Aircraft to Lessor shall immediately vest in Lessor upon such return without any payment by, or any cost or expense to, Lessor. Lessee shall make any alteration or modification ("Alterations") to the Aircraft that may at any time during the Term be required to comply with airworthiness directives or other Applicable Law. Lessee will promptly replace all Parts which become worn out, lost, stolen, taken, destroyed, damaged beyond repair or permanently rendered or declared unfit for use for any reason whatsoever. Lessee shall repair all damage to the Aircraft resulting from the installation and removal of Additions and/or Alterations so as to restore the Aircraft to its condition prior to installation. Alterations and/or replacement parts shall be deemed accessions, and title thereto shall be immediately vested in Lessor without cost or expense to Lessor. Except as permitted under this Section 9(e) or as expressly permitted in the Aircraft Purchase Agreement, Lessee will not modify the Aircraft (including any change in configuration) or affix or remove any accessory to the Aircraft leased hereunder.

(f) Aircraft Marking. Lessee agrees to (i) prominently display on the Aircraft the FAA Registration number, specified in Schedule No. 1 or such other "N" number as has been approved by and exclusively reserved to Lessor in its name and duly recorded with the FAA; and (ii) notify Lessor in writing thirty (30) days prior to making any change in the appearance or coloring of the Aircraft.

(g) Security. Without limiting Lessee's indemnities and other agreements under this Lease, Lessee hereby: (i) expressly assumes sole responsibility for the determination and implementation of all security measures and systems reasonably necessary or appropriate for the proper protection of the Aircraft (whether on the ground or in flight) against theft, vandalism, hijacking, destruction, bombing, terrorism or similar acts directly or indirectly affecting the Aircraft, any part thereof, or any persons who (whether or not on board the Aircraft) may sustain any injury or damage as a result of any such acts, and (ii) agrees to provide to Lessor promptly upon request with evidence of Lessee's compliance with its obligations under this Section 9(g) (but in no event shall Lessor, in its capacity as lessor, owner or otherwise, be deemed to have any duty with respect to any security measures imposed by this Lease or applicable law, whether or not complied with by Lessee, as the full and exclusive assumption of responsibility by Lessee of such responsibility is of the essence of this Lease, and a condition to Lessor's participation in the transactions contemplated herein).

SECTION 10. LOSS OR DAMAGE.

(a) Event of Loss with Respect to the Aircraft. Upon the occurrence of any Event of Loss with respect to the Airframe and/or Aircraft, Lessee shall notify Lessor within five (5) days of the date thereof. On (i) the second (2nd) Basic Rent Date immediately following the date of such notice, or (ii) if such Event of Loss occurs after the Last Basic Rent Date, within sixty (60) days after such notice (any such date described in subclause (i) or (ii) above the "Casualty Payment Date"), Lessee shall pay to Lessor any Rent then due, plus the Casualty Value of the Aircraft determined as of the Casualty Payment Date, (but if the Casualty Payment Date is after the last Basic Rent Date, the Casualty Value for such date shall be the amount equal to the Lessor's Cost multiplied by the applicable percentage set forth on Schedule No. 3 for the last Basic Rent Date or the corresponding Basic Rent number), together with interest at the Late Payment Rate for the period (if any) from the Casualty Payment Date through the date of payment. Upon making the applicable payment required hereby, Lessee's obligation to pay further Basic Rent for the Aircraft subsequent to such payment shall cease, but Lessee shall remain liable for, and pay as and when due, all Supplemental Rent. If recoverable, Lessor shall be entitled to recover possession of the Aircraft and to any salvage value in excess of the Casualty Value paid to Lessor, but subject to the requirements of any third party insurance carrier in order to settle an insurance claim. Lessor shall be entitled to receive and retain all amounts

payable by the Manufacturer with respect to a Return to Manufacturer or by any governmental authority with respect to any Requisition of Use, as the case may be, except that such amounts received in good collected funds shall be applied against Lessee's obligation to pay Casualty Value or, so long as no Event of Default has occurred, remitted to Lessee (up to the amount of the Casualty Value paid by Lessee to Lessor in good and indefeasible funds). Lessor shall be under no duty to Lessee to pursue any claim against any Person in connection with an Event of Loss.

(b) Event of Loss with Respect to an Engine or an APU. Upon an Event of Loss with respect to any Engine or any APU, but not the Airframe on which it was installed, Lessee shall (i) give Lessor prompt written notice thereof, (ii) by the earlier of the ninetieth (90th) day after the occurrence of such Event of Loss or the receipt of the applicable insurance proceeds, if any, duly convey to Lessor title to an engine or APU, as applicable, of the same make and model number as the Engine or any APU suffering the Event of Loss, and (iii) comply with the other provisions of this Section 10(b). Such engine or any APU, as applicable, shall be free and clear of all Liens, have a value, utility, and useful life at least equal to, and be in as good an operating condition as, the Engine or any APU suffering the Event of Loss, assuming such Engine or any APU was in the condition and repair required by the terms hereof immediately prior to the occurrence of such Event of Loss. Lessee shall furnish to Lessor such documents to evidence such conveyance as Lessor shall request. Upon full compliance by Lessee with the terms of this paragraph, Lessor will transfer to Lessee all of Lessor's right, title and interest, if any, in and to such Engine or any APU, which transfer shall be "AS-IS, WHERE-IS". Each such replacement engine or APU, as applicable, shall, after such conveyance to Lessor, be deemed an "Engine" or "APU", as applicable, as defined herein and shall be deemed part of the same Aircraft as was the Engine or any APU replaced thereby.

(c) Risk of Loss. Lessee shall bear the risk of loss, theft, confiscation, taking, unavailability, damage or partial destruction of the Aircraft and shall not be released from its obligations hereunder in the event of any damage or Event of Loss to the Aircraft or any part thereof. Without limiting any other provision hereof, Lessee shall repair all damage to the Aircraft from any and all causes, including as provided in Sections 9(c) and (e), and shall provide written notice to Lessor of any Material Damage concurrently with its report of same to the applicable governmental authority, and if no such report is required, within ten (10) days of the occurrence of such damage. The required notice must be provided together with any damage reports provided to the FAA or any other governmental authority, the insurer or Supplier, and any documents pertaining to the repair of such damage, including copies of work orders, and all invoices for related charges.

(d) Credit for Insurance Payments. If Lessor receives a payment under an insurance policy required under this Lease in connection with an Event of Loss of an Airframe and/or an Engine or any APU, and such payment is both unconditional and indefeasible, then provided no Default or Event of Default shall have occurred and be continuing, and Lessee shall have complied with the provisions of Section 10(a) or 10(b), Lessor shall either (i) remit such proceeds to Lessee up to an amount equal to (A) the amount paid by Lessee to Lessor as the Casualty Value pursuant to Section 10(a), or (B) the amount of the replacement costs actually incurred by Lessee with respect to the replacement of any Engine or APU pursuant to Section 10(b), or (ii) credit such proceeds against any amounts owed by Lessee pursuant to Section 10(a). Any excess insurance proceeds shall be retained by Lessor.

SECTION 11. INDEMNIFICATION. Lessee shall indemnify, protect, save, defend and keep harmless Lessor, its agents, employees, officers, directors, shareholders, subsidiaries, affiliates and Assignees (each an "Indemnitee"), on a net after-tax basis, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, demands, costs, expenses and disbursements (including legal fees and expenses) of any kind and nature whatsoever ("Claims") which may be imposed on, incurred by or asserted against any Indemnitee, whether or not such Indemnitee shall also be indemnified as to any such Claim by any other Person, in any way relating to or arising out of (a) this Lease or any of the other Lease Documents, or the performance, breach (including any Default or Event of Default) or enforcement of any of the terms hereof or thereof, or (b) the Aircraft, including the assertion or enforcement of any manufacturer's, vendor's, dealer's or other supplier's warranties on the Aircraft or any part thereof, or the manufacture, inspection, construction, purchase, pooling, interchange, acceptance, rejection, ownership, titling or re-titling, delivery, lease, sublease, charter, possession, use,

operation, maintenance, management, security, condition, registration or re-registration, sale, return, removal, repossession, storage or other disposition of the Aircraft or any part thereof or any accident in connection therewith, including, Claims involving or alleging environmental damage, criminal acts, hijacking, acts of terrorism or similar acts, product liability or strict or absolute liability in tort, latent and other defects (whether or not discoverable), for patent, trademark or copyright infringement and for any other risk or matter, the responsibility for which Lessee has agreed to bear in Section 5, including any of the same that result in injuries, death, destruction, or other harm or loss to Persons or property, without regard as to who may have operational control of the Aircraft from time to time. Notwithstanding the foregoing, Lessee shall not be required to indemnify an Indemnitee under this Section 11 for (i) any Claim caused solely and directly by the gross negligence or willful misconduct of such Indemnitee (except as imputed by law), (ii) any Impositions, or (iii) any Claim in respect of the Aircraft arising from acts or events which occur after (A) the Aircraft has been redelivered to such Indemnitee in accordance with this Lease, and (B) any and all other obligations of any kind whatsoever of the Lessee under this Lease have been fully paid or performed, as the case may be, unless any such Claims were caused by Lessee, or anyone claiming through Lessee, or resulted directly or indirectly, from any acts, events or omissions of any kind whatsoever during the Term of this Lease. Lessee's obligations under this Section 11 shall survive any expiration, cancellation or other termination of this Lease. If any Claim is made against Lessee or an Indemnitee, the party receiving notice of such Claim shall promptly notify the other, but the failure of the party receiving notice to so notify the other shall not relieve Lessee of any obligation hereunder.

SECTION 12. ASSIGNMENT, MANAGEMENT AND CHARTERING.

(a) Lessee's Conveyances; and Liens. Except as expressly permitted below, Lessee shall not sell (or offer or advertise the sale of), assign, charter, sublease, timeshare, pool, interchange, convey, mortgage or otherwise transfer or encumber this Lease, the Aircraft, including any Engine, any APU or any Part or any Collateral, or its interest with respect thereto, and any such transfer or encumbrance, whether by operation of law or otherwise, shall be null and void, in all respects. In addition, Lessee shall not relinquish possession of the Airframe, any APU, or any Engine or Part or install any APU or any Engine or Part, or permit any APU or any Engine or Part to be installed, on any Airframe other than the Airframe leased hereunder except as expressly set forth herein. The foregoing shall not be deemed to prohibit the delivery of possession of the Aircraft, any APU, any Engine or Part to another Person for testing, service, repair, maintenance, overhaul or, to the extent permitted hereby, for alteration or modification. Lessee will not create or suffer to exist any Liens on or with respect to the Aircraft, any APU, any Engine or Part, any Collateral, or Lessee's interest therein other than Permitted Liens. Lessee will promptly take such action as directed by Lessor to duly discharge any such Lien. If Lessee fails to remove a Lien, Lessor may take such action as it deems appropriate to remove such Lien, but without waiving its other rights hereunder. Lessee shall reimburse Lessor on demand for any costs incurred by Lessor in connection with such action, together with interest at the Late Payment Rate.

(b) Lessor's Conveyances. Lessor, may at any time, with or without notice to Lessee, grant a security interest in, sell, assign or otherwise transfer (an "Assignment") all or any part of its interest in the Lease Documents or the Aircraft or any Rent due or to become due hereunder, and Lessee shall perform all of its obligations under the Lease Documents, to the extent so transferred, for the benefit of the beneficiary of such Assignment (such beneficiary, including any successors and assigns, an "Assignee") except that the interest of any such Assignee shall be subject to Lessee's rights to the extent provided in this Lease. Lessee waives any right and agrees not to assert against any Assignee any defense, setoff, recoupment, claim, counterclaim or any other Abatement that Lessee may have against Lessor, unless expressly assumed by such Assignee, in which case, Lessor shall be relieved of any such assumed obligations. The foregoing waiver is not intended to contradict or otherwise limit or modify the provisions of Section 7. If so directed in writing, Lessee shall pay all Rent and all other sums due or to become due under the Lease Documents directly to the Assignee or any other party designated in writing by Lessor. Lessee acknowledges and agrees that Lessor's right to enter into an Assignment is essential to Lessor, and, accordingly, waives any restrictions under Applicable Law with respect to an Assignment and any related remedies. Upon the request of Lessor or any Assignee, Lessee also agrees (a) to promptly execute and deliver to Lessor or to such Assignee an acknowledgment of assignment in form and substance satisfactory to the requesting party, an insurance certificate and such other documents and assurances reasonably

requested by Lessor or Assignee, and (b) to comply with the reasonable requirements of any such Assignee in order to perfect any such assignment or transfer.

(c) Successors and Assigns. This Lease shall be binding upon and inure to the benefit of, and may be enforced by (i) Lessor and its successors and other Assignees, or other express third party beneficiaries, and (ii) Lessee and its successors and assigns (subject to Section 12(a)).

Notwithstanding the foregoing, provided that no Default or Event of Default has occurred and is continuing, Lessee may contract with the Manager to provide certain management services with respect to the Aircraft, and to charter the Aircraft to any customer of the Manager from time to time pursuant to the Management Agreement, in each case, as specified in the Consent to Management Agreement, subject to the satisfaction of the following conditions: (a) Manager is and remains a solvent, domestic corporation holding a current and valid Air Carrier Certificate issued by the FAA; (b) the average annual flight hours in charter operation shall not exceed 40% percent of the total average annual flight hours of the operation of the Aircraft and/or the charter operation (or chartering) shall not result in any loss of any Assumed Tax Benefits, and (c) the Management Agreement and any such charter entered into pursuant thereto (i) do not convey any Lien or other interest in or against the Aircraft, and (ii) expressly (A) remain, subject and subordinate to the Lease and the rights of Lessor hereunder and in and to the Aircraft (including, without limitation, Lessor's right to repossess the Aircraft and to avoid such Management Agreement or charter pursuant to Section 13(b) hereof), (B) do not permit any further disposition, (C) do not contain provisions that are inconsistent with the provisions of this Lease or cause Lessee to breach any of its representations, warranties or agreements under this Lease, and (D) otherwise conform to the Consent to Management Agreement. Lessor acknowledges that certain of the duties and obligations of Lessee hereunder may be performed by Manager, however, this acknowledgment on the part of Lessor does not constitute an acceptance by Lessor of such performance by Manager of such duties and obligations unless the performance of such duties and obligations fully and completely satisfies the requirements of the Lease. The terms and conditions of the Consent to Management Agreement are hereby incorporated herein by their reference. No such arrangement by Lessee will reduce any of the obligations of Lessee hereunder or the rights of Lessor hereunder, and all of the obligations of Lessee hereunder shall be and remain primary and shall continue in full force and effect as the obligations of a principal and not of a guarantor or surety.

SECTION 13. EVENTS OF DEFAULT AND REMEDIES.

(a) Events of Default. The term "Event of Default" means (i) non-payment of any Basic Rent, Supplemental Rent (including Casualty Value, if applicable) and/or any other amount due pursuant to any Rider, Addendum or Supplement hereto within ten (10) days after any or all of the same shall become due and payable, or, upon demand, any other amount required to be paid herein or in connection with any Rider, Addendum or Supplement hereto or under any other agreement with Lessor; (ii) failure to maintain, use, or operate the Aircraft in compliance with Applicable Law; (iii) any use of the Aircraft outside of the U.S. that is prohibited by this Lease, or use for any illegal purpose; (iv) failure to obtain, maintain and/or comply with all of the insurance coverages required under this Lease; (v) any prohibited transfer or encumbrance, or the existence of any unpermitted Lien, or any other action or circumstance that is prohibited by, or any violation of, Section 12(a); (vi) failure to return the Aircraft to Lessor on the date and in the manner required by this Lease; (vii) a default by Lessee under any loan, note, security agreement, lease, guaranty, conditional sale or other agreement with, or other financial obligation to, Lessor or its Affiliates; (viii) a default by Lessee in any payment or other obligation to any Person other than Lessor or its Affiliates, if the aggregate amount of such respective payment or obligation, or if the aggregate amount of the underlying agreement, document or obligation regarding any such default, is in excess of \$1,000,000.00; (ix) a material inaccuracy in any representation or breach of warranty by Lessee (including any false or misleading representation or warranty) in any financial statement or Lease Document; (x) the commencement of any bankruptcy, insolvency, receivership or similar proceeding by or against Lessee or any of its properties or business (unless, if involuntary, the proceeding is dismissed within sixty (60) days of the filing thereof) or the rejection of this Lease or any other Lease Document in any such proceeding; (xi) the failure by Lessee generally to pay its debts as they become due and its admission in writing of such inability; (xii) the occurrence of any of

the following events: (A) Lessee enters into any transaction of merger or consolidation, unless Lessee is the surviving corporation; (B) Lessee ceases to do business as a going concern, or liquidates, or dissolves; (C) Lessee sells, transfers, or otherwise disposes of all or substantially all of its assets or property, or enters into a leveraged buyout; (D) Lessee changes the form of organization of its business; (E) if privately owned, Lessee permits any substantial change in the ownership or control of its capital stock or membership interests such that less than 50% of such equity interest remain with the holder(s) of such equity interests as of the date of this Lease; or (F) if publicly held when it entered into this Lease, any change so that Lessee is no longer subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or no longer registered under Section 12 of the Securities Act of 1933, as amended, if it so reported or registered as of the date of this Lease; (xiii) a material adverse change in the business, operations, financial reporting, or financial condition of the Lessee or in its ability to comply with any Lease Documents since the date of this Lease as determined by Lessor, in its sole discretion and in good faith; (xiv) failure by Lessee to notify Lessor of any Default or Event of Default within ten (10) business days of its occurrence; (xv) breach by Lessee of any other covenant, condition or agreement (other than those in items (i)-(xiv)) under this Lease or any of the other Lease Documents that continues for thirty (30) days after Lessor's written notice to Lessee (but such notice and cure period will not be applicable unless such breach is curable by practical means within such notice period); (xvi) the repudiation or rescission, or attempted repudiation or rescission, or unenforceability of the Guaranty or any other Lease Document to which Guarantor is a party, or any allegation that the Guaranty or any such Lease Document is unenforceable; (xvii) Guarantor's failure generally to pay its debts as they become due and its admission in writing of such inability; (xviii) a material adverse change in the business, operations, financial reporting, or financial condition of Guarantor or in its ability to comply with the Guaranty or any other Lease Documents to which it is a party since the date of the Guaranty as determined by Lessor, in its sole discretion and in good faith; (xix) failure by Guarantor to notify Lessor of any Event of Default or event, which with the giving of notice or passing of time or both, would constitute an Event of Default, in each case, pertinent to Guarantor or the Guaranty, within ten (10) business days of its occurrence; (xx) any event or condition set forth in subsections (vii) through (xii) of this Section 13(a) shall occur with respect to Guarantor or any other guarantor or other Person responsible, in whole or in part, for payment or performance of this Lease; (xxi) to the extent not already covered in any other subsection of this Section 13(a), any Default (as defined in the Guaranty) shall occur; or (xxii) if Lessee contracts with the Manager to provide, among other things, certain management services with respect to the Aircraft pursuant to Section 12 of this Lease, any event or condition set forth in subsections (ii) through (v) and subsection (x) of this Section 13(a) shall occur with respect to the Manager.

(b) Remedies. If an Event of Default occurs, Lessor may exercise any one or more of the following remedies (in its sole discretion): (i) proceed at law or in equity, to enforce specifically Lessee's performance or to recover damages; (ii) declare this Lease in default, and/or cancel this Lease or otherwise terminate Lessee's right to use of the Aircraft and Lessee's other rights, but not its obligations under this Lease, and Lessee shall immediately return the Aircraft to Lessor in accordance with the terms of this Lease; (iii) enter the premises where the Aircraft is located and take immediate possession of and remove (or disable in place) the Aircraft (and/or the APU, any Engines and Parts then unattached to the Aircraft) by self-help, summary proceedings or otherwise without liability; (iv) use Lessee's premises for storage as set forth in this Lease without liability; (v) sell, re-lease or otherwise dispose of the Aircraft (or any Engine or Part), whether or not in Lessor's possession, at public or private sale, with or without notice to Lessee, and apply or retain the net proceeds of such disposition, with Lessee remaining liable for any deficiency and with any excess being retained by Lessor, or keep the Aircraft idle; (vi) apply any deposit or other cash collateral, or any proceeds of any Collateral, at any time to reduce any amounts due to Lessor; (vii) demand and recover from Lessee the Liquidated Damages and other Rent whenever the same shall be due; (viii) terminate any Management Agreement and any charter, without regard as to the existence of any event of default thereunder and recover or cause Lessee and Manager to relinquish possession and return the Aircraft, including the Engines and Parts, pursuant to this Section 13, and/or exercise any and all other remedies under the Consent to Management Agreement, or in Lessee's stead, to the extent provided for under, or otherwise available to Lessee in connection with any Management Agreement; and (ix) exercise any and all other remedies allowed by Applicable Law, including the UCC. Without limiting the generality of the foregoing, (A) upon the occurrence of an Event of Default, Lessor may, among other things, demand and recover from Lessee the Casualty Value (calculated as contemplated in the definition of Liquidated Damages) or other applicable Liquidated Damages (in lieu of

future Basic Rent, and not as a penalty) and other Rent then due, and/or demand that Lessee return the Aircraft in accordance with this Lease; and (B) if Lessee returns the Aircraft, and after Lessor disposes of it, Lessor will determine the amount, if any, of any credit or reimbursement or deficiency, as applicable, with respect to Lessee's obligation to pay such Casualty Value or other Liquidated Damages (all as contemplated in the definition of such term).

