

# SYSTEMAX INC

## FORM 10-K (Annual Report)

Filed 03/27/98 for the Period Ending 12/31/97

Address	11 HARBOR PARK DR PORT WASHINGTON, NY 11050
Telephone	5166087000
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Symbol	SYX
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Industry	Retail (Catalog & Mail Order)
Sector	Services
Fiscal Year	12/31

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-K

(Mark One)

**X ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES**

EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 1997 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:*

1-13792

## GLOBAL DIRECTMAIL CORP

(Exact name of registrant as specified in its charter)

**DELAWARE 11-3262067**

(State or other jurisdiction of  
incorporation or organization)

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

22 HARBOR PARK DRIVE  
PORT WASHINGTON, NEW YORK  
(Address of principal executive offices)

11050  
(Zip Code)

**REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (516) 625-1555**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:**

TITLE OF EACH CLASS  
Common Stock, par value \$ .01 per share

NAME OF EACH EXCHANGE ON  
WHICH REGISTERED  
New York Stock Exchange

**SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE**

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 23, 1998 was approximately \$184,964,312. For purposes of this computation, all executive officers and directors of the Registrant and all parties to the Stockholders Agreement dated as of June 15, 1995 have been deemed to be affiliates. Such determination should not be deemed to be an admission that such persons are, in fact, affiliates of the Registrant.

The number of shares outstanding of the registrant's common stock, as of March 23, 1998, was 38,231,990 shares.

Documents incorporated by reference: The definitive Proxy Statement of Global DirectMail Corp relating to the 1998 Annual Meeting of Stockholders is incorporated by reference in Part III hereof.

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## PART I

UNLESS OTHERWISE INDICATED, ALL REFERENCES HEREIN TO "GLOBAL DIRECTMAIL CORP" ("GLOBAL" OR THE "COMPANY") INCLUDE ITS SUBSIDIARIES AND PREDECESSORS. GLOBAL IS THE SUCCESSOR TO A NUMBER OF CORPORATIONS (THE "PREDECESSOR COMPANIES") THAT OPERATED WITH RELATED OWNERSHIP.

### ITEM 1. BUSINESS.

#### GENERAL

Global is a direct marketer of over 40,000 products including brand name and private label personal desktop computers ("PCs"), notebook computers, computer related products, office products and industrial products in North America and Europe. In addition, the Company assembles build-to-order PCs in North America, under the brand names MIDWEST MICRO(R), ULTRA(TM), TIGER(R) and SYSTEMAX (TM). The Company emphasizes a broad selection of in-stock products, frequent mailings of a variety of distinctively branded full color catalogs, extensive customer service and prompt, complete order fulfillment. The Company's portfolio of catalogs includes such established brand names as GLOBAL(TM), MISCO(R), HCS GLOBAL(TM), HCS MISCO(TM), ARROWSTAR(TM), DARTEK(R), POWER UP!(R), TIGER(R), 06 (TM), MIDWEST MICRO(TM) and INFOTEL(TM). GLOBAL HAS grown rapidly as a result of internal growth and strategic acquisitions while maintaining a high level of profitability. The Company's net sales have increased at a compound annual growth rate of 31% to \$1.15 billion in 1997 from \$393.6 million in 1993. During this same period, income from operations increased at a compound annual growth rate of 19% from \$29.8 million to \$59.3 million.

The Company has positioned itself as a "corporate supplier" offering a broad spectrum of business products. The Company believes that direct marketing is the most effective and convenient distribution method to reach business customers who place many small orders requiring a wide selection of products. Computers and computer related products accounted for 80% of the Company's net sales in 1997.

The Company markets its products to businesses through mailings of its "full-line" and specialty catalogs and through outbound telemarketing. The Company targets individuals at major account customers (more than 1,000 employees), mid-sized businesses (20 to 1,000 employees), small office/home office customers ("SOHO") and value added resellers ("VARs"). VARs select, install and maintain PCs and networks for business customers who do not have their own computer technicians. Catalog mailings increased from approximately 98 million catalogs comprising 18 different titles in 1993 to approximately 162 million catalogs comprising 41 different titles in 1997. At December 31, 1997, the Company had 1.8 million "active" customers (defined as individuals that have purchased from the Company within the proceeding 12 months) and combined customer and prospect files of more than 40 million names.

The Company operates in eight locations in North America. The Company's North American operations contributed 76% of net sales in 1997. For some of the Company's businesses, certain functions, such as merchandising, marketing, purchasing and information systems, are performed centrally.

European operations, which represented 24% of net sales for 1997, are generated from seven sales and distribution centers located across Europe: two in the United Kingdom, and one each in France, Germany, Italy, Spain and the Netherlands. For a more detailed geographic breakdown of the Company's operations, see Note 10 to the Consolidated Financial Statements.

Most of the Company's products are carried in stock, and orders for such products are fulfilled directly from the Company's distribution centers, typically on the day on which the order was received. The strategic location of the Company's distribution centers allows next day or second day delivery via low cost ground carriers throughout the United States, Canada and Western Europe. The strategic locations in Europe have enabled the Company to market into four additional countries with limited incremental investment.