(c) Lessor's Performance. If Lessee fails to perform any of its agreements contained in this Lease, including its obligations to keep the Aircraft free of Liens, comply with Applicable Law, or obtain the requisite insurance coverages, Lessor shall have the right, but shall not be obligated, to effect such performance and any expenses incurred by Lessor in connection with effecting such performance, together with interest thereon at the Late Payment Rate, shall be payable by Lessee promptly upon demand. Any such action shall not be a cure or waiver of any Default or Event of Default hereunder.

(d) Power-of-Attorney. Lessee irrevocably appoints Lessor as its attorney-in-fact to act in Lessee's name and on its behalf to make, execute, deliver and file any instruments or documents (including any filings at the FAA), settle, adjust, receive payment, make claim or proof of loss, endorse Lessee's name on any checks, drafts or other instruments in payment of any insurance claims and to take any action as Lessor deems reasonably necessary or appropriate to carry out the intent of this Lease; provided, however, Lessor agrees that it will not exercise this power unless an Event of Default has occurred or a Default has occurred and is continuing. This appointment is coupled with an interest, is irrevocable, and shall terminate only upon payment in full of the obligations set forth in this Lease and/or any other Lease Documents.

(e) Enforcement Costs. Lessee shall be liable for, and pay to Lessor upon demand, all costs, charges and expenses incurred by Lessor in enforcing or protecting its rights under this Lease, whether by reason of any Default or Event of Default, or otherwise, including, legal fees, disbursements, insurance, expert witness fees, consultant fees, repossession, taxes, lien removal, recovery, storage, inspection, appraisal, repair, costs of transportation, refurbishing, advertising and brokers' fees, and other carrying costs and costs of sale, re-lease or other disposition of the Aircraft.

(f) Cumulative Remedies, Etc. No right or remedy is exclusive. Each may be used successively and cumulatively and in addition to any other right or remedy referred to above or otherwise available to Lessor at law or in equity, including, such rights and/or remedies as are provided for in the UCC, but in no event shall Lessor be entitled to recover any amount in excess of the maximum amount recoverable under applicable law with respect to any Event of Default. No express or implied waiver by Lessor of any Default or Event of Default hereunder shall in any way be, or be construed to be, a waiver of any future or subsequent Default or Event of Default. The failure or delay of Lessor in exercising any rights granted it hereunder upon the occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or reoccurrence of any such contingencies or similar contingencies, and any single or partial exercise of any particular right by Lessor shall not exhaust the same or constitute a waiver of any other right provided for or otherwise referred to herein. Lessee hereby waives any rights under the UCC to cancel or repudiate this Lease or any of the other Lease Documents, to reject or revoke acceptance of the Aircraft or any component thereof, to suspend performance, and to recover from Lessor any general, special, incidental or consequential damages, for any reason whatsoever. All remedies set forth herein shall survive the expiration, cancellation or other termination of this Lease for any reason whatsoever.

SECTION 14. NOTICES, REPORTS, FURTHER ASSURANCES AND INSPECTIONS.

(a) Notices. All communications and notices provided for herein shall be in writing and shall become effective (i) upon hand delivery, or (ii) upon delivery by an overnight delivery service, or (iii) upon two (2) Business Days after being deposited in the U.S. mail with proper postage for first-class mail prepaid, sent by registered or certified mail, return receipt requested, and addressed to Lessor or Lessee at their respective addresses set forth under the signatures hereto or such other address as either party may hereafter designate by written notice to the other, or (iv) when sent by telecopy (with customary confirmation of receipt of such telecopy) on the Business Day when sent or upon the next Business Day if sent on other than a Business Day.

(b) Reports. Lessee will provide Lessor with the following in writing within the time periods specified: (i) notice of any Lien which attaches to the Aircraft, and the full particulars of the Lien, within ten (10) days after Lessee becomes aware of the Lien; (ii) (A) Guarantor's consolidated balance sheet and statement of retained earnings, prepared in accordance with GAAP, certified by a recognized firm of certified public accountants, within ninety (90) days of the close of each fiscal year of Guarantor, (B) Guarantor's consolidated quarterly financial report certified by the chief financial officer of Guarantor, within forty-five (45) days of the close of each fiscal quarter of Guarantor, (C) all of Guarantor's Forms 10-K and 10-Q, if any, filed with the SEC within thirty (30) days after the date on which they are filed (by furnishing these SEC Forms, or making them publicly available in electronic form, Lessee shall be deemed to have satisfied the requirements of clauses (b)(ii)(A), (B), or (C)); (iii) notice to Lessor of any change of the Primary Hangar Location, ten (10) days prior to any such change; (iv) notice of any loss or damage to the Aircraft in accordance with Section 10; (v) notice of any accident involving the Aircraft causing bodily injury or property damage to third parties, within five (5) days of such accident; and (vi) ten (10) days prior to the policy expiration date for any insurance coverage required by this Lease, evidence (having the form and substance consistent with Section 2(g) of the Closing Terms Addendum) of the renewal or replacement of such coverage complying with the terms hereof. Lessee will also provide Lessor with the following in writing promptly upon Lessor's request: (i) a copy of any insurance policy required by this Lease; (ii) notice to Lessor of the Aircraft's location, and the location of all Records relating to the Aircraft and its use, maintenance and/or condition; (iii) such information as may be necessary to enable Lessor to file any reports required by any governmental authority due to Lessor's ownership of the Aircraft; (iv) copies of any manufacturer's maintenance service program contract for the Airframe or Engines; (v) copies of all Records evidencing Lessee's compliance with FAA airworthiness directives and mandatory service bulletins and of compliance with the provisions of Section 9 hereof and of the Return Addendum, and any other requested Records; and (vi) such other reports or information as Lessor may reasonably request.

(c) Further Assurances. Lessee will promptly execute or otherwise authenticate any documents, filings and other records, including, amendments to this Lease, UCC and FAA filings and acknowledgments of assignment, and will take such further action as Lessor may reasonably request in order to carry out more effectively the intent and purposes of this Lease and to establish and protect Lessor's rights and remedies under this Lease, or otherwise with respect to the Aircraft and/or the Collateral. Lessee irrevocably authorizes Lessor to file UCCs with respect to the Aircraft or Collateral. Lessee agrees not to file any corrective or termination statements with respect to any UCC or other filings relating to the Aircraft or any Collateral. Lessee agrees to cause Guarantor to furnish to Lessor, from time to time, such information relating to Guarantor as Lessor shall reasonably request.

(d) Inspection. Lessor shall have the right, but not the duty, to inspect the Aircraft, any component thereof and/or the Records, at any reasonable time and from time to time, wherever located, upon reasonable prior written notice to Lessee; except that no advance notice shall be necessary prior to any inspection conducted, and such inspection may be conducted at any time, after the occurrence of a Default or an Event of Default. Upon request of Lessor, Lessee shall promptly confirm to Lessor the location of the Aircraft and/or the Records. Lessee shall be responsible for the cost of any inspection conducted after the occurrence of a Default or an Event of Default, and shall pay Lessor such amount as additional Rent within ten (10) days of demand.

SECTION 15. TRANSACTION EXPENSES. Without limiting any other provision of this Lease, Lessee shall perform and comply with all of its obligations, and possess, use, operate, insure, maintain, and comply with Applicable Law, service, return and/or store the Aircraft (or cause any or all of the same to be done) and take all other actions contemplated in this Lease and the other Lease Documents at its sole risk, cost and expense. Lessee shall pay all fees, costs and expenses actually incurred by or on behalf of Lessor at any time in connection with this Lease, whether or not the transactions contemplated hereby are consummated, including, without limitation, appraisal and inspection fees, Lessor's counsel (provided, that the fees, costs and expenses relating only to the execution and delivery of this Lease and the Lease Supplement and payable by the Lessee shall not, in the aggregate, exceed \$30,000.00, but shall not be limited as to any other fees, costs and expenses, including, without limitation, attorneys' fees and expenses, incurred by or behalf of Lessor at any time after the execution and delivery of this Lease and the Lease Supplement) and FAA Counsel's fees and expenses, UCC, FAA or other applicable title and lien searches, reports, filing and recording fees, charges and taxes, and costs and expenses incurred in connection with Lessee's exercise of any option or other right granted under, or any amendment or other modification to any of, the Lease Documents.

SECTION 16. MISCELLANEOUS.

(a) Interpretation. Time is of the essence in the payment and performance of all of Lessee's obligations under this Lease. Any provision of this Lease which may be determined to be prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective in such jurisdiction to the extent thereof without invalidating the remaining provisions of this Lease. The division of this Lease into sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Lease. The execution hereof on behalf of Lessee and Lessor shall be deemed to constitute the acceptance by Lessee and Lessor of the terms and conditions of each and every addendum, rider, supplement, schedule, annex and exhibit hereto as if such document was separately and individually executed on behalf of such party hereto and shall constitute a part of this Lease. THIS LEASE MAY BE EXECUTED IN ANY NUMBER OF COUNTERPARTS AND BY THE PARTIES HERETO ON SEPARATE COUNTERPARTS. ONLY COUNTERPART NO. 1 OF THIS LEASE AND THE LEASE SUPPLEMENT SHALL BE CONSIDERED "CHATTEL PAPER" FOR PURPOSES OF THE UCC.

(b) Granting Clause. In order to secure the prompt and full payment and performance as and when due of any and all obligations and indebtedness of Lessee to Lessor, now existing or hereafter created of any kind whatsoever, Lessee hereby collaterally assigns, grants, and conveys to Lessor, a security interest in and lien on all of Lessee's right, title and interest in and to all of the following (the "Collateral"): (i) this Lease and any present and future subleases, management agreements, interchange agreements, charter agreements, purchase agreements and any other present and future agreements of any kind whatsoever relating to the Aircraft or any part thereof and all rent, charter payments, reimbursements and other disbursements, remittances or other amounts payable with respect thereto; (ii) (in the event that contrary to the intentions of Lessee and Lessor, a court determines that this Lease is not a "true" lease under the UCC) the Aircraft and all present and future parts, accessories, accessions and attachments thereto, and all present and future replacements, substitutions and exchanges for such goods; and (iii) proceeds of the foregoing, including all related goods, accounts, chattel paper, documents, instruments, general intangibles, letters of credit, letters of credit rights, investment property, deposit accounts, and supporting obligations, insurance proceeds, warranty and requisition payments, and all present and future books and records relating to any of the foregoing and/or the Aircraft (including, without limitation, all tapes, cards, computer programs, computer runs and computer data in the possession or control of the Lessee, any computer service bureau, or other third party). The collateral assignment, security interest and lien granted herein shall survive the termination, cancellation or expiration of this Lease until such time as Lessee's obligations under this Lease are fully and indefeasibly discharged.

(c) Entire Agreement. This Lease, and each of the other Lease Documents, the Purchase Documents, and Required Documents, collectively constitute, and are intended to collectively constitute, the complete and exclusive statement of the terms of the agreement between Lessor and Lessee with respect to the purchase and leasing of the Aircraft. This Lease, the Purchase Documents, and the other Required

Documents cancel and supersede any and all prior or contemporaneous oral or written understandings, memoranda, negotiations, communications, agreements, and other records, with respect thereto including, any proposal letter, commitment letter, and/or term sheet delivered to the Lessee by Lessor, or to Lessor by Lessee. NO TERM OR PROVISION OF THIS LEASE MAY BE AMENDED, ALTERED, WAIVED, DISCHARGED, OR TERMINATED EXCEPT IN A WRITING SIGNED BY A DULY AUTHORIZED OFFICER OF THE PARTY AGAINST WHOM THE ENFORCEMENT OF THE AMENDMENT, ALTERATION, WAIVER, DISCHARGE OR TERMINATION IS SOUGHT.

(d) Governing Law, Choice of Forum and Jury Trial Waiver. Lessee acknowledges and agrees that this Lease has been executed and delivered in Rhode Island; however, BOTH PARTIES AGREE THAT THIS LEASE SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF BOTH PARTIES SHALL BE GOVERNED BY, THE INTERNAL LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO THE CONFLICT OF LAWS PRINCIPLES OF SUCH STATE), INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY, AND PERFORMANCE. Lessee hereby irrevocably consents and agrees that any legal action, suit, or proceeding arising out of or in any way in connection with this Agreement may be instituted or brought in the courts of the State of New York or the U.S. District Court for the Southern District of New York, as Lessor may elect, and by execution and delivery of this Lease, Lessee hereby irrevocably accepts and submits to, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of any such court, and to all proceedings in such courts. LESSEE ALSO HEREBY KNOWINGLY AND FREELY WAIVES ALL RIGHTS TO TRIAL BY JURY IN ANY LITIGATION ARISING HEREFROM OR IN RELATION HERETO.

SECTION 17. TRUTH IN LEASING. THE AIRCRAFT, AS EQUIPMENT, BECAME SUBJECT TO THE MAINTENANCE REQUIREMENTS OF PARTS 91 AND/OR 135, AS APPLICABLE, OF THE FEDERAL AVIATION REGULATIONS ("FARS") UPON THE REGISTRATION OF THE AIRCRAFT WITH THE FAA. LESSEE CERTIFIES THAT DURING THE TWELVE (12) MONTHS (OR PORTION THEREOF DURING WHICH THE AIRCRAFT HAS BEEN SUBJECT TO U.S. REGISTRATION) PRECEDING THE EXECUTION OF THIS LEASE, THE AIRCRAFT HAS BEEN MAINTAINED AND INSPECTED UNDER PARTS 91 AND/OR 135, AS APPLICABLE, OF THE FARS. LESSEE CERTIFIES THAT THE AIRCRAFT WILL BE MAINTAINED AND INSPECTED UNDER PARTS 91 AND/OR 135, AS APPLICABLE, OF THE FARS FOR OPERATIONS TO BE CONDUCTED UNDER THIS LEASE. UPON EXECUTION OF THIS LEASE, AND DURING THE TERM HEREOF, THE LESSEE, WHOSE NAME AND ADDRESS ARE SET FORTH IMMEDIATELY BELOW, ACTING BY AND THROUGH THE SIGNATORY HERETO, WHO EXECUTES THIS SECTION SOLELY IN HER/HIS CAPACITY OF THE LESSEE SET FORTH BELOW HER/HIS SIGNATURE, CERTIFIES THAT LESSEE SHALL BE RESPONSIBLE FOR THE OPERATIONAL CONTROL OF THE AIRCRAFT UNDER THIS LEASE (WHILE IT HAS POSSESSION OF THE AIRCRAFT), UNLESS OPERATIONAL CONTROL OF THE AIRCRAFT IS PROVIDED TO AN AIR TAXI OPERATOR CERTIFICATED UNDER PART 135 OF THE FARS, IF AND TO THE EXTENT PERMITTED HEREUNDER. THE LESSEE FURTHER CERTIFIES THAT IT UNDERSTANDS ITS RESPONSIBILITIES FOR COMPLIANCE WITH APPLICABLE FARS, PROVIDED HOWEVER, THAT THE LESSEE SHALL NOT BE DEEMED TO BE RESPONSIBLE FOR THE OPERATIONAL CONTROL OF THE AIRCRAFT FOR SO LONG AS THE AIRCRAFT IS IN POSSESSION OF ANY SUCH AIR TAXI OPERATOR HAVING OPERATIONAL CONTROL TO THE EXTENT PERMITTED HEREUNDER. AN EXPLANATION OF FACTORS BEARING ON OPERATIONAL CONTROL AND PERTINENT FARS CAN BE OBTAINED FROM THE NEAREST FEDERAL AVIATION FLIGHT STANDARD DISTRICT OFFICE, GENERAL AVIATION DISTRICT OFFICE, OR AIR CARRIER DISTRICT OFFICE.

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IN WITNESS WHEREOF, the parties hereto have caused this Lease to be duly executed as of the date first written above by their respective officers thereunto duly authorized.

Lessor:
FLEET NATIONAL BANK

Lessee:
PRIORITY FULFILLMENT SERVICES, INC.

By: _____

By: _____

Title: _____

Title: _____

Print Name: _____

Print Name: _____

Address: c/o Fleet Capital Corporation
One Financial Plaza, 5th Floor
Providence, RI 02903

Address: 500 North Central Expressway,
5th Floor Plano, Texas 75074

THIS IS COUNTERPART NO. ___ OF A TOTAL OF 3 COUNTERPARTS. ONLY COUNTERPART NO. 1 SHALL BE CONSIDERED CHATTEL PAPER FOR PURPOSES OF THE UNIFORM COMMERCIAL CODE AND A SECURITY INTEREST MAY BE PERFECTED ONLY BY POSSESSION OF COUNTERPART NO. 1.

EXHIBIT A

DEFINITIONS

(a) All References in the Lease to designated Sections and other subdivisions are to such designated Sections and other subdivisions only, and the words "herein," "hereof" and "hereunder" and other words of similar import refer to the Lease as whole and not to any particular Section or other subdivision.

(b) Except as otherwise indicated, all the agreements and instruments defined herein or in the Lease shall mean such agreements and instruments as the same may from time to time be supplemented or amended, or as the terms thereof may be expressly waived or modified to the extent permitted by, and in accordance with, the terms thereof.

(c) The word "including" means including without limitation.

(d) The terms defined herein and in the Lease shall, for purposes of the Lease and the Lease Supplement, addenda, riders, annexes, schedules, and exhibits thereto, have the meanings assigned to them and shall include the plural as well as the singular as the context requires.

(e) The following terms shall have the following meanings for all purposes of the Lease:

Basic Rent Date, Basic Rent Percentage, Basic Term, Renewal Term, Daily Rent Percentage, Expiration Date, First Basic Rent Date, Last Acceptance Date, Last Basic Rent Date, Lessor's Cost, Primary Hangar Location, and Rent Commencement Date shall have the meanings set forth in Schedules No. 2 and 2-A to the Lease.

Abatements shall have the meaning set forth in Section 7 of the Lease.

Acceptance Date shall mean the date on which Lessee irrevocably and unconditionally accepts the Aircraft for lease under the Lease as evidenced by the execution and delivery of the Lease Supplement dated such date (and is set forth in the Lease Supplement).

Additions shall have the meaning set forth in Section 9 of the Lease.

Administrative Charge shall mean an amount equal to five percent (5%) of the amount payable to which such charge applies.

Affiliate shall mean any affiliated person, firm or entity controlling, controlled by or under common control with Lessee or Lessor, as applicable.

Aircraft Purchase Agreement shall mean that certain Swap Agreement dated as of August 10, 2004 between Lessee and Supplier and any and all schedules, supplements, riders, consents, amendments or modifications to said Swap Agreement and any exhibits executed or delivered in connection therewith.

Alterations shall have the meaning set forth in Section 9 of the Lease.

Aircraft shall mean (i) the Airframe, (ii) the Engines, (iii) any APU, and (iv) the Records.

Airframe shall mean (i) the Aircraft described in Schedule No. 1, and shall not include the Engines or any APU, and (ii) any and all Parts from time to time incorporated in, installed on, or attached to such Aircraft and any and all Parts removed therefrom so long as title thereto shall remain vested in Lessor in accordance with the applicable terms of the Lease after removal from the Aircraft.

Applicable Law shall mean all applicable laws including all statutes, treaties, conventions, judgments, decrees, injunctions, writs and orders of any court, governmental agency or authority and rules,

regulations, orders, directives, licenses and permits of any governmental body, instrumentality, agency or authority as amended and revised, and any judicial or administrative interpretation, of any of the same, including the airworthiness certificate issued with respect to the Aircraft, all FARS, Supplemental FARS, airworthiness directives, and/or any of the same relating to noise, the environment, national security, public safety, exports or imports or contraband.

APU shall mean any auxiliary power unit described and listed by manufacturer's serial number in Schedule No. 1 and currently installed on the Airframe whether or not thereafter installed on such Airframe or any other airframe from time to time; (ii) any auxiliary power unit which may from time to time be substituted, pursuant to the applicable terms of the Lease, for any auxiliary power unit leased hereunder; and (iii) in each case set forth in clauses (i) and (ii) hereof, with any and all Parts incorporated in or installed on or attached to any such auxiliary power unit, engine or any and all Parts removed therefrom so long as title thereto shall remain vested in Lessor in accordance with the applicable terms of the Lease after removal from any such auxiliary power unit. The term "APU" means, as of any date of determination, any auxiliary power unit leased hereunder.

AS-IS, WHERE-IS shall mean "AS-IS WHERE-IS", AND "WITH ALL FAULTS", WITHOUT ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND WHATSOEVER, BY, OR ANY RECOURSE OF ANY KIND WHATSOEVER TO, LESSOR.

Assignee shall have the meaning set forth in Section 12 of the Lease.

Assignment shall have the meaning set forth in Section 12 of the Lease.

Assumed Tax Benefits shall have the meaning set forth in the Special Tax Indemnity Rider to the Lease.

Basic Rent shall have the meaning set forth in Section 3 of the Lease.

Business Day shall mean any day other than a Saturday, Sunday or other day on which banks located in Providence, Rhode Island are closed or are authorized to close.

Casualty Payment Date shall have the meaning set forth in Section 10(a) of the Lease.

Casualty Value for any Basic Rent Date shall be the amount equal to the Lessor's Cost multiplied by the applicable percentage set forth on Schedule No. 3 for such Basic Rent Date (or the corresponding Basic Rent number), or if the Casualty Payment Date is after the last Basic Rent Date, the Casualty Value for such date shall be the amount equal to the Lessor's Cost multiplied by the applicable percentage set forth on Schedule No. 3 for the last Basic Rent Date (or the corresponding Basic Rent number); provided, however, in the case of an Event of Loss covered by the insurance covering loss or damage to the Aircraft required to be maintained by Lessee pursuant to the Lease (or which would have been covered by such insurance, had such insurance been maintained as required), Casualty Value shall mean the higher of Fair Market Sales Value or the amount equal to the Lessor's Cost multiplied by the applicable percentage set forth on Schedule No. 3 for the applicable Basic Rent Date (or the corresponding Basic Rent number).

Claims shall have the meaning set forth in Section 11 of the Lease.

Collateral shall have the meaning set forth in Section 17(b) of the Lease.

Code shall have the meaning set forth in the Special Tax Indemnity Rider.

Consent to Management Agreement shall mean any Consent to Management Agreement (Charter) Agreement and Assignment required by Lessor in connection with the Lease and which shall be in form and substance satisfactory in all respects to Lessor.

Daily Rent shall have the meaning set forth in Section 3 of the Lease.

Default shall mean an event or circumstance which, after the giving of notice or lapse of time, or both, would become an Event of Default.

Early Purchase Date shall mean each of the Basic Rent Number(s) designated as such on Schedule No. 2-A to the Lease Supplement.

Early Purchase Option Amount shall be the amount payable by the Lessee in the event that it exercises its option to purchase the Aircraft pursuant to paragraph (e) of the Purchase, Early Purchase and Renewal Option Addendum to the Lease, and shall be determined by multiplying the Lessor's Cost of the Aircraft by the percentage set forth opposite the applicable Early Purchase Date set forth on Schedule No. 2-A to the Lease Supplement.

Engine shall mean (i) each of the engines described and listed by manufacturer's serial numbers in Schedule No. 1 and currently installed on the Airframe covered by such Lease Supplement whether or not thereafter installed on such Airframe or any other airframe from time to time; (ii) any engine which may from time to time be substituted, pursuant to the applicable terms of the Lease, for an Engine leased hereunder; and (iii) in each case set forth in clauses (i) and (ii) hereof, with any and all Parts incorporated in or installed on or attached to such Engine, engine or any and all Parts removed therefrom so long as title thereto shall remain vested in Lessor in accordance with the applicable terms of the Lease after removal from such Engine. The term "Engines" means, as of any date of determination, all Engines leased hereunder.

Estimated Annual Hours shall mean the anticipated number of average annual flight hours as shown on Schedule No. 2-A.

Event of Default shall have the meaning set forth in Section 13 of the Lease.

Event of Loss with respect to the Aircraft, the Airframe or any Engine or any APU, shall mean any of the following events with respect to such property (i) loss of such property or the use thereof due to theft, disappearance, destruction, damage beyond repair or rendition of such property permanently unfit for normal use for any reason whatsoever; (ii) any damage to such property which results in an insurance settlement with respect to such property on the basis of a total loss or constructive total loss; (iii) the condemnation, confiscation or seizure of, or requisition of title to or use of, such property by the act of any government (foreign or domestic) or of any state or local authority or any instrumentality or agency of the foregoing ("Requisition of Use"); (iv) as a result of any rule, regulation, order or other action by any government (foreign or domestic) or governmental body (including, without limitation, the FAA or any similar foreign governmental body) having jurisdiction, the use of such property shall have been prohibited, or such property shall have been declared unfit for use, for a period of six (6) consecutive months, unless Lessee, prior to the expiration of the six-month period, shall have undertaken and, in the reasonable opinion of the Lessor, shall be diligently carrying forward all steps which are necessary or desirable to permit the normal use of such property by Lessee or, in any event, if use shall have been prohibited, or such property shall have been declared unfit for use, for a period of twelve (12) consecutive months (unless waived by Lessor in its sole and absolute discretion) or such prohibition shall exist on the expiration or earlier cancellation or termination of the Lease; (v) with respect to an Engine or any APU, the removal thereof from the Airframe for a period of six (6) consecutive months or longer, whether or not such Engine or any APU, as the case may be, is operational, or (unless waived by Lessor in its sole and absolute discretion) such prohibition shall exist on the expiration or earlier cancellation or termination of the Lease; (vi) an Engine or any APU is returned to the Manufacturer, other than for modification in the event of patent infringement or for repair or replacement (any such return being herein referred to as a "Return to Manufacturer"); or (vii) (unless waived by Lessor in its sole and absolute discretion) the Aircraft is not returned to Lessor upon the expiration or earlier termination or cancellation of the Lease, unless Lessee or a third party purchaser purchases the Aircraft pursuant to Lessee's exercise of an option contemplating such purchase under any applicable provision of the Lease. The date of such Event of Loss shall be the date of such theft, disappearance, destruction, damage, Requisition of Use, prohibition, unfitness for use for the stated period, removal for the stated period or Return to Manufacturer. An Event of Loss with respect to the Aircraft shall be deemed to have occurred if an Event of Loss occurs with respect to the Airframe. An Event of Loss with

respect to any Engine or any APU shall not, without loss of the Airframe, be deemed an Event of Loss with respect to the Aircraft.

Excess Hours shall have the meaning set forth in the definition of Fair Market Sales Value.

FAA shall mean the U.S. Federal Aviation Administration and/or the Administrator of the Federal Aviation Administration and the Department of Transportation, or any person, governmental department, bureau, authority, commission or agency succeeding to the functions of any of the foregoing, including, where applicable, the Transportation Security Administration.

FAA Counsel shall mean Daugherty, Fowler, Peregrin & Haught, 204 North Robinson, Suite 900, Oklahoma City, Oklahoma 73102, or such other counsel as Lessor may designate.

FAA Documents shall have the meaning set forth in the Closing Terms Addendum.

Fair Market Sales Value and Fair Market Rental Value shall mean those certain values determined on the following basis: (i) the subject value shall be the amount which would be obtained in an arm's length transaction between an informed and willing buyer or lessee (who is neither a lessee in possession nor a used equipment dealer), and an informed and willing seller or lessor, as the case may be, under no compulsion to sell or lease, as the case may be; (ii) the costs of removal of the Aircraft from its then location shall not be a deduction from such value; and (iii) in determining any such value, it shall be assumed (whether or not the same be true) (A) that the Aircraft has been maintained by Lessee and is in the condition in which it is required to be returned to Lessor, in each case, in accordance with the Lease, (B) such value has not been diminished due to the existence of any damage history, and (C) that the total number of Airframe hours (including any component with hourly overhaul schedules) accumulated from the Acceptance Date to the Expiration Date or other date of termination or cancellation do not exceed the product of Estimated Annual Hours times the number of twelve month periods and any portion thereof, from the Acceptance Date to such expiration, termination, or cancellation date (any such excess, the "Excess Hours").

FARs shall mean the Federal Aviation Regulations, any Supplemental Federal Aviation Regulations and all successor regulations thereto.

GAAP shall mean generally accepted accounting principles consistently applied.

Guarantor shall mean PFSWeb, Inc., a Delaware corporation with its principal place of business and chief executive office at 500 North Central Expressway, 5th Floor, Plano, Texas 75074.

Guaranty shall mean the Guaranty dated as of August 25, 2004 executed by PFSWeb, Inc., a Delaware corporation, having an office at 500 North Central Expressway, 5th Floor, Plano, Texas 75074, in favor of the Lessor and any and all schedules, supplements, riders, consents, amendments or modifications to said Guaranty and any exhibits executed or delivered in connection therewith.

Impositions shall have the meaning set forth in Section 8 of the Lease.

Late Payment Rate shall mean the lesser of a rate equal to 1.5% per month or the highest rate permitted by Applicable Law. The Late Payment Rate shall be computed on the basis of a 360 day year and a 30 day month.

Lease Documents shall mean the Lease (including the Lease Supplement), and all documents, instruments and agreements entered into or provided by Lessee, any guarantors and or other third party pursuant to or in connection with the Lease.

Lease Supplement shall mean a supplement to the Lease to be entered into as of the Acceptance Date by Lessee, which supplement shall be substantially in the form as attached to the Lease, and upon execution by Lessee shall constitute a part of the Lease.

Lessor's Liens shall mean any Liens created or granted by Lessor resulting from claims against Lessor not related to Lessor's ownership of the Aircraft or otherwise contemplated under the Lease.

Liens shall mean all liens, charges, security interests, leaseholds, and encumbrances of every nature and description whatever, including, without limitation, any of the same arising in connection with or created by any Impositions, (other than Lessor's Liens) and rights of third parties under management, charter, pooling, interchange, sublease, timeshare, overhaul, repair or other similar agreements or arrangements.

Liquidated Damages shall mean the liquidated damages (all of which, Lessee hereby acknowledges and agrees, are damages to be paid in lieu of future Basic Rent and are reasonable in light of the anticipated harm arising by reason of an Event of Default, and are not a penalty) described in parts (i), (ii), or (iii) below, as determined by whether the Aircraft is returned or otherwise recovered, and if returned or recovered, the time and manner of the disposition of the Aircraft:

(i) If Lessor recovers and sells the Aircraft, or Lessee has not returned the Aircraft in the manner and condition required by the Lease, an amount calculated as the Casualty Value of the Aircraft (determined as of the next Basic Rent Date after the date of the occurrence of the subject Event of Default), together with all other Rent due hereunder as of such determination date, less a credit for any disposition proceeds, if applicable pursuant to the application provisions in the next sentence. If Lessor demands the liquidated damages under this part (i), and recovers and sells the Aircraft, any proceeds of such disposition by Lessor, to the extent received by Lessor in good and indefeasible funds, shall be applied by Lessor (A) first, to pay all costs, charges and expenses, payable pursuant to Section 13, (B) second, to pay to Lessor an amount equal to any unpaid Rent due and payable, together with the liquidated damage amounts specified in this part (i), to the extent not previously paid, (C) third, to pay to Lessor any interest accruing on the amounts covered by the preceding clauses, at the Late Payment Rate, from and after the date the same become due and payable pursuant to the terms hereof through the date of payment, and (D) fourth, to reimburse Lessee for such amounts to the extent paid by Lessee as liquidated damages pursuant to this part (i) (up to the amount of the Casualty Value calculated as provided in the first sentence of this part (i)). Any amount remaining thereafter shall be retained by Lessor as owner of the Aircraft.

(ii) If Lessor recovers the Aircraft and disposes of it pursuant to a lease which is substantially similar to the Lease, then an amount equal to the sum of (A) any accrued and unpaid Rent under the Lease as of the date of commencement (the "Commencement Date") of the term of the new lease, plus (B) the present value as of the Commencement Date of the total Basic Rent for the then remaining term of the Lease, minus (C) the present value as of the Commencement Date of the rent payable under the new lease, but only for the period of the new lease term which commences on the commencement date of the new lease and expires on the Expiration Date of the Lease.

(iii) If Lessor recovers the Aircraft and disposes of it by a lease that is not substantially similar to the Lease, or elects not to dispose of the Aircraft, an amount equal to the sum of (A) any accrued and unpaid Rent as of the date Lessor repossesses the Aircraft or such earlier date as Lessee tenders possession of the Aircraft to Lessor, plus (B) the present value as of the date of delivery under clause (A) of the total Basic Rent for the then remaining Term of the Lease, minus (C) the present value, as of that certain date which may be determined by taking into account Lessor's having a reasonable opportunity to repossess and remarket the Aircraft, of the "market rent" (as computed pursuant to Article 2-A of the UCC) in the continental U.S. on that date, computed for the same lease term; provided, however, Lessee acknowledges and agrees that if Lessor is unable after reasonable effort to dispose of the Aircraft at a reasonable price or the circumstances reasonably indicate that such an effort will be unavailing, the "market rent" in such event will be deemed to be \$0.00, but in the event that Lessor does eventually re-lease or otherwise dispose of the Aircraft, it will apply the net proceeds of such disposition, to the extent received in good and indefeasible funds, as a credit or reimbursement, as applicable, in a manner consistent with the applicable provisions of Article 2-A.

For purposes of computing liquidated damages under parts (ii) or (iii) above only, any amounts discounted to present value, shall be discounted at the rate of the Index Rate plus one percent (1%) per annum, compounded annually. For purposes of computing liquidated damages under parts (ii) or (iii) above only, "Index Rate" shall mean the "one-month" "London Interbank Offered Rate (LIBOR)" as published in The Wall Street Journal in effect, as the case may be, two days prior to the Acceptance Date. Lessor shall have no obligation to make any of the remittances to Lessee that are contemplated in any part of this definition if Lessor has paid such amounts to any guarantor or other Person having a right of subrogation with respect to such amounts, or such guarantor or other Person has demanded the payment of such amount.

Loaner Engine shall have the meaning set forth in Section 9(d) of the Lease.

Maintenance Requirements shall mean, with respect to the Airframe, any Engine, any APU or any Part, all compliance requirements set forth in or under (i) all maintenance manuals initially furnished with respect thereto, including any subsequent amendments or supplements to such manuals issued by the Manufacturer or Supplier from time to time, (ii) all mandatory service bulletins issued, supplied, or available by or through the Manufacturer and/or the Manufacturer of any Engine, any APU or Part with respect thereto, (iii) all applicable airworthiness directives issued by the FAA or similar regulatory agency having jurisdictional authority, (iv) all conditions to the enforcement of any warranties pertaining thereto, (v) Lessee's FAA approved maintenance program with respect thereto, and (vi) all additional requirements, if any, set forth in the Supplemental Maintenance Addendum.

Management Agreement shall mean all of the documents and agreements constituting the management agreement referenced in the Consent to Management Agreement, which documents and agreements shall be in form and substance satisfactory in all respects to Lessor.

Manager shall mean the manager referenced in the Consent to Management Agreement, which manager shall be satisfactory in all respects to Lessor.

Manufacturer shall mean each manufacturer identified on Schedule No. 1 and its successors and assigns.

Material Damage shall mean any damage: (a) required to be reported pursuant to any governmental reporting requirement, (b) with respect to which an insurance claim is being made, or (c) requiring that the Aircraft or any Engine be taken out of service for more than one (1) day to repair.

MSP Contract shall mean a Honeywell Maintenance Service Plan or such other maintenance agreements which shall be entered into from time to time between Honeywell, Inc. (or such other vendor as Lessor may designate or approve in its sole discretion) and Lessee, and which shall be in form and substance satisfactory in all respects to Lessor in its sole discretion, which provide for the maintenance and/or overhaul of the Engines and the APU.

Parts shall mean all appliances, avionics, parts, instruments, appurtenances, accessories, furnishings and other equipment or property of whatever nature (other than Additions or Engines), which may from time to time be incorporated or installed in or attached to the Airframe or any Engine or any APU for so long as title thereto shall be vested in Lessor in accordance with the applicable terms of the Lease.

Permitted Liens shall mean (a) the respective rights of others under subleases, management agreements, or charters, if any, to the extent expressly provided and permitted by the terms of Section 12 of the Lease, (b) Lessor's Liens, and (c) Liens for taxes either not yet due or being contested by Lessee in good faith, and inchoate materialmen's, mechanic's, workmen's, repairmen's, employee's, or other like Liens arising in the ordinary course of business of Lessee for sums not yet delinquent or being contested in good faith, (and for the payment of which adequate assurances and/or security have, in Lessor's sole judgment, been provided to Lessor) with due diligence and by appropriate proceedings, if Lessor shall have determined in its sole judgment that the nonpayment of any such tax or Lien or the contest of any such payment in such proceedings does not and will not adversely affect the title, property or rights of Lessor.

Person shall mean any individual, partnership, corporation, limited liability company, trust, association, joint venture, joint stock company, or non-incorporated organization or government or any department or agency thereof, or any other entity of any kind whatsoever.

Purchase Documents shall mean all fully executed purchase agreements in connection with the acquisition of the Aircraft, including the Engines, assignments of any or all of the Purchase Documents, in form and substance satisfactory to Lessor, invoices and bills of sale from Supplier, naming Lessor as purchaser and any other documents required in Section A.1(a) of the Closing Terms Addendum.

Records shall mean any and all logs, manuals, certificates and data and inspection, modification, maintenance, engineering, technical, and overhaul records (whether in written or electronic form) with respect to the Aircraft (whether in existence as of, or created at any time after, the Acceptance Date), including, without limitation, all records required to be maintained by the FAA or any other governmental agency or authority having jurisdiction with respect to the Aircraft or any Manufacturer or Supplier of the Aircraft (or any part thereof) with respect to the enforcement of warranties or otherwise, which Records shall be at all times the property of the Lessor after the Acceptance Date.

Rent shall have the meaning set forth in Section 3 of the Lease.

Required Documents shall have the meaning set forth in the Closing Terms Addendum.

Requisition of Use shall have the meaning set forth in the Event of Loss definition contained herein.

Return to Manufacturer shall have the meaning set forth in the Event of Loss definition contained herein.

Schedules No. 1, 2, 2-A, 3 or 4 shall mean any of Schedules No. 1, 2, 2-A, 3 or 4, as applicable, to the Lease Supplement.

SEC shall mean the Securities and Exchange Commission.

Supplemental Rent shall have the meaning set forth in Section 3 of the Lease.

Supplier shall mean the "Supplier" or "Suppliers", as the case may be, identified as such on Schedule No. 1 and their respective successors and assigns.

Tax Loss shall have the meaning set forth in the Tax Rider.

Term shall mean the Basic Term together with (i) the period, if any, from and including the Acceptance Date through, but not including, the Rent Commencement Date, and (ii) any Renewal Term or Renewal Terms, if any, entered into pursuant to the Lease.

Transportation Code shall mean Title 49, Subtitle VII of the United States Code, as then in effect.

UCC shall mean the Uniform Commercial Code as in effect in the applicable jurisdiction.

Warranty Bill of Sale shall mean a warranty bill of sale in the form of Exhibit C hereto or such other form of warranty bill of sale as Lessor in its sole discretion shall deem satisfactory.

EXHIBIT B

SPECIAL TAX INDEMNITY RIDER ("Tax Rider") to Lease (S/N 143) dated as of August 25, 2004, (the "Lease") by and between FLEET NATIONAL BANK, as lessor ("Lessor"), and PRIORITY FULFILLMENT SERVICES, INC., as lessee ("Lessee").

All capitalized terms not defined in this Tax Rider are defined in the Lease. Execution of the Lease by Lessee and Lessor shall be deemed to constitute execution and acceptance of the terms and conditions of this Tax Rider, and it shall supplement and be a part of the Lease.

1. LESSOR'S ASSUMPTIONS. In entering into the Lease and the transactions contemplated thereby, Lessor has assumed that: (a) Lessor will be entitled, for federal, state and local income tax purposes, to the following tax benefits (the "Assumed Tax Benefits"): (i) cost recovery deductions under section 168 of the Internal Revenue Code of 1986, as amended (the "Code") commencing in Lessor's taxable year which includes the Acceptance Date, calculated using the 200% declining balance method, switching to the straight line method for the first taxable year for which that method yields a larger deduction, (ii) the half year convention, (iii) a basis equal to 100% of Lessor's Cost, (iv) zero salvage value, and (v) a recovery period of 5 years. and (b) Lessor will be taxed for federal, state and local corporate income and franchise tax purposes at an effective combined tax rate of 37.50% (the "Assumed Tax Rate").

2. LESSEE'S REPRESENTATIONS, WARRANTIES AND COVENANTS. Lessee represents, warrants, and covenants that: (a) the Aircraft will not constitute "property used predominantly outside the United States", "public utility property", or "tax-exempt use property" within the meaning of Sections 168(i)(10) or 168(h) of the Code and (b) neither Lessee nor any member of any group of corporations, limited liability companies, partnerships, or other organizations with which Lessee files consolidated, combined or unitary income or franchise tax returns will file any tax return or other document which is inconsistent with the treatment of the Lessor as the owner of the Aircraft for income tax purposes.

3. INDEMNITY FOR LESSEE'S ACTS OR OMISSIONS.

(a) Indemnity. Upon the occurrence of any Tax Loss, Lessee shall pay to Lessor at Lessor's option either: (i) an amount or amounts that, after reduction by the net amount of all federal, state and local taxes required to be paid by Lessor with respect to the receipt of such amount or amounts, equals the aggregate additional federal, state and local income taxes payable by Lessor as a result of such Tax Loss plus any interest, fines, additions to tax or penalties relating to or in connection with such Tax Loss, which amount shall be payable within thirty (30) days after written notice from Lessor to Lessee that a Tax Loss has occurred, or (ii) additional Rent on each Basic Rent Date, beginning on the Basic Rent Date specified in written notice from Lessor to Lessee that a Tax Loss has occurred, in such amounts as are necessary to maintain Lessor's net after-tax economic yield and overall net after-tax cash flow for the entire Term at the same level that would have been available if such Tax Loss had not occurred, plus any interest, penalties or additions to tax that may be imposed in connection with such Tax Loss. In the event of any Tax Loss, the Casualty Value and any affected option amounts shall be adjusted appropriately by Lessor. Any amount payable by Lessee with respect to a Tax Loss shall be calculated based on the assumptions set forth in Section 1 above.

(b) Tax Loss. For the purposes of this indemnity, any of the following events shall constitute a "Tax Loss": (i) as the result of any act or failure to act of Lessee (regardless of whether any such act or failure to act is permitted by the terms of the Lease or otherwise), or the breach of any of Lessee's representations, warranties, or covenants set forth in this Tax Rider, Lessor shall lose, or shall not have the right to claim, or shall suffer a disallowance or recapture with respect to, or shall receive a lower than anticipated economic benefit from, all or any portion of the Assumed Tax Benefits; (ii) for federal, foreign, state or local income tax purposes, any item of income, loss or deduction with respect to the Aircraft is treated as derived from, or allocable to, sources outside the U.S., and as a result Lessor's allowable foreign tax credit for federal income tax purposes for any year is less than the credit to which Lessor would have been entitled if all such income, loss and deduction had been from U.S. sources; or (iii) during the Term there shall be included in Lessor's gross income for federal, state or local income tax purposes any amount

on account of any Addition, Alteration or other modification or improvement to or in respect of the Aircraft made or paid for by Lessee, or due to an exchange of the Aircraft or any portion of the Aircraft, which results in any reduction to Lessor's anticipated net after-tax economic yield and overall net after-tax cash flow from or as to the Lease.

4. BENEFICIARIES OF THE INDEMNITY. For purposes of this Tax Rider, (a) "Lessor" includes any entity identified as the Lessor, its successors in interest, each assignee and each of their respective successors in interest and assigns, any Consolidated Group (hereinafter defined) of which Lessor or any such assignee or any of their respective successors in interest or assigns is, or may become a member, and each member of such Consolidated Group; and (b) "Consolidated Group" means an affiliated group (within the meaning of Section 1504 of the Code) that files consolidated returns for federal income tax purposes and any group filing combined, unitary or consolidated returns pursuant to the rules of any state taxing authority.

5. SURVIVAL. The indemnification obligations of Lessee under this Tax Rider shall survive the expiration, cancellation or termination of the Lease. Provided that Lessee fully, timely and indefeasibly performs its indemnification obligations under this Tax Rider in accordance with the terms hereof and of the Lease, Lessor shall have no additional remedies with respect to the occurrence of a Tax Loss.

IN WITNESS WHEREOF, the parties hereto have each caused this Tax Rider to be duly executed by their respective officers, thereunto duly authorized as of the date first written above.

FLEET NATIONAL BANK

By: _____

Name: _____

Title: _____

PRIORITY FULFILLMENT SERVICES,
INC.

By: _____

Name: _____

Title: _____

EXHIBIT C
WARRANTY BILL OF SALE

Bombardier Aerospace Corporation (the "Seller"), in consideration of the sum of _____ and ___/100 Dollars (\$ _____) paid by FLEET NATIONAL BANK (the "Buyer"), receipt of which is acknowledged, hereby grants, sells, assigns, transfers and delivers to Buyer the aircraft described below together with the engines installed thereon and all appliances, parts, instruments, appurtenances, accessories, furnishings, avionics, components and other equipment of whatever nature installed on said aircraft and all logbooks, manuals, certificates, data and inspection, modification, maintenance, engineering, technical, overhaul and all other books and records (including all computerized data, records and materials) as pertain to the operation and maintenance of such aircraft (all of the foregoing hereinafter collectively referred to as the "Aircraft"), along with whatever claims and rights Seller may have against the manufacturer and/or supplier of the Aircraft, including, but not limited to, all warranties and representations. At Buyer's request, Seller will cause the manufacturer and/or supplier of the Aircraft to execute an Acknowledgment in form and substance satisfactory to Buyer in its sole discretion.

DESCRIPTION OF AIRCRAFT

Learjet Inc. Model 31A aircraft bearing U.S. Registration Mark N122BX (formerly known as N122FX) and manufacturer's serial number 143 and two (2) Honeywell TFE 731-2-3B aircraft engines respectively bearing manufacturer's serial numbers P-99407 and P-99406.

(See also Schedule A attached hereto and made a part hereof for further description of the Aircraft.)

Seller represents, warrants and agrees to Buyer that (1) Seller is the lawful owner of the full title to the Aircraft and that Buyer will acquire by the terms of this Warranty Bill of Sale good and merchantable full title to the Aircraft free and clear of all mortgages, leases, security interests, claims, charges, liens and encumbrances of any kind whatsoever; (2) Seller has the right to sell the Aircraft as aforesaid; (3) there have been no Form 337's issued concerning any damage history to the Aircraft; (4) to the best of Seller's knowledge, all logs and records relating to the Aircraft are complete and accurate; (5) Seller shall warrant and defend title to the Aircraft and indemnify Buyer against the claims of any person, party, firm, corporation or entity of any kind whatsoever; and (6) the Aircraft had been delivered to Buyer in good order and condition and conforms to the specifications and the requirements and standards applicable thereto.

Seller agrees to save and hold harmless Buyer from and against any and all foreign, Federal, state, municipal and local license fees and taxes of any kind or nature, including, without limiting the generality of the foregoing, any and all excise, personal property, privilege, use and sales taxes, and from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions and suits, including, without limitation, attorney's fees, resulting therefrom and imposed upon, incurred by or asserted against Buyer as a consequence of the sale of the Aircraft to the Buyer.

Seller agrees and acknowledges that the terms and conditions of this Warranty Bill of Sale, including, without limitation, all representations, warranties and agreements for the benefit of Buyer, shall survive the delivery of the Aircraft and the delivery, execution and recording of this Warranty Bill of Sale or any Federal Aviation Administration Bill of Sale.

IN WITNESS WHEREOF, Seller has executed this Warranty Bill of Sale this ____ day of August, 2004.

SELLER:
Bombardier Aerospace Corporation

By: _____
Name: _____
Title: _____

SCHEDULE A

One (1) Learjet Inc. Model 31A aircraft bearing U.S. Registration Mark N122BX (formerly known as N122FX) and manufacturer's serial number 143

Together with:

Two (2) Honeywell TFE 731-2-3B aircraft engines respectively bearing manufacturer's serial numbers P-99407 and P-99406

AVIONICS

Bendix King KFC-3100 System:
Dual Bendix King KCP 420 Digital Flight Guidance Computers
Dual Bendix King KDC 481T Air Data Computers
Universal UNS-1M Flight Management System
Dual Bendix King KAU 461 AHRS Computers
ED 551A Five Tube EFIS/MFD with 5" Displays
KST488 Speed/Temperature Display
Triple Bendix King SG 465 Symbol Generators
Bendix King RDR-2000 Weather Radar
Dual Bendix King VN-411B Nav Units
Dual Bendix King DM-441B DME
Bendix King DF-431B Automatic Direction Finder
Dual Bendix King VC-401B Comm Units
Dual MST-67A Mode S Transponders
Bendix King TPU-67A TCAS II
Universal CVR-30A Cockpit Voice Recorder
Bendix King KRA 405 Rad Alt
Bendix King DM441B DME
Dual KAV 485T Altimeter Vertical Speed / RA Indicators
Dual KAI 487 Airspeed Indicators
Allied Signal Mark VII GPWS

ADDITIONAL EQUIPMENT

Dee Howard TR-4000 Thrust Reversers
Dual Davtron Chronometers Cockpit Clocks
Heads Up Technology Cabin Briefer System
Artex ELT 406 w/Nav Interface
36" Main Cabin Cargo Door
Allied Signal Digital Electronic Engine Controls (DEEC's)
B&D 2700 Cabin Display
Magnastar C-2000
Raisbeck Aft Storage Locker

INTERIOR

Configuration: Eight (8) passengers including a belted lavatory. The forward cabin features a belted private lavatory with a bulkhead divider to separate it from the cabin. The right hand side has an additional storage cabinet. The mid-cabin has two (2) aft facing and two (2) fwd facing club seats with a foldout executive table on either side. The aft cabin has a 3-place divan. The interior is FIREBLOCKED and is FAR 25.853 (a) and FAR 25.853 (c) compliant.

Colors: The cabin seats, armrests and lower side panels are covered with dark blue leather. The headliner and upper side panels are covered with doe colored ultra leather. The cabinets are covered with medium color laminate. The carpet is Kalogridis loop "Carrington" parchment.

EXTERIOR Wichita Executive Aircraft, January 2004

Aircraft base color is Matterhorn White with 2 stripes that run from the radome to the tail. The stripes are Navy Blue and Gray in color.

AND ALL STANDARD EQUIPMENT, ALL ADDITIONS, ACCESSIONS, MODIFICATIONS, IMPROVEMENTS, REPLACEMENTS, SUBSTITUTIONS, AND ACCESSORIES THERETO AND THEREFOR, ALL AVIONICS, ONBOARD EQUIPMENT, LOOSE EQUIPMENT LOCATED IN THE AIRCRAFT, RECORDS, MANUALS, AND LOGBOOKS, IN BOTH WRITTEN AND COMPUTER DATA FORM, AND WHETHER NOW EXISTING OR HEREAFTER ACQUIRED.

INSURANCE ADDENDUM ("Insurance Addendum") to Lease (S/N 143) dated as of August 25, 2004, (the "Lease") by and between FLEET NATIONAL BANK, as lessor ("Lessor"), and PRIORITY FULFILLMENT SERVICES, INC., as lessee ("Lessee").

All capitalized terms not defined in this Insurance Addendum are defined in the Lease. Execution of the Lease by Lessee and Lessor shall be deemed to constitute execution and acceptance of the terms and conditions of this Insurance Addendum, and it shall supplement and be a part of the Lease.

(a) Liability Insurance. Lessee shall maintain at its sole cost and expense for the entire Term with insurers of recognized reputation and responsibility satisfactory to Lessor (but in no event having an A.M. Best or comparable agency rating of less than "A-") (i) comprehensive aircraft and general liability insurance against bodily injury or property damage claims including, without limitation, contractual liability, public liability, death and property damage liability, public and passenger legal liability coverage, and sudden accident pollution coverage, in an amount not less than \$50,000,000.00 for each single occurrence (provided, however, that in the event the Aircraft is chartered to any Person pursuant to Section 12 of the Lease or otherwise, such insurance coverage amount shall not be in an amount of less than \$100,000,000.00 for each single occurrence), and (ii) personal injury liability in an amount not less than \$25,000,000.00.

(b) "All-Risk" Hull Insurance. Lessee shall maintain at its sole cost and expense for the entire Term with insurers of recognized reputation and responsibility satisfactory to Lessor (but in no event having an A.M. Best or comparable agency rating of less than "A-"), "all-risk" ground, taxiing, and flight hull insurance on an agreed-value basis, covering the Aircraft, provided that such insurance shall at all times be in an amount not less than the Casualty Value of the Aircraft (such amount determined at the Acceptance Date and at each anniversary of the Rent Commencement Date for each succeeding year throughout the Term).

(c) War Risk and Allied Perils. Lessee shall also maintain war risk and allied perils (including confiscation, appropriation, expropriation, terrorism and hijacking insurance) in the amounts required in Paragraph (a) and Paragraph (b), as applicable.

(d) Additional Policy Requirements. Any policies of insurance carried in accordance with this Insurance Addendum and any policies taken out in substitution or replacement of any such policies (i) shall be endorsed to name Lessor as the owner of the Aircraft and as additional insured as its interests may appear (but without responsibility for premiums), (ii) with respect to insurance carried in accordance with Paragraphs (b) or (c), as applicable, shall provide that any amount payable thereunder shall be paid to Lessor and Lessee as joint loss payees, (iii) shall provide for thirty (30) days written notice by such insurer of cancellation, material change, or non-renewal; provided, however, that as to only any nonpayment of premium, shall provide for ten (10) days written notice by such insurer of cancellation with regard to any such nonpayment of premium, (iv) include a severability of interest clause providing that such policy shall operate in the same manner as if there were a separate policy covering each insured, (v) waive any right of set-off against Lessee or Lessor, and any rights of subrogation against Lessor, (vi) shall provide that in respect of the interests of Lessor in such policies, the insurance shall not be invalidated by any action or inaction of Lessee or any other Person operating or in possession of the Aircraft regardless of any breach or violation of any warranties, declarations or conditions contained in such policies by or binding upon Lessee or any other Person operating or in possession of the Aircraft, and (vii) shall be primary, not subject to any co-insurance clause and shall be without right of contribution from any other insurance. Notwithstanding clause (ii) of the preceding sentence, so long as no Default has occurred and is continuing, and no Event of Default or Event of Loss with respect to the Aircraft has occurred, the amounts referred to in clause (ii) may be paid, as applicable, either (A) if \$100,000.00, or more, in the aggregate, to Lessor and Lessee, jointly, as their interests may appear, and released by Lessor to Lessee or other appropriate Persons in payment of the costs actually incurred with respect to repairs made to the Aircraft so as to restore it to the operating condition required by the Return Addendum or any other applicable provision of the Lease, or shall be disbursed by Lessor as otherwise required by the Lease, or (B) if less than \$100,000.00 in the aggregate, to Lessee (and such amounts shall be applied by Lessee to pay the costs of such repairs).

(e) World Wide Coverage. All of the coverages required in this Insurance Addendum shall be in full force and effect worldwide throughout any geographical areas to, in, or over which the Aircraft is operated.

(f) No Right To Self-Insure. Lessee shall not self-insure (by deductible, premium adjustment, or risk retention arrangement of any kind) the insurance required to be maintained hereunder.

(g) U.S. Dollars. All insurance proceeds payable under the requisite policies shall be payable in U.S. Dollars.

(h) Adjustments to Coverage. Lessee agrees that it shall obtain and maintain such other insurance coverages, or cause adjustments to be made to the scope, amount or other aspects of the existing insurance coverages, promptly upon Lessor's request, as and when Lessor reasonably determines such additional insurance coverages or modifications to be appropriate in light of any changes in Applicable Law, prudent industry practices, the insurance market, Lessee's anticipated use of the Aircraft or other pertinent circumstances.

CLOSING TERMS ADDENDUM ("Closing Terms Addendum") to Lease (S/N 143) dated as of August 25, 2004, (the "Lease") by and between FLEET NATIONAL BANK, as lessor ("Lessor"), and PRIORITY FULFILLMENT SERVICES, INC. ("Lessee").

All capitalized terms not defined in this Closing Terms Addendum are defined in the Lease. Execution of the Lease by Lessee and Lessor shall be deemed to constitute execution and acceptance of the terms and conditions of this Closing Terms Addendum, and it shall supplement and be a part of the Lease.

A. Purchase and Required Documents. On or prior to the Acceptance Date and at least one full Business Day prior to closing, Lessee shall have delivered or caused to be delivered the following to Lessor, as applicable:

1. "Purchase Documents" including copies of the following:

(a) All purchase and warranty agreements entered into by Lessee or any predecessors in connection with the acquisition of the Aircraft, including the assignment of such purchase agreements to Lessor; (b) warranty bills of sale conveying title to the Aircraft, including the Engines, from Supplier to Lessor; (c) invoices in Lessor's name for the purchase of the Aircraft, including the Engines; (d) evidence of Lessee's tax exempt status for purposes of sales and use tax in evidence and form satisfactory to Lessor, if applicable; and (e) all exhibits, addenda, supplements and revisions, and such other documents relating to the purchase or conveyance of title as Lessor may request.

2. "Required Documents" shall mean and include the following:

(a) All Lease Documents, including four (4) executed counterparts of the Lease, Lease Supplement and Schedules thereto.

(b) UCC assignments, releases and/or termination statements, where needed, relating to the Aircraft and the Collateral in all places which are, in Lessor's opinion, necessary or appropriate to protect Lessor's interest therein.

(c) [This subsection (c) intentionally left blank].

(d) Certificate(s) of good standing for each of Lessee and Guarantor from its state of its organization and the state(s) where the Primary Hangar Location and each of Lessee's and Guarantor's chief executive offices and principal place of business are located.

(e) A certificate or certificates, executed by the secretary or other authorized representative for each of Lessee and Guarantor certifying: (i) that such party's executing, delivering and performing the Lease and all ancillary documentation and entering into the transactions contemplated hereby and thereby have been authorized, and (ii) the name(s) of the person(s) authorized to execute and deliver such documents on behalf of such party together with specimen signature(s) of such person.

(f) Copies of the articles of incorporation or organization and by-laws, or manager's or member's certificate, certificate of formation, and operating agreement, as applicable, for each of Lessee and Guarantor.

(g) Evidence in form and substance satisfactory to Lessor as to the insurance coverage required under the Insurance Addendum, including, but not limited to, a certificate of insurance, copies of endorsements (including a Lessor endorsement), applicable policies and written confirmation from the insurance underwriter or broker that the insurance coverage provided is in compliance with the requirements of the Insurance Addendum of the Lease.

(h) If required by Lessor, an inspection report and/or appraisal satisfactory to Lessor with respect to the Aircraft prepared by inspector(s) or appraiser(s) acceptable to Lessor.

(i) Three (3) duplicate original counterparts of the Guaranty.

(j) Such other documents, certificates and opinions, and evidence of such other matters, as Lessor, Lessor's counsel or FAA Counsel may reasonably request.

B. FAA Documents. On or prior to the Acceptance Date and at least one full Business Day prior to closing, Lessee shall have delivered to FAA counsel the following "FAA Documents", as applicable:

1. Evidence of reservation of a FAA registration number for the Aircraft and/or an Assignment of Special Registration Number (FAA AC Form 8050-64) assigning rights in such "N" number to Lessor with respect to the Aircraft.

2. Evidence of the issuance by the FAA of a Standard Airworthiness Certificate (FAA AC Form 8100-2) for the Aircraft.

3. (a) The executed FAA Aircraft Bill of Sale (FAA AC Form 8050-2) (the "FAA Bill of Sale") in the name of Lessor; (b) the executed FAA Aircraft Registration Application (FAA AC Form 8050-1) (the "Registration Application") (except for the pink copy which shall be available to be placed on the Aircraft upon acceptance thereof); (c) executed releases of any Liens in form and substance satisfactory to FAA Counsel, Lessor's counsel and/or Lessor; (d) one (1) fully executed counterpart of the Lease, and the Lease Supplement and Schedules thereto, all the foregoing being in proper form for filing with the FAA; (e) such other documents as are necessary, in the opinion of FAA Counsel, to vest good title to the Aircraft in the name of Lessor, free and clear of Liens; (f) a Declaration of International Operations if Lessee will fly the Aircraft out of the continental U.S. within thirty (30) days after Closing; and (g) if applicable, a LLC Application or statement acceptable to the FAA.

C. Conditions Subsequent.

1. On or subsequent to the Acceptance Date, but not later than the date of the Aircraft's first flight under the leasehold conveyed herein, Lessee shall confirm to Lessor that pertinent copies of the Registration Application, Standard Airworthiness Certificate, and the Lease, including the Lease Supplement, have been properly placed on the Aircraft. In addition, for all operations outside the continental U.S., the Lessee shall maintain either a permanent Certificate of Registration or "fly-time wire" (FAA Standard Form 14) on-board the Aircraft.

2. Lessee shall confirm to Lessor that (a) within 24 hours following execution thereof, a copy of the Lease was mailed to the Flight Standards Technical Division of the FAA; and (b) Lessee has notified the FAA (such notification to have been given by facsimile transmission, telephone, or in person to the FAA Flight Standards District Office, General Aviation District Office nearest the airport where such flight will originate) concerning the first flight of the Aircraft under the Lease at least forty-eight (48) hours prior to takeoff.

3. Within five (5) business days after the closing, Lessor shall receive an opinion of FAA Counsel satisfactory to Lessor that title to the Airframe is vested in Lessor, that Lessor has a valid and perfected security interest in the Engines, and that the Aircraft (including the Airframe and Engines) is free and clear of all other Liens of record.

PURCHASE, EARLY PURCHASE AND RENEWAL OPTION ADDENDUM ("Option Addendum") to Lease (S/N 143) dated as of August 25, 2004, (the "Lease"), by and between FLEET NATIONAL BANK, as lessor ("Lessor"), and PRIORITY FULFILLMENT SERVICES, INC., as lessee ("Lessee").

All capitalized terms not defined in this Option Addendum are defined herein in the Lease. Execution of the Lease by Lessee and Lessor shall be deemed to constitute execution and acceptance of the terms and conditions of this Option Addendum, and it shall supplement and be a part of the Lease.

Purchase and Renewal Options.

(a) End of Term Purchase Option. So long as (i) no Event of Default shall have occurred, and (ii) Lessee shall not have exercised its renewal option pursuant to Paragraph (b) hereof, Lessee may, upon giving its irrevocable written notice to Lessor at least one hundred fifty (150) days but no more than two hundred forty (240) days prior to the Expiration Date, purchase the Aircraft at the expiration of the Basic Term for an amount, payable in immediately available funds, equal to the Fair Market Sales Value of the Aircraft as of the end of the Basic Term determined in accordance with Paragraph (c) hereof plus any applicable Impositions resulting from such sale, together with any Basic Rent due and payable on or before the Expiration Date and all other accrued and unpaid Rent. Lessor's sale of the Aircraft shall be on an "AS-IS WHERE-IS" basis.

(b) Renewal Option. So long as (i) no Default or Event of Default shall have occurred, and (ii) Lessee shall not have exercised its purchase options pursuant to either Paragraph (a) or (e) hereof, Lessee may renew the Lease for the Renewal Term referred to on Schedule 2-A commencing upon the expiration of the Basic Term. Lessee's option to renew the Lease for a Renewal Term shall be exercisable by giving irrevocable written notice to Lessor at least one hundred eighty (180) days but no more than two hundred forty (240) days prior to the expiration of the Basic Term. All of the provisions of the Lease shall be applicable during the Renewal Term, except that, the Basic Rent shall be an amount equal to the Aircraft's Fair Market Rental Value, which shall be determined in accordance with Paragraph (c) hereof and the Expiration Date shall be the last day of the Renewal Term. During the Renewal Term, Basic Rent shall be payable in the same manner and frequency as the Basic Rent was payable during the Basic Term, which payment dates shall be deemed "Basic Rent Dates" for purposes of the Lease.

(c) Determination of Fair Market Sales and Rental Values. If Lessee has elected either of the options specified above, then as soon as practicable thereafter, Lessor and Lessee shall consult for the purpose of determining the Fair Market Sales Value or Fair Market Rental Value, as applicable, of the Aircraft as of the end of the Basic Term, and any values agreed upon in writing between Lessor and Lessee shall be binding on both parties. If Lessor and Lessee fail to agree upon any such value prior to one hundred thirty-five (135) days before the expiration of the Basic Term, Lessor shall then appoint an independent appraiser (reasonably acceptable to Lessee) to determine the applicable value, and such determination by the independent appraiser shall be made within thirty (30) days after such appointment and shall be binding on Lessor and Lessee. The independent appraiser shall make any such determination utilizing the definition of Fair Market Sales Value or Fair Market Rental Value, as the case may be, including all assumptions. Lessee agrees to pay the costs and expenses of any such determination and appraisal.

(d) Time to Exercise Option. Notwithstanding the provisions of Paragraphs (a) and (b), Lessee shall be deemed to have waived the foregoing purchase option and renewal option unless Lessee provides Lessor with written notice of its irrevocable election to exercise the applicable option within one hundred eighty (180) days prior to the expiration of the Basic Term.

(e) Early Purchase Option. So long as no Default or Event of Default shall have occurred, Lessee may, upon giving its irrevocable written notice to Lessor at least one hundred twenty (120) days but no more than one hundred eighty (180) days prior to the proposed Early Purchase Date, purchase the Aircraft on the Early Purchase Date for an amount, payable in immediately available funds, equal to the applicable Early Purchase Option Amount, plus any applicable Impositions resulting from such sale, together with any Basic Rent due and payable on or before the Early Purchase Date and all other accrued

and unpaid Rent. Lessor's sale of the Aircraft shall be on an "AS-IS WHERE-IS" basis. The Lease shall not be deemed terminated unless, on the Early Purchase Option Date, (i) Lessor receives the amounts specified in the preceding sentence in indefeasible funds, and (ii) Lessee satisfies any and all other conditions imposed by Lessor with respect to the sale of the Aircraft.

EARLY TERMINATION ADDENDUM ("Early Termination Addendum") to Lease (S/N 143) dated as of August 25, 2004, (the "Lease"), by and between FLEET NATIONAL BANK, as lessor ("Lessor"), and PRIORITY FULFILLMENT SERVICES, INC., as lessee ("Lessee").

All capitalized terms not defined in this Early Termination Addendum are defined herein in the Lease. Execution of the Lease by Lessee and Lessor shall be deemed to constitute execution and acceptance of the terms and conditions of this Early Termination Addendum, and it shall supplement and be a part of the Lease.

So long as no Default or Event of Default shall have occurred and be continuing hereunder and provided that Lessee shall have made a good faith determination that the Aircraft is economically obsolete or surplus to its needs, Lessee shall be entitled, at its option, upon at least one hundred twenty (120) days prior written notice to Lessor to terminate this Lease as of any Early Termination Date.

During the period from the giving of such notice until the proposed Early Termination Date, Lessee, as agent for Lessor and at no cost or expense to Lessor of any kind whatsoever, shall use its best efforts to obtain the highest possible bids for the purchase of the Aircraft. Lessor may, but shall be under no obligation to, solicit bids for the purchase of the Aircraft. Lessee shall promptly certify to Lessor in writing the amount and terms of each bid received by Lessee and the name and address of the person submitting such bid. All of such bids shall be subject to the prior written approval of Lessor and Lessee shall inform all bidders of such requirement when requesting any bids. Without limiting the generality of any terms of the Lease, prior to soliciting bids for the sale of the Aircraft, the Aircraft shall be in the condition required under the Lease. On the Early Termination Date, Lessor shall sell the Aircraft for cash to the bidder who shall have submitted the highest bid prior to such date, and title to the Aircraft shall be transferred by Lessor to such bidder on an "AS-IS WHERE-IS" basis. Lessor may, at its option, elect not to sell the Aircraft and retain title to the Aircraft whereupon the lease of the Aircraft shall be terminated as of the Early Termination Date. The total sale price realized at such sale shall be retained by Lessor and, in addition, on the Early Termination Date, Lessee will pay to Lessor (1) the excess, if any, of (A) the greater of the Fair Market Sales Value and the Early Termination Amount of the Aircraft on the Early Termination Date, over (B) the sale price of the Aircraft after deducting all taxes, costs and expenses (including legal fees and expenses) incurred or paid by Lessor in connection with such sale; plus (2) all Basic Rent due for the Aircraft on such Early Termination Date together with all accrued and unpaid Rent then due and owing for the Aircraft (all of the amounts set forth in this subclauses (2) collectively the "outstanding termination amounts"). If for any reason no sale shall occur on the Early Termination Date, the lease of the Aircraft hereunder shall continue in full force and effect or, at Lessor's option, the Lessee shall pay to Lessor the greater of the Fair Market Sales Value and the Early Termination Amount of the Aircraft on the Early Termination Date together with the outstanding termination amounts and all taxes, costs and expenses (including legal fees and expenses) incurred or paid by Lessor in connection with such any proposed sale whereupon the lease of the Aircraft shall be terminated as of the Early Termination Date and title to the Aircraft shall be transferred by Lessor to Lessee on an "AS-IS WHERE-IS" basis.

For purposes of this Early Termination Addendum, the following terms shall have the following meanings:

"Early Termination Amount" for any Basic Rent Date designated as an Early Termination Date on Schedule No. 4 to the Lease Supplement to the Lease shall be the amount determined by multiplying the Lessor's Cost of the Aircraft by the percentage set forth opposite the applicable Early Termination Date set forth on Schedule No. 4 to the Lease Supplement.

"Early Termination Date" shall mean each of the Basic Rent Number(s) designated as such on Schedule No. 4 to the Lease Supplement.

"Fair Market Sales Value" shall mean the value of the Aircraft determined on the following basis: (i) the value shall be the amount which would be obtained in an arm's length transaction between an informed and willing buyer or lessee (who is neither a lessee in possession nor a used equipment dealer), and an informed and willing seller or lessor, as the case may be, under no compulsion to sell or lease, as

the case may be; (ii) the costs of removal of the Aircraft from its then location shall not be a deduction from such value; and (iii) in determining any such value, it shall be assumed (whether or not the same be true) (A) that the Aircraft has been maintained by Lessee and is in the condition in which it is required to be returned to Lessor, in each case, in accordance with the Lease, (B) such value has not been diminished due to the existence of any damage history, and (C) that the total number of Airframe hours (including any component with hourly overhaul schedules) accumulated from the Acceptance Date to the Early Termination Date or other date of termination or cancellation do not exceed the product of Estimated Annual Hours times the number of twelve month periods and any portion thereof, from the Acceptance Date to such Early Termination Date or such other termination or cancellation date.

RETURN ADDENDUM ("Return Addendum") to Lease (S/N 143) dated as of August 25, 2004, (the "Lease") by and between FLEET NATIONAL BANK, as lessor ("Lessor"), and PRIORITY FULFILLMENT SERVICES, INC., as lessee ("Lessee").

All capitalized terms not defined in this Return Addendum are defined in the Lease. Execution of the Lease by Lessee and Lessor shall be deemed to constitute execution and acceptance of the terms and conditions of this Return Addendum, and it shall supplement and be a part of the Lease.

(a) Condition Upon Return. Unless purchased by Lessee, upon the expiration, cancellation, or other termination of the Lease, Lessee will return the Aircraft (together with all Records) to Lessor at a location specified by the Lessor within the continental U.S. The Aircraft shall be fully equipped with the Engines or the same number, make, and model of engines as are set forth on Schedule No. 1, which shall fully comply with the Lease, and which, in the opinion of Lessor, have the same or improved utility, value, useful life, performance, and efficiency (normal wear and tear excepted) as the Engines had on the Acceptance Date and are suitable for use on the Airframe and owned by Lessor and properly installed thereon. The Aircraft, at Lessee's expense, upon redelivery pursuant hereto (i) shall have a currently effective FAA airworthiness certificate; (ii) shall be free and clear of all Liens other than the Lease and any Lessor's Liens; (iii) shall be in the same configuration, coloring and appearance and in the same operating condition, ordinary wear and tear excepted, as when delivered to Lessee on the Acceptance Date or, at Lessor's option, Lessee shall pay to Lessor an amount equal to the actual cost of such restoration; (iv) shall be in good operating condition, physical condition and appearance (ordinary wear and tear excepted), with all systems operating normally; (v) shall have no damage history, unless such damage has been repaired in accordance with the Lease; (vi) shall have no open mandatory service bulletins or airworthiness directives, and if terminating action is required within six (6) months of the date of return, Lessee shall comply with each of the same by terminating action, and shall be in compliance with all other Applicable Law and Maintenance Requirements; and (vii) shall be otherwise in the condition and repair required under the Lease.

(b) Damage History and Excess Use Compensation.

(i) Damage History. If Lessor is of the opinion that the Aircraft's fair market sales value is diminished due to the existence of any damage history, Lessor and Lessee shall consult for the purpose of determining the Diminution Amount (as defined below), and any values agreed upon in writing between Lessor and Lessee shall be binding on both parties. The "Diminution Amount" shall mean the amount by which (A) the Fair Market Sales Value of the Aircraft without such damage history, exceeds (B) the Fair Market Sales Value of the Aircraft with such damage history (and as to this sub-clause (B), without making the assumption in clause (iii)(B) of the definition of Fair Market Sales Value). If Lessee and Lessor fail to agree within ten (10) days after the return of the Aircraft to Lessor, then Lessor shall appoint an independent appraiser (reasonably acceptable to Lessee) to determine the Diminution Amount. Lessee agrees to pay the costs and expenses of any such determination and appraisal. The independent appraiser shall be required to complete such determination as promptly as practicable, but in any event, not later than forty (40) days after the date on which it is appointed. A final determination by the independent appraiser regarding the extent of any Diminution Amount shall be binding on Lessee and Lessor. Lessee shall pay to Lessor within ten (10) days after the independent appraiser's determination an amount equal to the Diminution Amount, if any.

(ii) Excess Use. Upon the return of the Aircraft to Lessor, Lessor and Lessee shall consult for the purpose of determining the Excess Use Amount (as defined below), if any, and any amount so agreed upon in writing between Lessor and Lessee shall be binding on both parties. The "Excess Use Amount" shall mean the amount, if any, by which (A) the Fair Market Sales Value of the Aircraft without such Excess Hours, exceeds (B) the Fair Market Sales Value of the Aircraft with such Excess Hours (and as to this subclause (B), without making the assumption in clause (iii)(C) of the definition of Fair Market Sales Value). If Lessor and Lessee fail to agree within ten (10) days after the return of the Aircraft to Lessor, then Lessor shall appoint a fully qualified and independent appraiser (reasonably acceptable to Lessee) to determine the Excess Use Amount. Lessee agrees to pay the costs and

expenses of any such determination and appraisal. The independent appraiser shall be required to complete such determination as promptly as practicable, but in any event, not later than forty (40) days after the date on which it is appointed. A final determination by the independent appraiser regarding the extent of the Excess Use Amount, if any, shall be binding on Lessor and Lessee. Lessee shall pay to Lessor within ten (10) days after the independent appraiser's determination an amount equal to the Excess Use Amount.

(c) Mid-Life Condition. Upon return (i) each Engine and APU shall have available operating hours or months until the next scheduled "hot section" inspection, mid-life inspection or the next scheduled major overhaul of not less than fifty percent (50%) of the total operating hours or months available between such hot section inspection, mid-life inspection, or major overhaul, as the case may be; (ii) the Airframe shall have remaining not less than (aa) fifty percent (50%) of the available operating hours allowed between major airframe inspections; and (bb) fifty percent (50%) of the number of available operating months allowed between major airframe inspections until the next scheduled major airframe inspection; and (iii) all life limited parts and components shall have remaining not less than fifty percent (50%) of the available hours, cycles and/or months, as the case may be, until the next scheduled replacement. In addition to the requirements set forth in clauses (i), (ii), and (iii) above, all inspections and scheduled maintenance required to be performed on the Airframe, Engines and APU and all life limited parts and components within one hundred twenty (120) days of the date of return and/or one hundred (100) hours of additional operation shall have been performed by Lessee.

(d) Engines. If any Engine does not comply with Paragraph (c)(i) above, for each such Engine, Lessee shall pay Lessor an amount equal to the sum of (i) the current estimated cost of the next scheduled "hot section" or mid-life inspection, as the case may be (including in such estimated cost, all required replacements of life limited parts) multiplied by the fraction wherein the numerator shall be the greater of (A) zero, and (B) the remainder of (x) the actual number of operating hours or months since the previous hot section or mid-life inspection, as the case may be, minus (y) fifty percent (50%) of the total operating hours or months allowable between hot section or mid-life inspections, as the case may be, and the denominator shall be the total operating hours or months allowable between hot section or mid-life inspection, as the case may be, plus (ii) for each such Engine, the product of the current estimated cost of the next scheduled major overhaul (including in such estimated cost, all required replacements of life limited parts) multiplied by the fraction wherein the numerator shall be the greater of (A) zero, and (B) the remainder of (x) the actual number of hours of operation since the previous major overhaul minus (y) fifty percent (50%) of the total operating hours allowable between major overhauls, and the denominator shall be the total operating hours allowable between major overhauls. Lessee shall, immediately upon request, assign to Lessor its rights under any manufacturer's maintenance service contract or extended warranty for the Aircraft, any engine, any APU, or part.

(e) Airframe. If the Airframe does not comply with Paragraph (c)(ii) above, Lessee shall pay to Lessor an amount equal to the sum of the product of the current estimated cost of the next scheduled major airframe inspection (including in such estimated cost, all required replacement of life limited parts) multiplied by the fraction wherein the numerator shall be the greater of (i) zero, and (ii) the remainder of (x) the actual number of respective operating hours or months of operation since previous major airframe inspection, minus (y) 50% of the respective total operating hours or months of operation allowable between scheduled major airframe and pressure vessel inspections, and the denominator shall be the respective total operating hours or months of operation between scheduled major airframe inspections.

(f) Maintenance Contracts. Lessee need not compensate Lessor as contemplated in Paragraphs (d) or (e), as the case may be, if at the time of the return of the Aircraft to Lessor:

(i) in the case of Paragraph (d),

(A) both of the Engines are covered by a service and maintenance contract in form and substance satisfactory to Lessor which provides for the maintenance and/or overhaul of such property,

(B) either (x) adequate reserves for future required maintenance and/or overhaul shall have been provided for pursuant to such maintenance contract, or (y) all amounts due and payable pursuant to such maintenance contract shall have been paid in full through the date of return, and

(C) the entity which provides the maintenance and/or overhaul services under such maintenance contract shall either (x) recognize the transfer by Lessee to Lessor of the rights and interests of Lessor (or its designee) under such maintenance contract, or (y) acknowledge the rights and interests of Lessor (or its designee) under such maintenance contract, and

(ii) in the case of Paragraph (e),

(A) the Airframe is covered by a service and maintenance contract in form and substance satisfactory to Lessor which provides for the maintenance and/or overhaul of such property,

(B) either (x) adequate reserves for future required maintenance and/or overhaul shall have been provided for pursuant to such maintenance contract, or (y) all amounts due and payable pursuant to such maintenance contract shall have been paid in full through the date of return, and

(C) the entity which provides the maintenance and/or overhaul services under such maintenance contract shall either (x) recognize the transfer by Lessee to Lessor of the rights and interests of Lessor (or its designee) under such maintenance contract, or (y) acknowledge the rights and interests of Lessor (or its designee) under such maintenance contract.

(g) Parts and Components. If any life limited part or component does not comply with Paragraph (c)(iii) above, Lessee shall pay to Lessor with respect to each part or component for which said requirement is not met the dollar amount obtained by multiplying (i) the ratio that the life expended in excess of fifty percent (50%) of the available hours, cycles and/or months, as the case may be, until the next scheduled replacement bears to the total allowable life (measured in hours, cycles and/or months, as the case may be) for such part or component by (ii) Lessor's cost of replacement of such part or component. Lessor's cost of replacement of a part or component shall include Lessor's then current cost of purchasing the part or component itself and all of Lessor's then current costs associated with the replacement.

(h) Inspection Overhaul Charges. All restoration costs and prorated inspection and/or overhaul charges, if any, shall be due upon presentation to Lessee of an invoice setting forth in reasonable detail the calculation of such amounts due, including the names of all sources used for the required cost estimates. Unless both Lessor and Lessee agree to an alternative source, or as provided herein, the Manufacturers of the Airframe and Engines shall be used as the sources for all cost estimates.

(i) Fuel. Upon return, each fuel tank shall contain no less than fifty percent (50%) of its full capacity, or in the case of differences in such quantity, an appropriate adjustment will be made at the then current market price of fuel.

(j) Records. Lessee shall deliver all Records to Lessor, including:

(i) All of the following: (A) all records of maintenance, preventative maintenance, alterations and major repairs, (B) all Airframe and Engine logbooks endorsed for current total time and cycles for the airframe, total time and cycles for each Engine and an entry for total time and cycles since overhaul and hot section inspection for each Engine; and the Airframe logbook must include all appropriate endorsements (i.e., maintenance releases) verifying that the avionics have been periodically tested and inspected in accordance with all applicable provisions of the FARs and the applicable maintenance program, (C) a current written summary certified by a FAA-licensed mechanic listing the status of all applicable airworthiness directive and service bulletins for the Airframe, Engines, any APU, Parts and appliances, and (D) a written summary certified by a FAA-licensed mechanic of the current status of life limited and/or overhauled components for the Airframe, Engines (in accordance with the Manufacturer's recommended intervals), Engine

accessories, any APU, Parts and appliances as defined in the most current revision(s) of all Manufacturers' maintenance publications applicable to the Aircraft.

(ii) The following documentation and data for each component having an overhaul or inspection requirement of life limit, which components are identified in pertinent sections of the maintenance program applicable to the Aircraft as follows: (A) an airworthiness release certificate or maintenance release tag, (B) the Vendor work order or copy thereof verifying the details of each component overhaul, and (C) an appropriate record certifying the date and expended time status of the component when installed (i.e., copy of log or inspection squawk card), all of which must be properly organized and provided on board the Aircraft at the time it is returned to Lessor.

(iii) To the extent not covered above, Lessee will also deliver to Lessor all work cards, computerized maintenance history, component serviceability tags, STCs, 337s, maintenance manuals, and structural repair manuals.

All manuals or other documents delivered to Lessor which are subject to periodic revision will be fully up-to-date and current to the latest revision standard of any particular manual or document. If the Aircraft is on a computerized maintenance program, such program will be up-to-date in accordance with the Manufacturer's recommended maintenance schedule and fully assignable to Lessor at redelivery. Lessee will provide all of the following Records to Lessor upon return of the Aircraft to Lessor, regardless of whether Lessee has conducted its periodic inspections of the Aircraft pursuant to pertinent sections of the Maintenance Program or in accordance with an inspection program approved by the FAA. In the event any Records are missing or incomplete, Lessor shall have the right to cause any such Records to be reconstructed at Lessee's expense. All Records shall be in English.

(k) Storage. Upon the expiration, cancellation or other termination of the Lease, Lessee will, if requested by Lessor, permit Lessor to store the Aircraft at the Primary Hangar Location for up to thirty (30) days. During such storage period Lessee will, at its own expense, keep the Aircraft properly hangared and will permit Lessor or any Person designated by Lessor, including the authorized representatives of any prospective purchaser, lessee or user of the Aircraft to inspect the same. Lessee shall bear the risk of loss and shall pay any and all expenses connected with insuring and maintaining the Aircraft during such storage period. Notwithstanding the foregoing, upon the cancellation or termination of the Lease in connection with an Event of Default, the storage period provided for in this paragraph and the obligation to hangar and insure the Aircraft shall be unlimited.

(l) Replacement Engines. If any engine not owned by Lessor shall be installed on the returned Airframe as set forth in Paragraph (a) hereof, then Lessee will, concurrently with such delivery, at its own expense, furnish Lessor with a full warranty bill of sale, in form and substance satisfactory to Lessor with respect to each such engine and with a written opinion of FAA Counsel to the effect that, upon such return, Lessor will acquire a valid and perfected interest in such engine free and clear of all Liens (except Lessor's Liens). Thereupon, unless a Default or Event of Default shall have occurred and be continuing, Lessor will transfer to Lessee, on an "AS-IS, WHERE-IS" basis, all of Lessor's right, title and interest in and to any Engine not installed on the Airframe at the time of the return of such Airframe.

(m) Inspections. Not more than forty-five (45) days prior to the expiration of the Lease, upon the written request of Lessor, Lessee shall certify to Lessor that the Aircraft is in the condition required by this Return Addendum, or indicate what maintenance or repair is needed to bring the Aircraft to the specified condition. Without limiting the provisions of Section 14(d) of the Lease, Lessor shall have the right, but not the duty, to inspect the Aircraft, any component thereof and/or the Records, at any reasonable time and from time to time, wherever located, upon reasonable prior written notice to Lessee except that no advance notice shall be necessary prior to any inspection conducted, and such inspection may be conducted at any time, after the occurrence of a Default or an Event of Default. Upon request of Lessor, Lessee shall promptly confirm to Lessor the location of the Aircraft and/or the Records. Lessee shall be responsible for the cost of such inspection and shall pay Lessor such amount as additional Rent within ten (10) days of demand. If the results of such inspection indicate that the Aircraft, any Engine, any APU or Part, has not

been maintained or returned in accordance with the provisions of the Lease, in addition to all other Rent due under the Lease, Lessee shall pay to Lessor within ten (10) days of demand, as liquidated damages, the estimated cost of servicing or repairing any such non-complying item. Such amount shall be determined by Lessor by obtaining two quotes for such service or repair work and taking their average. Lessee shall bear the cost, if any, incurred by Lessor in obtaining such quotes.

(n) Holdover Rent. If Lessee fails to return the Aircraft (including the Records) at the time, place and in the condition specified in this Return Addendum, all of Lessee's obligations under the Lease shall continue until it is so returned to Lessor, as liquidated damages, and not as a penalty, and, in addition to all other Rent due under the Lease, Lessee shall pay to Lessor an amount equal to the greater of the fair market rent value (which for the purposes of this Section shall be as determined by Lessor) or the Daily Rent for each day after the end of the Term to, but excluding the day the Aircraft is actually returned in accordance with this Return Addendum; provided, however, that the obligation to pay any such holdover or additional rent shall neither extend the time to return, nor constitute a waiver of any Default or Event of Default arising by reason of such failure to return. Such amount shall be payable upon the earlier of Lessor's demand or the return of the Aircraft in accordance with the Lease.

(o) Lease Termination. Lessee agrees to execute, if requested by Lessor, a lease termination statement.

(p) Supplemental Rent. All of the amounts payable under this Return Addendum shall constitute Supplemental Rent.

(q) Survival. The provisions of this Return Addendum shall survive the expiration, cancellation or other termination of the Lease and the return of the Aircraft to Lessor for any reason whatsoever.

(r) Injunctive Relief. Without limiting any other terms or conditions of the Lease, the provisions of this Return Addendum are of the essence of the Lease, and upon application to any court of equity having jurisdiction, Lessor shall be entitled to a decree against Lessee requiring specific performance of the covenants of Lessee set forth herein.

GUARANTY

Whereas, PFSWeb, Inc., among others, has requested that Fleet National Bank enter into the Agreement (as such term is defined below) with Priority Fulfillment Services, Inc.; and

Whereas, PFSWeb, Inc. is the majority holder and owner of all of the stock of Priority Fulfillment Services, Inc. and also intends to benefit from the use of the aircraft subject to the Agreement (in accordance with all applicable law, including, without limitation, all applicable Federal Aviation Administration rules and regulations); and

Whereas, in order to induce Fleet National Bank to enter into the Agreement with Priority Fulfillment Services, Inc., PFSWeb, Inc., has offered and agreed to guarantee all of the obligations of Priority Fulfillment Services, Inc. to Fleet National Bank under, among other things, the Agreement; and

Whereas, Fleet National Bank has agreed to enter into the Agreement, subject to the terms and conditions of the Agreement and its receipt of, among other things, this Guaranty from PFSWeb, Inc.

This Guaranty (this "GUARANTY") is executed and delivered as of the date set forth below by the undersigned guarantor (the "GUARANTOR") in favor of FLEET NATIONAL BANK, located at c/o Fleet Capital Corporation, One Financial Plaza, Fifth Floor, Providence, RI 02903-2305 ("FLEET"). Priority Fulfillment Services, Inc. located at 500 North Central Expressway, 5th Floor, Plano, Texas 75074 ("CUSTOMER") has requested that Fleet enter into that certain Lease (S/N 143) dated as of August 25, 2004 (as amended, supplemented or restated from time to time, and together with any and all other documents, instruments, certificates and other agreements relating thereto, including, without limitation, any promissory notes relating thereto, the "AGREEMENT"), between Fleet and Customer, and this Guaranty is a condition to Fleet's entering into the Agreement. The term "CUSTOMER," if defined to include more than one party, shall mean "CUSTOMER AND EACH OF THEM" and this Guaranty shall secure payment of all of their respective Obligations (hereinafter defined) to Fleet. Fleet is unwilling to enter the Agreement with Customer, unless Guarantor absolutely and unconditionally guarantees to Fleet the payment and performance of all such Obligations of Customer at any time owing to Fleet. With knowledge that Fleet will enter into the Agreement with or otherwise extend financial accommodations to Customer in reliance upon the existence of this Guaranty and the validity and enforceability of the obligations and liabilities of Guarantor to Fleet contemplated hereby, Guarantor agrees with Fleet as follows:

1. GUARANTY. Guarantor guarantees to Fleet the prompt payment and/or performance of all indebtedness, obligations and liabilities of Customer at any time owing to Fleet, whether direct or indirect, matured or unmatured, primary or secondary, certain or contingent, or acquired by or otherwise created in favor of Fleet, including without limitation any and all rent, loan, purchase or other installment payments, principal balances, taxes, indemnities, liquidated damages, accelerated amounts, return deficiency charges, casualty value payments, transaction expenses and other reimbursements, administrative charges, all interest, including late charge interest, attorneys' fees or enforcement and other costs, which may at any time be payable in connection with the Agreement, together with all claims for damages arising from or in connection with the failure to punctually and completely pay or perform such obligations, whether or not such obligations are from time to time reduced or extinguished and thereafter increased or incurred (collectively, the "OBLIGATIONS"). This Guaranty is a guaranty of payment and performance, and not a guaranty of collection, and Guarantor hereby undertakes and agrees, that if Customer or Guarantor is in Default (defined below) hereunder for any reason, Guarantor shall (i) punctually pay any such Obligations requiring the payment of money, as an obligation for payment due and owing directly from Guarantor to Fleet and without any abatement, reduction, setoff, defense, counterclaim or recoupment, and (ii) punctually perform any and all Obligations not requiring the payment of money for the benefit of Fleet, as an obligation for performance due and owing directly from Guarantor to Fleet. Guarantor shall be deemed to be primarily liable for each Obligation and not merely as a surety thereof.

2. ABSOLUTE, UNCONDITIONAL, JOINT AND SEVERAL NATURE OF GUARANTY. The obligations of Guarantor hereunder are absolute, unconditional and irrevocable, may not be cancelled, terminated, repudiated or rescinded for any reason, and shall be joint and several with each Guarantor executing this Guaranty and each other party that may be liable, directly or indirectly, for the payment or performance of any Obligations. If this Guaranty is executed by more than one party, the term "GUARANTOR" as used herein shall mean (unless the context otherwise requires) "THE GUARANTOR AND EACH OF THEM" and each and every undertaking shall be their joint and several undertaking. If Customer is a

partnership or a limited liability company, the obligations of Guarantor herein contained shall remain in full force and effect notwithstanding any changes in the individuals or members comprising the partnership or the limited liability company, and the term "CUSTOMER" shall include any altered or successive partnerships or limited liability companies. Guarantor shall not be released from any obligations under or in respect of this Guaranty for any reason, nor shall such obligations be reduced, diminished or discharged for any reason, including:

- (a) MODIFICATIONS ;INDULGENCES; PAYMENT APPLICATIONS. Any modifications, renewals, or alterations of any agreement, document or instrument relating to any Obligation; any indulgences, adjustments, preferences, extensions or compromises made by Fleet in favor of Customer or Guarantor or any other party; or the application of any payments and receipts, by whomever paid and/or however realized, to any amounts owing by Guarantor or Customer to Fleet in such manner as Fleet shall determine in its sole discretion.
- (b) CONDITION OF CUSTOMER OR GUARANTOR. Any insolvency, bankruptcy, arrangement, adjustment, composition, liquidation, disability, dissolution, appointment of a receiver for, or other similar proceeding affecting Customer or Guarantor; any sale, lease or other disposition of any of the assets of Customer or Guarantor; any reorganization of, or change in the composition of the shareholders, partners or members of, Customer or Guarantor; or any termination of, or other change in, the relationship between Customer and Guarantor.
- (c) INVALIDITY OF OBLIGATIONS OR OTHER AGREEMENTS. The invalidity, illegality or unenforceability of any Obligation for any reason whatsoever, including, but not limited to: the existence of valid defenses, counterclaims or off-sets to any Obligation; the violation of applicable usury or other laws by any Obligation; or the lack of authenticity or genuineness of any document or instrument relating to the Obligations. This Guaranty shall be in addition to any other guaranty or other security for the Obligations, and it shall not be prejudiced or rendered unenforceable by the invalidity or unenforceability of any such other guaranty or security.
- (d) RELEASE OF CUSTOMER. Any complete or partial release of Customer or any other party liable for any Obligation for any reason.
- (e) RELEASE AND CARE OF COLLATERAL; STATUS OF LIENS. Any sale, transfer, release, surrender, exchange, deterioration, waste, loss or impairment of any property transferred or assigned by Customer, Guarantor or any other party as collateral in respect of any Obligation, or otherwise acquired by Fleet for lease to Customer, in connection with the Agreement (collectively, the "COLLATERAL"), whether negligent or willful; the failure of Fleet or any other party to exercise reasonable care in the care, custody, preservation, protection, sale or other treatment of any of any Collateral; the failure of Fleet or any other party to create or properly perfect Fleet's rights, title or interests in any Collateral, or any mortgage, pledge, security interest, transfer or assignment of any Collateral (a "LIEN"); the unenforceability of any Lien; the creation of any lien or encumbrance on any Collateral in favor of any other party, or the subordination of any Lien in favor of Fleet to any such other lien or encumbrance; or the taking or accepting by Fleet of any other security for, or assurance of payment of, any Obligation.
- (f) OTHER ACTION OR INACTION. Any other action or inaction on the part of Fleet, whether or not such action or inaction prejudices Guarantor or increases the likelihood or amount that Guarantor will be required to pay or perform in connection with any Obligation pursuant to the terms hereof.

It is the obligation of Guarantor to discharge the Obligations when due, notwithstanding any occurrence, circumstance, event, action or omission whatsoever, whether or not particularly described herein. Guarantor is not entering into this Guaranty in reliance on the value or the availability of any Collateral. Guarantor acknowledges that Guarantor may be required to pay the Obligations, in full, without the assistance or support of any other party. Guarantor has not been induced to enter into this Guaranty on the basis that any party other than Customer will be liable to perform any Obligations or that Fleet will look to any other party to perform any Obligation. Fleet may release, or settle with, the Customer, any Guarantor, or any other party liable, directly or indirectly, for the performance of any Obligation, all without affecting the liability of any other party to this Guaranty. To the extent that this Guaranty is secured by property of Guarantor, Fleet shall not be obligated to release its security interest in such property until all applicable preference periods have

passed with respect to payments of Obligations made to Fleet.

3. WAIVERS. Guarantor waives:

- (a) ACTION AGAINST OTHERS. Any right to require Fleet to: institute suit or exhaust remedies against Customer or any other party liable for any Obligation; enforce Fleet's rights in any of the Collateral or other security which is at any time given to secure any Obligation; enforce Fleet's rights against any other Guarantor or any other party liable on any Obligation; join Customer or any other party liable for any Obligation in any action seeking to enforce this

Guaranty; or exhaust any other remedies available to Fleet or resort to any other means of obtaining payment or performance of any Obligation.

- (b) NOTICES. Notice of the execution, delivery or acceptance by Fleet, Customer or any other party, of this Guaranty or any document, agreement or instrument evidencing any Obligation; notice of the amount of credit extended by Fleet to Customer at any time, whether primary or secondary; notice of modifications or extensions of any Obligation; notice of defaults, or other non-performance by Customer in connection with any Obligation; notice of the transfer or disposition by Fleet of any Obligation; notice of the repossession, sale or other disposition of any of the Collateral; notice of the acceptance of this Guaranty by Fleet; demand and presentation for payment upon Customer or any other party liable for any Obligation; protest, notice of intention to accelerate or notice of acceleration of any Obligation, notice of protest and diligence in bringing suit against Customer or any other party; and any other action or inaction on the part of Fleet in connection with this Guaranty or any Obligation.
- (c) SUBROGATION. Any right which Guarantor may at any time have against Customer, or any other party liable for any Obligation, as a result of the performance by Guarantor of its obligations under this Guaranty, including, but not limited to contractual, statutory and common law rights of subrogation, reimbursement, indemnification, set-off or contribution, until all Obligations owing to Fleet have been paid and performed in full.
- (d) SURETYSHIP DEFENSES. Any defenses which Guarantor may have or assert against the enforcement of this Guaranty or any Obligation based upon suretyship principles or any impairment of Collateral.

4. REPRESENTATIONS; WARRANTIES; COVENANTS. Guarantor hereby represents, warrants, covenants and agrees that:

- (a) BENEFIT. Guarantor is the owner of 50% or more of the capital stock or membership interests or other equity ownership of the Customer, and has received, or will receive, substantial benefit from the agreements and transactions giving rise to the Obligations and this Guaranty.
- (b) AUTHORIZATION; ENFORCEABILITY. Guarantor has the form of business organization indicated below and is and will remain duly organized and existing in good standing under the laws of the state of its organization and is duly qualified to do business wherever necessary to perform its obligations under this Guaranty. This Guaranty has been duly authorized by all necessary action on the part of Guarantor consistent with its form of organization, does not require the approval of, or giving of notice to, any governmental authority and does not contravene Guarantor's certificate or articles of incorporation or organization or by-laws or partnership or operating certificate or agreement or similar organizational documents, This Guaranty does not contravene or constitute a default under any applicable laws, or any contract, mortgage, agreement, indenture, or other instrument to which Guarantor is a party or by which it may be bound. This Guaranty has been duly executed and delivered by Guarantor and constitutes the legal, valid and binding obligations of Guarantor enforceable in accordance with their terms except to the extent that the enforcement of remedies hereunder may be limited under applicable bankruptcy and insolvency laws, and the equitable discretion of any court of competent jurisdiction. To Guarantor's knowledge, there are no actions or proceedings pending or threatened against or affecting Guarantor or any of Guarantor's property before any court, administrative officer or administrative agency that, if decided adversely, could affect the financial condition or operations of Guarantor or the ability of Guarantor to perform its obligations hereunder.
- (c) ACCESS TO INFORMATION; NO REPRESENTATION BY FLEET. Guarantor has adequate means to obtain continuing and sufficient information concerning the financial and business condition of the Customer and other parties liable in respect of the Obligations. Neither Fleet nor any other party has made any representation, warranty or statement to Guarantor in order to induce Guarantor to execute this Guaranty.
- (d) SUBORDINATION. All present and future indebtedness of Customer to

Guarantor ("SUBORDINATED DEBT") shall be and hereby is subordinated to the prior payment and performance of all Obligations, and is hereby assigned and transferred to Fleet and pledged as additional security for the payment of the Obligations of the Customer and the obligations of the Guarantor hereunder. Except for the capitalization of the Subordinated Debt, Guarantor shall not demand or accept payment of, or otherwise cancel, set-off or otherwise discharge any part of, the Subordinated Debt without the prior written consent of Fleet, provided, however, that for so long as there is no default hereunder or in connection with the Obligations or the Subordinated Debt, Guarantor may receive and Customer may pay (but not prepay, whether or not permitted or contemplated by the terms of the Subordinated Debt) principal and/or interest or other scheduled installment payments of Subordinated Debt from Customer. Upon the request of Fleet, Guarantor shall deliver to Fleet a certified statement of the outstanding Subordinated Debt, specifying in detail the time at which permitted payments of Subordinated Debt were made, if any, and such other information as Fleet may request.

- (e) FINANCIAL CONDITION; SOLVENCY. As of the date hereof, and after giving effect to this Guaranty and the contingent obligations contained herein, Guarantor is solvent and has assets which, when fairly valued, exceed its liabilities. The performance of the obligations of Guarantor hereunder will not cause Guarantor to exceed its ability to pay its debts as they mature, and this Guaranty is made without any intent to hinder, delay or defraud either present or future creditors, purchasers or other interested persons.
- (f) FINANCIAL REPORTS. Guarantor will provide Fleet with: (i) (A) Guarantor's consolidated balance sheet and related consolidated statements of income and retained earnings certified by a recognized firm of certified public accountants (acceptable to Fleet), within 90 days of the close of each fiscal year of Guarantor, (B) if requested by Fleet, Guarantor's quarterly consolidated balance sheet and consolidated related statements of income and retained earnings certified by the chief financial officer of Guarantor, within forty-five (45) days of the close of each fiscal quarter of Guarantor, (C) all of Guarantor's Forms 10-K and 10-Q, if any, filed with the SEC within thirty (30) days after the date on which they are filed (by furnishing these SEC Forms, or making them publicly available in electronic form, Guarantor shall be deemed to have satisfied the requirements of clauses (i)(A), (B), or (C)); and (ii) such other reports or information relating to the Guarantor and/or Customer (or any affiliates of Guarantor or Customer) promptly upon Fleet's request. Financial reports provided pursuant to clauses (i)(A) and (i)(B) above shall be prepared in accordance with generally accepted accounting principles consistently applied, each on a comparative basis with the corresponding period of the prior year. All credit, financial and other information provided by Guarantor or at Guarantor's direction is, and all such information hereafter furnished will be, true, correct and complete in all material respects.
- (g) ASSIGNMENT. Fleet may, at any time and without the consent of, or notice to, Guarantor, assign all or any portion of its rights hereunder to any other party to which all or any portion of the Obligations are transferred, assigned or negotiated (an "ASSIGNEE"). Guarantor shall promptly execute and deliver to Fleet or its Assignee an acknowledgment of assignment in form and substance satisfactory to the requesting party which, among other things, reaffirms the basic terms and conditions of the Obligations and this Guaranty, and shall comply with the reasonable demands of Fleet or any such Assignee in order to perfect any such assignment or transfer. This Guaranty shall not be deemed to create any right in any party except as provided herein and shall inure to the benefit of, and be binding upon, the successors and assigns of Guarantor and Fleet, provided that Guarantor shall not assign or delegate any of its rights or obligations hereunder without the prior written consent of Fleet.
- (h) FURTHER ASSURANCES. Guarantor will promptly execute any documents and other records, including, amendments to this Guaranty, and will take such further action as Fleet may reasonably request in order to carry out more effectively the intent and purposes of this Guaranty and to establish, perfect and protect Fleet's rights and remedies hereunder and in any Collateral or Subordinated Debt.

5. DEFAULT; PERFORMANCE OF OBLIGATIONS. If (a) Customer defaults in the payment or performance of any Obligation, or (b) if there exists any event or condition which, with notice and/or the passage of time, would constitute a default under

the Agreement (including any default relating to Guarantor or this Guaranty), or (c) any representation or warranty of Guarantor herein or in any certificate, agreement, statement or document furnished at any time to Fleet by or on behalf of Guarantor (including without limitation, any financial information), shall prove to be or to have been false or incorrect in any material respect; or (d) Guarantor shall fail to perform or observe any covenant (including without limitation, any financial covenants), condition or agreement required to be performed or observed by it hereunder or in connection with any Obligation, and such failure shall continue for 10 days after written notice thereof to Guarantor; or (e) if there is a liquidation, bankruptcy, assignment for the benefit of creditors or similar proceeding affecting the status, existence, assets or obligations of Customer or any Guarantor or other party liable to Fleet in respect of the Obligations (each of the foregoing being hereinafter referred to as a "DEFAULT"), then the Obligations of Customer shall, at the sole option of Fleet, be deemed to be accelerated and become immediately due and payable by Guarantor for all purposes of this Guaranty, and Guarantor shall (i) immediately pay directly to Fleet all such Obligations owing to Fleet by reason of acceleration or otherwise (including without limitation, any rent, liquidated damages, principal or interest payments or balances, fees, other installments or any other accrued or unaccrued amounts with respect to such Obligations), irrespective of whether a Default exists relating to Customer, and notwithstanding any stay, injunction or other prohibition preventing acceleration of any Obligations against Customer, and (ii) promptly perform all other Obligations. Guarantor shall be liable, as principal obligor and not as a surety or guarantor only, for all attorneys' fees and other costs and expenses incurred by Fleet in connection with Fleet's enforcement of this Guaranty, together with interest on all amounts recoverable under this Guaranty, compounded monthly in arrears, from the time such amounts become due and payable until the date of payment at the lesser of Fleet's then current late charge rate of interest or the highest rate permitted by applicable law. If Fleet is required to return any payment made to Fleet by or on behalf of Customer, whether as a result of Customer's bankruptcy, reorganization or otherwise, Guarantor acknowledges that this Guaranty covers all such amounts, notwithstanding that the original of this Guaranty may have been returned to Guarantor and/or otherwise canceled.

6. GOVERNING LAW; MISCELLANEOUS. THIS GUARANTY AND THE LEGAL RELATIONS OF THE PARTIES HERETO SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES

REGARDING THE CHOICE OF LAW. GUARANTOR CONSENTS TO THE JURISDICTION AND VENUE OF THE COURTS OF THE STATE OF NEW YORK OR THE UNITED STATES COURTS FOR THE SOUTHERN DISTRICT OF NEW YORK, AS FLEET MAY ELECT OR IN ANY OTHER STATE OR FEDERAL COURT AS FLEET SHALL DEEM APPROPRIATE, IN CONNECTION WITH FLEET'S ENFORCEMENT OF ANY OBLIGATIONS UNDER OR IN RESPECT OF THIS GUARANTY. GUARANTOR HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS GUARANTY. Time is of the essence in the payment and performance of all Obligations and all of Guarantor's obligations and liabilities owing to Fleet hereunder. This Guaranty constitutes the entire agreement of Guarantor and Fleet relative to the subject matter hereof, and there are no prior or contemporaneous understandings or agreements, whether oral or in writing, between the parties hereto with respect to the subject matter hereof. No subsequent modification of, or supplement to, this Guaranty shall be enforceable against any party hereto unless the same is in writing and is duly signed by an authorized officer or representative of the party against whom enforcement is sought. All communications and notices provided for herein shall be in writing and shall become effective (i) upon hand delivery, (ii) upon delivery by an overnight delivery service, (iii) upon two (2) business days after being deposited in the U.S. mail with proper postage for first-class mail prepaid, sent by registered or certified mail, return receipt requested, and addressed to Fleet or Guarantor at their respective addresses set forth herein, or such other address as either party may hereafter designate by written notice to the other, or (iv) when sent by telecopy (with customary confirmation of receipt of such telecopy) on the business day when sent or upon the next business day if sent on other than a business day.

The undersigned, pursuant to due corporate, limited liability company or partnership authority, as appropriate, has or have caused this Guaranty to be executed as of the date set forth below.

Dated as of: August 25, 2004

Witness/Attest/Notary Public:

PFSWeb, Inc., a Delaware corporation
(Organization ID: 3062550)

By: _____

Print Name: _____

Print Name: _____

Print Address: _____

Print Title: _____

GUARANTOR NOTICE ADDRESS: _____

Guarantor's Taxpayer ID: _____

AMENDMENT NO. 3 TO AIRCRAFT LEASE

This Amendment No. 3 dated as of August 25, 2004 to Aircraft Lease (N166DT) dated as of March 3, 1999 ("Amendment") is executed by and between Fleet National Bank ("Lessor") with a place of business at c/o Fleet Capital Corporation, One Financial Plaza, Providence, RI 02903, and Priority Fulfillment Services, Inc., a Delaware corporation ("Lessee") having its principal place of business and chief executive office at 500 North Central Expressway, 5th Floor, Plano, Texas 75074.

W I T N E S S E T H

WHEREAS, Lessor and Daisytek, Incorporated entered into a certain Aircraft Lease (N166DT) dated as of March 3, 1999 and related Lease Supplement No. 1 dated March 3, 1999 and Lease Supplement No. 2 dated March 3, 1999, all of which documents were recorded as one document by the Federal Aviation Administration ("FAA") on March 6, 1999 as Conveyance No. X139002 (said Aircraft Lease, Lease Supplement No. 1 and Lease Supplement No. 2 sometimes hereinafter collectively referred to as the "Aircraft Lease") regarding a certain 1999 Learjet Inc. Model 31A aircraft, bearing manufacturer's Serial No. 166 and U.S. Registration Mark N166DT (hereinafter referred to as the "Original Aircraft"), two (2) AlliedSignal Model TFE731-2-3B engines respectively bearing manufacturer's Serial Nos. 99456 and 99459, each of which engines has 750 or more rated takeoff horsepower or the equivalent of such horsepower (collectively, the "Original Engines") and certain other equipment leased under the Aircraft Lease, all as more particularly described in the Aircraft Lease (said Original Aircraft, Original Engines and all other equipment sometimes hereinafter collectively referred to as the "Original Leased Equipment"); and

WHEREAS, the Lessor and Daisytek, Incorporated amended the Aircraft Lease pursuant to a certain Amendment No. 1 dated as of September 15, 1999 to Aircraft Lease and Lease Supplement No. 1 ("Amendment No. 1"), which Amendment was recorded by the FAA on October 12, 1999 as Conveyance No. PP012904, and which Amendment provided for the replacement of the Original Aircraft with a certain Learjet Inc. Model 31A aircraft, bearing manufacturer's Serial No. 183 and U.S. Registration Mark N183ML (hereinafter referred to as the "Learjet Aircraft"), two (2) AlliedSignal Model TFE731-2-3B engines respectively bearing manufacturer's Serial Nos. 99492 and 99491, each of which engines has 750 or more rated takeoff horsepower or the equivalent of such horsepower (collectively, the "Engines") and certain other equipment leased under the Aircraft Lease, all as more particularly described in the Aircraft Lease, as amended by Amendment No. 1 (said Learjet Aircraft and Engines sometimes hereinafter collectively referred to as the "Aircraft"); and

WHEREAS, pursuant to the terms of Amendment No. 1, the Original Aircraft and the other Original Lease Equipment were replaced with the Aircraft for all purposes under the Aircraft Lease, as amended by Amendment No. 1; and

WHEREAS, pursuant to a certain Aircraft Lease Assignment, Assumption and Amendment Agreement dated as of July 3, 2000 ("Assignment Agreement") between Daisytek, Incorporated, the Lessee and the Lessor, which Assignment Agreement was recorded by the FAA on August 17, 2000 as Conveyance No. HK018697, (i) Daisytek, Incorporated assigned to the Lessee all of Daisytek, Incorporated's right, title and interest in and to the Aircraft Lease, as amended by Amendment No. 1, and the Aircraft, (ii) the Lessee assumed all of Daisytek, Incorporated's right, title and interest in and to the Aircraft Lease, as amended by Amendment No. 1, and the Aircraft and all of Daisytek, Incorporated's obligations thereunder, (iii) the Aircraft Lease, as amended by Amendment No. 1, was further amended, and (iv) the Lessor consented to the assignment and assumption of the Aircraft Lease, as amended by Amendment No. 1, and the Aircraft, and the further amendment of the Aircraft Lease, as evidenced by the Assignment Agreement; and

WHEREAS, the Lessor and the Lessee further entered into a certain Amendment dated as of May 10, 2001 to Aircraft Lease (N166DT) dated as of March 3, 1999 ("2001 Amendment"), which 2001 Amendment was not recorded by the FAA; (the 2001 Amendment together with the Assignment Agreement, Amendment No. 1 and the Aircraft Lease sometimes hereinafter collectively referred to as the "Lease"); and

WHEREAS, the Lessee has requested that the Lessor allow the Lessee to terminate the Lease and to purchase the Aircraft from the Lessor prior to the end of the term of said Lease notwithstanding the fact that the Lessee is not entitled, or does not have the right, to do so at this time; and

WHEREAS, the Lessor has agreed to the foregoing requests but only on the terms and conditions contained in this Amendment.

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

1. Capitalized terms used in this Amendment and not otherwise defined herein shall have the respective meanings given to such terms in the Lease and in any other schedules, supplements, instruments, amendments, modifications, documents, instruments or agreements executed and/or delivered in connection with the Lease (all of the foregoing, other than the Lease, sometimes hereinafter collectively referred to as the "Other Lease Documents").

2. Effective as of August 26, 2004 (or such earlier or later date as is acceptable to Lessor in its sole discretion) (hereinafter the "Termination Date") and expressly subject to satisfaction of the conditions precedent set forth in this Amendment, the Lease and the Other Lease Documents shall terminate on the date the Lessor has irrevocably received (i) all of the applicable amounts provided in Section 4 of this Amendment, and (ii) the duly executed Delivery Receipt (as such term is defined in Section 5 of this Amendment), as well as all of the duly executed documents, agreements and instruments required by the Lessor pursuant to Section 4 (or any other applicable section) of this Amendment. Lessee hereby further acknowledges and agrees that, from and after the date hereof, all purchase options, early purchase options, early termination option, upgrade options and options to renew pursuant to the Lease and the Other Lease Documents and any rights or options to assign the Lease and the Other Lease Documents or to sublease the Aircraft shall be hereby deemed automatically canceled, terminated and/or declined, as the case may be; provided, however, that any such purchase options, early purchase options, early termination option, upgrade options and options to renew shall be automatically reinstated pursuant to the terms of Section 16 of this Amendment in the event that, on or prior to the Termination Date, any of Bombardier Aerospace Corporation ("Bombardier"), Lessee and/or PFSWeb, Inc. (the "Guarantor"), as the case may be, fail to fully and timely comply with any of the terms and provisions of Section 4 and/or subclauses (i) through (viii) of Section 16 of this Amendment.

3. The Lessee's obligations and duties under the Lease and the Other Lease Documents, including, without limitation, the obligation to pay Basic Rent, shall continue unabated until the Lessee has fully and timely complied with all of the terms and conditions of this Amendment and the Lessor has irrevocably received (i) all of the applicable amounts provided in Section 4 of this Amendment, and (ii) the duly executed Delivery Receipt, as well as all of the duly executed documents, agreements and instruments required by the Lessor pursuant to Section 4 (or any other applicable section) of this Amendment. Notwithstanding the foregoing or otherwise, the Lessee hereby further acknowledges and agrees that all of its indemnification obligations and agreements, and waivers, in favor of the Lessor (and/or any related parties or entities as provided in the Lease and the Other Lease Documents) shall remain in full force and effect in accordance with the original terms and conditions of the Lease and/or the Other Lease Documents. In addition, the Lessee hereby further agrees to indemnify, protect, save, defend and keep harmless the Lessor and its agents, employees, officers, directors, shareholders, subsidiaries, affiliates, successors and assigns (Lessor and such other parties sometimes hereinafter collectively referred to as the "Indemnified Parties"), on a net after-tax basis, from and against any and all liabilities, obligations, losses,

damages, penalties, claims (including, without limitation, claims involving or alleging product liability or strict or absolute liability in tort), actions, suits, demands, costs, expenses and disbursements (including, without limitation, legal fees and expenses) of any kind and nature whatsoever which may be imposed on, incurred by, or asserted against, any of the Indemnified Parties, whether or not any of the Indemnified Parties shall also be indemnified as to any such matters by any other Person, in any way relating to or arising out of the Aircraft, the sale of the Aircraft by Lessor to Lessee pursuant to this Amendment (including, without limitation, any sales or other taxes, or any broker's fees, expenses or commissions, due, payable, owing or outstanding in connection with said sale, other than any taxes on or measured solely by the net income of Lessor), this Amendment, the Lease, the Other Lease Documents or any documents, agreements or instruments related to any of the foregoing notwithstanding anything to the contrary contained in this Amendment, the Lease, the Other Lease Documents or otherwise, including, without limitation, (i) the Lessee and the Lessor's respective execution and delivery of this Amendment, the FAA Lease Termination (as such term is defined in Section 4 of this Amendment) and/or the 2004 Aircraft Lease (as such term is defined in Section 4 of this Amendment), (ii) the Lessee's execution and delivery of the Delivery Receipt, the Swap Agreement (as such term is defined in the 4 of this Amendment), the 2004 Additional Aircraft Lease Documents (as such term is defined in Section 4 of this Amendment) and any documents, agreements or instruments related to the 2004 Aircraft Lease, the Swap Agreement and/or the 2004 Additional Aircraft Lease Documents, (iii) the Guarantor's execution and delivery of the 2004 Guaranty (as such term is defined in Section 4 of this Amendment), the Guarantor Consent (as such term is defined in Section 4 of this Amendment), the 2004 Additional Guaranty Documents (as such term is defined in Section 4 of this Amendment), the Additional Guarantor Consent Documents (as such term is defined in Section 4 of this Amendment) and any documents, agreements or instruments related to the 2004 Guaranty, the Guarantor Consent, the 2004 Additional Guaranty Documents and/or the Additional Guarantor Consent Documents, and/or (iv) the Lessor's execution and/or delivery, as the case may be, of the Bill of Sale (as such term is defined in Section 4 of this Amendment), the FAA Bill of Sale (as such term is defined in Section 4 of this Amendment), the UCC Termination Statements (as such term is defined in Section 4 of this Amendment) and/or any documents, agreements or instruments related thereto. Moreover, and notwithstanding anything to the contrary contained in this Amendment or otherwise, each of the Lessee and the Lessor hereby further acknowledges and agrees that the termination contained in this Amendment shall not terminate, or otherwise adversely affect, prejudice or limit, in any way whatsoever any other documents, agreements or instruments of any kind whatsoever executed and/or delivered by the Lessee or any other party, person or entity of any kind whatsoever in favor of the Lessor (including, without limitation, the 2004 Aircraft Lease, the 2004 Additional Aircraft Lease Documents, the 2004 Guaranty, the 2004 Additional Guaranty Documents, the Guarantor Consent and the Additional Guarantor Consent Documents) or any obligations, liabilities, or agreements of the Lessee or any other party, person or entity of any kind whatsoever in favor of the Lessor pursuant to any such other documents, agreements, instruments or otherwise (including, without limitation, the 2004 Aircraft Lease, the 2004 Additional Aircraft Lease Documents, the 2004 Guaranty, the 2004 Additional Guaranty Documents, the Guarantor Consent and the Additional Guarantor Consent Documents). The indemnification agreements, obligations and liabilities of the Lessee set forth in the Lease, this Section 3 and any other applicable section of this Amendment shall survive the execution and delivery of this Amendment, the Delivery Receipt, the Bill of Sale, the FAA Bill of Sale, the FAA Lease Termination, the UCC Termination Statements, the Swap Agreement, the 2004 Aircraft Lease, the 2004 Additional Aircraft Lease Documents, the 2004 Guaranty, the 2004 Additional Guaranty Documents, the Guarantor Consent, the Additional Guarantor Consent Documents and/or any other documents, agreements or instruments related to any of the foregoing, and shall also survive the termination of the Lease and the Other Lease Documents, for all purposes.

4. On the Termination Date (and/or on any later date acceptable to the Lessor in its sole discretion), the Lessee shall (i) cause Bombardier to timely and fully sell, convey and transfer a certain Learjet Inc. Model 31A aircraft bearing U.S. Registration Mark N122BX and manufacturer's serial number 143 (the "2004 Aircraft") to Lessor strictly in accordance with the terms of a certain swap or trade-in agreement dated August 10, 2004 (the "Swap Agreement") between Lessee and Bombardier with regard to the Aircraft and the 2004 Aircraft Lease, (ii) cause Bombardier to pay Lessor, in immediately available funds via wire transfer, \$820,566.00 with regard to the Swap Agreement, (iii) execute and deliver to Lessor a certain Lease (S/N 143) dated as of August 25, 2004 (the "2004 Aircraft Lease") between the Lessor and the Lessee and any and all documents, agreements or instruments required or requested by

Lessor in connection therewith (any such other documents, agreements or instruments required or requested by Lessor sometimes hereinafter collectively referred to as the "2004 Additional Aircraft Lease Documents"), which 2004 Aircraft Lease and 2004 Additional Aircraft Lease Documents shall be in form and substance satisfactory in all respects to Lessor, (iv) accept the 2004 Aircraft for lease under or in connection with the 2004 Aircraft Lease and execute and deliver to Lessor a certain Lease Supplement to such 2004 Aircraft Lease, which Lease Supplement shall be in form and substance satisfactory in all respects to Lessor, (v) fully and timely comply with any and all terms and provisions of the 2004 Aircraft Lease, (vi) cause the Guarantor to execute and deliver to Lessor a certain Guaranty dated as of August 25, 2004 (the "2004 Guaranty") in favor of the Lessor and any and all documents, agreements or instruments required or requested by Lessor in connection therewith (any such other documents, agreements or instruments required or requested by Lessor sometimes hereinafter collectively referred to as the "2004 Additional Guaranty Documents"), which 2004 Guaranty and 2004 Additional Guaranty Documents shall be in form and substance satisfactory in all respects to Lessor, (vii) cause the Guarantor to execute and deliver to Lessor a certain Guarantor's Acknowledgment, Agreement and Consent dated as of August 25, 2004 (the "Guarantor Consent") in favor of the Lessor and any and all documents, agreements or instruments required or requested by Lessor in connection therewith (any such other documents, agreements or instruments required or requested by Lessor sometimes hereinafter collectively referred to as the "Additional Guarantor Consent Documents"), which Guarantor Consent and Additional Guarantor Consent Documents shall be in form and substance satisfactory in all respects to Lessor, (viii) pay to Lessor, in immediately available funds via wire transfer, the August 5, 2004 Basic Rent payment (which August 5, 2004 Basic Rent payment has been received by Lessor) together with all other Rent and any other amounts then due and payable under the Lease and the Other Lease Documents on, as of, or prior to, the Termination Date (excluding any Supplemental Rent which may be due or payable prior to, on, or after the Termination Date, which Supplemental Rent, however, shall continue to be due and payable by the Lessee), and (ix) pay to Lessor, in immediately available funds via wire transfer, any applicable sales, excise or other taxes imposed as a result of the sale of the Aircraft to the Lessee (other than gross or net income taxes attributable to such sale) (all of said amounts set forth in subclauses (ii), (viii) and (ix) hereinafter collectively referred to as the "Outstanding Termination Amounts"); provided, however, that the Lessee shall continue to be liable, obligated and responsible for any Supplemental Rent which may be due or payable prior to, on, or after the Termination Date and for any other amounts or payments due, payable or outstanding relating to the Lease, any Other Lease Documents and/or this Amendment after the Termination Date (including, without limitation, any amounts or payments relating to any indemnification or tax agreements, obligations or liabilities, including, but not limited to, any indemnification agreements, obligations or liabilities set forth in Section 3 of this Amendment), other than for any Basic Rent due after the Termination Date.

Upon the Lessor's receipt of the Outstanding Termination Amounts and this Amendment duly executed by the Lessee and any other documents required by this Amendment (including, without limitation, the Delivery Receipt, the FAA Lease Termination, the 2004 Aircraft Lease, 2004 Additional Aircraft Lease Documents, the 2004 Guaranty, the 2004 Additional Guaranty Documents, the Guarantor Consent and the Additional Guarantor Consent Documents), the Lessor hereby further agrees (i) to sell the Aircraft to the Lessee on an "AS-IS WHERE-IS" AND "WITH ALL FAULTS" BASIS, WITHOUT ANY REPRESENTATION BY, OR RECOURSE OR WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND WHATSOEVER TO, LESSOR, (ii) to deliver the Aircraft, at the Lessee's sole cost and expense, to the Lessee at any airport located in the State of Kansas (or at any other location acceptable to Lessor and Lessee), (iii) to execute and deliver to the Lessee an "As-Is Where-Is" Bill of Sale ("Bill of Sale") which Bill of Sale shall be in the form attached hereto and made a part hereof as Exhibit 1, (iv) to execute and deliver to the Lessee an FAA Bill of Sale ("FAA Bill of Sale") which FAA Bill of Sale shall be in the form attached hereto and made a part hereof as Exhibit 2, (v) to execute and deliver to the Lessee an FAA Lease Termination Agreement ("FAA Lease Termination") which FAA Lease Termination shall be in the form attached hereto and made a part hereof as Exhibit 3, and (vi) to deliver to the Lessee Uniform Commercial Code ("UCC") Termination Statements (collectively, the "UCC Termination Statements") which shall terminate any existing UCC Financing Statements concerning only the Aircraft (or, in the event that any existing UCC Financial Statements concerning the Aircraft also concern additional aircraft or other collateral, UCC Partial Releases as to the Aircraft only).

5. Concurrently with the delivery of the Aircraft to the Lessee, the Lessee shall execute and deliver to the Lessor a delivery receipt ("Delivery Receipt") which Delivery Receipt shall be in the form attached hereto and made a part hereof as Exhibit 4 and the FAA Lease Termination. The Lessee's acceptance of the Aircraft by executing the Delivery Receipt shall be deemed conclusive evidence that (i) the Lessee has inspected the Aircraft, and any logbooks and all other records relating thereto, to the Lessee's complete satisfaction, (ii) the Aircraft is in good order, repair and condition, (iii) the Aircraft complies with the terms of this Amendment, and (iv) the Lessee has irrevocably and unconditionally accepted delivery of the Aircraft for all purposes.

6. On the Termination Date (or on any other date requested by the Lessor), and in order to further induce the Lessor to enter into this Amendment, the Lessee hereby further agrees to pay all actual costs and expenses incurred by, or on behalf of, the Lessor in connection with any of this Amendment, the termination of the Lease and purchase of the Aircraft contemplated hereunder, including, but not limited to, the fees and expenses of any escrow agent and/or of the Lessor's counsel and FAA counsel; provided, however, that the foregoing costs and expenses payable by the Lessee shall not, in the aggregate, exceed \$30,000.00; provided, further, however, that the foregoing \$30,000.00 limitation, and the Lessee's payment of any costs and expenses, pursuant to this Section 6 shall not limit, or waive, or be applicable to, in any way whatsoever any other costs and/or expenses or other legal fees or costs and expenses incurred by or on behalf of the Lessor in connection with (x) the exercise or enforcement of any of the rights or remedies of the Lessor in connection with the Lease, the Other Lease Documents, this Amendment and/or any and all other documents, agreements and/or instruments executed and/or delivered in connection therewith or herewith, as the case may be, or at law or in equity or otherwise after the date hereof, (y) any indemnification agreements, obligations and liabilities of the Lessee set forth in the Lease, Section 3 of this Amendment and any other applicable section of this Amendment, and/or (z) the failure by the Lessee to perform or observe any term or condition contained in any of the Lease, the Other Lease Documents, this Amendment and/or any and all other documents, agreements and/or instruments executed and/or delivered in connection therewith or herewith, as the case may be.

7. The Lessee hereby further acknowledges and agrees that it shall have no claim, right, title or interest of any kind whatsoever to any amounts or any sales, use or similar tax paid to or by the Lessor or otherwise in connection with the acquisition, the leasing, or any sale of the Aircraft, except for any claim, right, title or interest of the Lessee with regard to any sale of the Aircraft by the Lessee after the Lessee purchases the Aircraft from the Lessor pursuant to the terms of this Amendment.

8. Each of the Lessee and the Lessor hereby further (i) affirms and ratifies their respective obligations under or in connection with the Lease and any Other Lease Documents, and (ii) agrees that the Lease and the Other Lease Documents are in full force and effect without variance, qualification, discharge or diminution of any kind whatsoever (except as otherwise expressly provided in this Amendment).

9. Each of the parties represents and warrants to the other party that (i) such party's execution and delivery of this Amendment and any other documents, agreements and instruments executed or delivered in connection herewith have been duly authorized on its part; (ii) such party has full power and authority to execute, deliver and perform its obligations under this Amendment and any other documents, agreements and instruments executed or delivered in connection herewith; and (iii) all required consents for such party's execution, delivery and performance of this Amendment and any other documents, agreements and instruments executed or delivered in connection herewith have been duly obtained.

10. This Amendment shall be binding upon the Lessee and its representatives, successors, transferees and assigns and the benefits hereof shall extend to and include the Lessor and its successors, representatives, transferees and assigns.

11. This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts and all said counterparts taken together shall be deemed and constitute one and the same instrument.

12. Unless the context otherwise requires, singular nouns and pronouns, when used herein, shall be deemed to include the plural and vice versa, and impersonal pronouns shall be deemed to include the personal pronoun of the appropriate gender.

13. If any provision in this Amendment or any part thereof is held invalid or unenforceable, such invalidity or unenforceability shall not affect or impair the validity or the enforceability of the remaining provisions, or any part thereof, of this Amendment.

14. This Amendment shall be deemed to have been executed in Rhode Island by virtue of the Lessor having countersigned and accepted this Amendment in Rhode Island and shall be deemed to be performed in Rhode Island by virtue of the payment of the Outstanding Termination Amounts to be made to Lessor in Rhode Island, and this Amendment shall be delivered for closing purposes in Lessor's office at One Financial Plaza, Providence, Rhode Island. Notwithstanding the foregoing, however, this Amendment shall in all respects be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to principles of conflicts of law or choice of law, including all matters of construction, validity and performance. The Lessee hereby irrevocably consents and agrees that any legal action, suit or proceeding arising out of or in any way in connection with this Amendment, the Lease and/or the Other Lease Documents may be instituted or brought in the courts of the State of New York or the United States District Court for the Southern District of New York, as the Lessor may elect, and by execution and delivery of this Amendment, the Lessee hereby irrevocably accepts and submits to, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of any such court, and to all proceedings in such courts.

15. THIS AMENDMENT SHALL NOT BE MODIFIED, ALTERED, AMENDED OR WAIVED IN WHOLE OR IN PART EXCEPT IN WRITING DULY SIGNED BY EACH PARTY. ANY WAIVER SHALL BE EFFECTIVE ONLY IN THE SPECIFIC INSTANCE AND FOR THE SPECIFIC PURPOSE FOR WHICH IT IS GIVEN. NO FAILURE TO EXERCISE, OR DELAY IN EXERCISING, ANY RIGHT HEREUNDER SHALL OPERATE AS A WAIVER THEREOF; NOR SHALL ANY FAILURE TO EXERCISE, OR PARTIAL EXERCISE OF, ANY RIGHT HEREUNDER PRECLUDE ANY OTHER OR FURTHER EXERCISE THEREOF OR THE EXERCISE OF ANY OTHER RIGHT.

16. Notwithstanding anything to the contrary contained in this Amendment or otherwise, the Lessee shall not be entitled to terminate the Lease and the Other Lease Documents pursuant to the terms of this Amendment in the event that, on or prior to the Termination Date, (i) Bombardier does not, for any reason whatsoever, timely and fully sell, convey and transfer the 2004 Aircraft to Lessor strictly in accordance with the terms of the Swap Agreement, (ii) Bombardier does not, for any reason whatsoever, pay Lessor, in immediately available funds via wire transfer, \$820,566.00 with regard to the Swap Agreement, (iii) Lessee does not, for any reason whatsoever, execute and deliver to Lessor the 2004 Aircraft Lease and the 2004 Additional Aircraft Lease Documents, (iv) the Lessee does not, for any reason whatsoever, (x) accept the 2004 Aircraft for lease under or in connection with the 2004 Aircraft Lease and execute and deliver to Lessor a certain Lease Supplement to such 2004 Aircraft Lease, which Lease Supplement shall be in form and substance satisfactory in all respects to Lessor, and/or (y) fully and timely comply with any and all terms and provisions of the 2004 Aircraft Lease, (v) the Guarantor does not, in any way whatsoever, execute and deliver to Lessor the 2004 Guaranty and the 2004 Additional Guaranty Documents, (vi) the Guarantor does not, in any way whatsoever, execute and deliver to Lessor the Guarantor Consent and the Additional Guarantor Consent Documents, (vii) the Lessee does not timely and fully pay the Lessor the Outstanding Termination Amounts pursuant to the terms of Section 4 of this Amendment, and/or (viii) Lessee does not fully and timely comply with all of the terms and conditions of this Amendment. Upon the occurrence of any such failure by any of Bombardier, the Lessee and/or the Guarantor, as the case may be, to fully and timely comply with any of the terms and provisions of subclauses (i) through (viii) above, the Lease and the Other Lease Documents shall not be terminated and such documents shall remain, and continue to be, in full force and effect and the Lessee shall be obligated to continue to timely and fully comply with all the terms and conditions of said Lease and Other Lease

Documents, including, without limitation, timely and fully paying all Basic Rent and other amounts due or payable in connection with the Lease and/or the Other Lease Documents.

17. Except as expressly modified or amended in this Amendment, the terms and conditions of the Lease and the Other Lease Documents shall remain in full force and effect in accordance with their respective original tenor. Without limiting the generality of the foregoing or any other terms of this Amendment, nothing contained herein shall be interpreted or construed in any way whatsoever to limit the various provisions of the Lease and/or the Other Lease Documents except as otherwise expressly provided herein.

18. The terms and provisions of this Amendment shall be effective as of the date hereof, except as otherwise provided in the first sentence of Section 2 of this Amendment.

[this space intentionally left blank]

IN WITNESS WHEREOF, the parties have executed this Amendment by their respective duly authorized representatives as of the date and year first above written.

FLEET NATIONAL BANK

By: _____

Name: _____

Title: _____

PRIORITY FULFILLMENT SERVICES, INC.

By: _____

Name: _____

Title: _____

EXHIBIT 1

BILL OF SALE

Fleet National Bank (the "Seller"), in consideration of the sum of Ten and 00/100 U. S. Dollars (\$10.00) and other good and valuable consideration paid by Priority Fulfillment Services, Inc. (the "Buyer"), receipt of which is acknowledged, hereby grants, sells, assigns and transfers to Buyer the aircraft and the engines specifically described in the immediately succeeding paragraph together with all appliances, parts, instruments, appurtenances, accessories, furnishings, avionics, components and other equipment of whatever nature installed on said aircraft (other than, however, any loaner engines or any other loaner appliances, parts, instruments, appurtenances, accessories, furnishings, avionics, components and equipment of whatever nature) and all logbooks, manuals, certificates, data and inspection, modification, maintenance, engineering, technical, overhaul and all other books and records (including all computerized data, records and materials) as pertain to the operation and maintenance of such aircraft and which are in Seller's possession (all of the foregoing hereinafter collectively referred to as the "Aircraft"), along with whatever claims and rights Seller may have against the manufacturer and/or supplier of the Aircraft, including, but not limited to, all warranties and representations, but only to the extent that any of such claims or rights or representations or warranties (i) are existing or in effect as of the date of this Bill of Sale and (ii) are permitted to be assigned by Seller to Buyer pursuant to the terms of any warranty or maintenance agreements or contracts relating solely to the Aircraft; provided, however, that the Seller is not selling, assigning or otherwise transferring in any way whatsoever any existing maintenance or repair programs in the name of Seller concerning or relating in any way to the Aircraft (or any portion thereof) and any such maintenance or repair programs are hereby excluded from the term "Aircraft" and are also excluded from this Bill of Sale for all purposes.

DESCRIPTION OF AIRCRAFT

One used Learjet Inc. Model 31A aircraft bearing manufacturer's Serial No. 183 and U.S. Registration Mark N183ML and two (2) AlliedSignal Model TFE731-2-3B engines respectively bearing manufacturer's Serial Nos. 99492 and 99491.

BUYER IS PURCHASING THE AIRCRAFT IN RELIANCE UPON ITS PERSONAL INSPECTION AND KNOWLEDGE OF THE AIRCRAFT AND IN AN "AS-IS, WHERE-IS" AND "WITH ALL FAULTS" CONDITION. SELLER HAS NOT AND SHALL NOT BE DEEMED TO HAVE MADE ANY REPRESENTATIONS, GUARANTIES OR WARRANTIES WHATSOEVER WITH RESPECT TO (i) THE AIRCRAFT (INCLUDING, WITHOUT LIMITATION, ANY ACCESSORIES, ACCESSIONS, ENGINES, EQUIPMENT, LOGBOOKS, CERTIFICATES AND MAINTENANCE RECORDS RELATED THERETO), (ii) TITLE, POSSESSION, QUIET ENJOYMENT OR THE LIKE IN THIS DISPOSITION OR SALE OF THE AIRCRAFT, AND/OR (iii) THIS BILL OF SALE, INCLUDING, BUT NOT LIMITED TO, ANY REPRESENTATIONS, WARRANTIES OR GUARANTIES CONCERNING THE AIRWORTHINESS, CONDITION, DESIGN, CAPACITY OR DURABILITY OF THE AIRCRAFT, COMPLIANCE OF THE AIRCRAFT WITH ANY LAW, RULE, REGULATION OR STANDARD PERTAINING THERETO OR THE CONFORMITY OF THE AIRCRAFT TO THE SPECIFICATIONS AND/OR PROVISIONS OF THIS BILL OF SALE OR OF ANY OTHER DOCUMENT OR AGREEMENT OR OTHERWISE, QUALITY OF THE MATERIALS OR WORKMANSHIP, MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE, USE, OPERATION, VALUE OR SAFETY, THE ABSENCE OF ANY PATENT, TRADEMARK OR COPYRIGHT INFRINGEMENT OR LATENT DEFECT (WHETHER OR NOT DISCOVERABLE BY BUYER OR ANY OTHER PARTY, PERSON OR ENTITY OF ANY KIND WHATSOEVER); AND SELLER HEREBY DISCLAIMS AND BUYER (ON ITS BEHALF AND ON BEHALF OF ANY OTHER PARTY, PERSON OR ENTITY OF ANY KIND WHATSOEVER) BY ITS ACCEPTANCE OF THIS BILL OF SALE HEREBY WAIVES, RELEASES AND RENOUNCES ALL WARRANTIES, GUARANTIES, OBLIGATIONS AND LIABILITIES OF SELLER AND RIGHTS, CLAIMS AND REMEDIES OF BUYER (OR OF ANY OTHER PARTY, PERSON OR ENTITY OF ANY KIND WHATSOEVER) AGAINST SELLER, EXPRESS

OR IMPLIED, ARISING BY LAW OR OTHERWISE, WITH RESPECT TO ANY OF THE AIRCRAFT, THE TITLE, POSSESSION, THE QUIET ENJOYMENT OR THE LIKE IN THIS DISPOSITION OR SALE OF THE AIRCRAFT AND/OR ANY NON-CONFORMANCE OR DEFECT (PATENT OR LATENT, WHETHER OR NOT DISCOVERABLE BY BUYER OR ANY OTHER PARTY, PERSON OR ENTITY OF ANY KIND WHATSOEVER) CONCERNING THE AIRCRAFT, INCLUDING BUT NOT LIMITED TO (a) THE QUALITY, CONTENT AND CONDITION OF THE AIRCRAFT, ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, (b) ANY IMPLIED WARRANTY ARISING FROM COURSE OF PERFORMANCE, COURSE OF DEALING OR USAGE OF TRADE, (c) ANY OBLIGATIONS, LIABILITY, RIGHT, CLAIM OR REMEDY IN CONTRACT OR IN TORT (STRICT, ABSOLUTE OR OTHERWISE), WHETHER OR NOT ARISING FROM THE NEGLIGENCE OF SELLER, ACTUAL, ACTIVE, PASSIVE OR IMPUTED, AND (d) ANY OBLIGATION, LIABILITY, RIGHT, CLAIM OR REMEDY FOR DELAY OR NON-DELIVERY OF THE AIRCRAFT, COST OF "COVER", LOSS OF OR DAMAGE TO THE AIRCRAFT, ANY DIRECT OR INDIRECT DAMAGE TO PERSONS OR PROPERTY, LOSS OF USE, REVENUE OR PROFIT WITH RESPECT TO THE AIRCRAFT OR FOR ANY OTHER DIRECT, INDIRECT, SPECIAL, EXEMPLARY, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES EVEN IF THE SELLER IS ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

IN WITNESS WHEREOF, Seller has executed this Bill of Sale this ____ day of August, 2004.

FLEET NATIONAL BANK

By: _____

Name: _____

Title: _____

Exhibit 2

FAA BILL OF SALE

Exhibit 3

FAA LEASE TERMINATION AGREEMENT

Fleet National Bank and Priority Fulfillment Services, Inc., as lessor and lessee, respectively, under that certain Aircraft Lease, as more particularly described in Annex I attached hereto (the "Lease"), with respect to the Aircraft, as more particularly described in Annex I attached hereto, hereby terminate the Lease and release the Aircraft from all of the terms and conditions thereof.

This FAA Lease Termination Agreement may be executed in counterparts, each of which when executed and delivered shall be deemed an original and all together shall constitute one and the same instrument.

Dated as of August __, 2004.

Lessor:

FLEET NATIONAL BANK

By: _____

Name: _____

Title: _____

Lessee:

PRIORITY FULFILLMENT SERVICES, INC.

By: _____

Name: _____

Title: _____

ANNEX I TO FAA LEASE TERMINATION AGREEMENT

Description of Lease

Aircraft Lease (N166DT) dated as of March 3, 1999 between Fleet National Bank, as lessor, and Priority Fulfillment Services, Inc. (as assignee of Daisytek, Incorporated), as lessee, which was recorded by the Federal Aviation Administration on March 6, 1999 and assigned Conveyance No. X139002, as supplemented and amended by the following described instruments:

FAA Instrument -----	Date Of FAA Instrument -----	FAA Recording Date -----	FAA Conveyance No. -----
Lease Supplement No. 1	as of 03/03/99	03/06/99	X139002
Lease Supplement No. 2	as of 03/03/99	03/06/99	X139002
Amendment No. 1	as of 09/15/99	10/12/99	PP012904
Aircraft Lease Assignment, Assumption and Amendment Agreement	as of 07/03/00	08/17/00	HK018697

Description of Aircraft

Learjet Inc. Model 31A aircraft which consists of the following components:

(a) Airframe bearing U. S. Registration Mark N183ML and manufacturer's serial number 183.

(b) Two (2) AlliedSignal Model TFE731-2-3B aircraft engines respectively bearing manufacturer's serial numbers 99492 and 99491 (which has 750 or more rated takeoff horsepower or the equivalent of such horsepower).

Exhibit 4

DELIVERY RECEIPT

Priority Fulfillment Services, Inc. hereby acknowledges and accepts receipt of, and delivery from, Fleet National Bank of the following Aircraft:

Learjet Inc. Model 31A aircraft which consists of the following components:

(a) Airframe bearing U. S. Registration Mark N183ML and manufacturer's serial number 183.

(b) Two (2) AlliedSignal Model TFE731-2-3B aircraft engines respectively bearing manufacturer's serial numbers 99492 and 99491 (which has 750 or more rated takeoff horsepower or the equivalent of such horsepower).

DELIVERY DATE: _____

DELIVERY LOCATION: _____

PRIORITY FULFILLMENT SERVICES, INC.

By: _____

Name: _____

Title: _____

fleet\daisy\5-2004 lease termination

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

I, Mark Layton, certify that:

1. I have reviewed this report on Form 10-Q of PFSweb, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2004

By: /s/ Mark C. Layton
Chief Executive Officer

**CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

I, Tom Madden, certify that:

1. I have reviewed this report on Form 10-Q of PFSweb, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operation and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2004

By: /s/ Thomas J. Madden
Chief Financial Officer

**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of PFSweb, Inc. (the "Company"), does hereby certify that:

The Quarterly Report on Form 10-Q for the period ended September 30, 2004 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Form 10-K.

November 15, 2004

/s/ Mark C. Layton
Mark C. Layton
Chief Executive Officer

November 15, 2004

/s/ Thomas J. Madden
Thomas J. Madden
Chief Financial Officer

The foregoing certification is being furnished as an exhibit to the Form 10-Q pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-Q for purposes of Section 18 of the Securities Exchange Act of 1934, as whether made before or after the date hereof, regardless of any general incorporation language in such filing.

A signed original of this written statement required by Section 906 has been provided to PFSweb, Inc. and will be retained by PFSweb, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.