#### RECENT ACQUISITIONS

During 1997 the Company completed two strategic acquisitions. During the first quarter, the Company acquired the assets of 06 Software Centre Europe B.V. ("06"), a direct marketer of computers and computer products in the Netherlands. Although 06 does not materially increase the Company's European operations, it adds an additional market to that region, bringing to 10 the number of countries serviced there.

At the end of the third quarter the Company acquired the assets of Infotel, Inc. ("Midwest Micro"), an assembler and direct marketer of private label build-to-order PCs and a direct marketer of brand name PCs, notebook computers and computer related products. See Footnote 3 to the Consolidated Financial Statements.

#### PRODUCTS

In positioning itself as a "corporate supplier", the Company has consistently expanded the breadth of its product offerings in order to fulfill an increasingly wide range of business product needs. In total, Global offers over 40,000 brand name and private label products.

The Company's computer related products include: supplies such as laser printer toner cartridges, ink jet printer cartridges, and paper; media such as floppy disks and magnetic tape cartridges; peripherals such as hard disk drives and memory upgrades; data communication and

networking equipment; ergonomic accessories such as adjustable monitor support arms and antiglare screens; packaged software; and hardware. Computer sales include a wide array of build-to-order PCs complimented with offerings of the most popular brand named PCs and notebook computers.

Office products include furniture, chairs, small office machines and related supplies. The Company's industrial product lines focus primarily on storage equipment such as metal shelving, bins, lockers, light material handling equipment such as hand carts and hand trucks and consumable industrial products such as first aid items, safety items, protective clothing and OSHA compliance items. The table below summarizes the Company's mix of sales by product category:

**PRODUCT TYPE - YEAR ENDED DECEMBER 31 (PERCENTAGE OF TOTAL SALES)**

	1997	1996	1995
	----	----	----
Computer and Computer Related Products .....	80%	75%	66%
Office Products and Industrial Products.....	20	25	34
	--	--	--
Total .....	100%	100%	100%
	===	===	===

Historically, the Company focused primarily on non-branded or private label products. Although the Company continues to experience strong growth in its private label products, in recent years the Company made the strategic decision to leverage its distribution and marketing strengths into the market for high volume brand name products which the Company believes offer significant opportunities to increase sales. In 1993 the Company expanded its offerings of brand name computer related products, including peripherals, data communications and networking equipment, software and supplies. In 1995 the Company further expanded its offering of brand name products to include notebooks, desktops and servers. In addition, in 1997 the Company entered the "build to order" PC market through the acquisition of Midwest Micro. These strategies have impacted the overall gross profit margin percentages as those incremental sales typically have lower gross profit margin percentages than many of the Company's other products. A significant amount of the decrease in gross profit margin has been offset by reduced catalog production costs resulting from increased levels of vendor supported advertising, improved catalog management, and increased cost efficiencies.

**SALES AND MARKETING**

The Company produces a total of 41 "full-line" and targeted specialty catalogs under distinct titles. "Full-line" computer related product catalogs offer products such as computer supplies and magnetic media, peripherals, data communication, networking and power protection equipment, ergonomic accessories, furniture, software, PCs and hardware. "Full-line" industrial products catalogs offer products such as material handling products and industrial supplies. Specialty catalogs contain more focused product offerings and are targeted to individuals most likely to purchase from such catalogs. Global mails multiple catalogs to many individuals at each location, providing the Company with multiple points-of-entry into a business location. Once a prospect purchases a particular product, however, the Company's customers have exhibited strong brand loyalty resulting in limited customer overlap among the Company's various catalog brands. This multiple brand strategy, and the accompanying customer exposure to the Company's products, is a crucial factor in the Company's strategy to increase sales volume through broader market coverage and improve the productivity of its customer file through more focused marketing.

Global has invested consistently and aggressively in developing a proprietary customer and prospect database. This database, which includes more than 40 million names, represents a major asset of the Company. The Company considers its customers to be the various individuals that work within an organization rather than the business location itself. The customer and prospect database includes detailed information, including company size, number of employees, industry, various demographic and geographic characteristics and purchase history. Management believes that this variety and depth of information on its customers provides Global a significant competitive advantage.

During 1997, the Company distributed approximately 162 million catalogs of which approximately 125 million catalogs were mailed in North America and approximately 37 million catalogs were distributed in Europe. At December 31, 1997, the Company had 1.8 million "active" customers (defined as individuals that have purchased from the Company within the preceding 12 months).

In its mailings, the Company seeks to maximize the response rates of its catalogs. The Company calculates response rate as total catalogs mailed for the period divided by the total number of orders entered for the same period. The following table shows the approximate number of catalogs distributed by the Company and the catalog response rates:

**CATALOGS DISTRIBUTED - YEAR ENDED DECEMBER 31**

(IN MILLIONS EXCEPT RESPONSE RATES)	1997	1996	1995
-----	----	----	----
North America.....	125	120	90
Europe.....	37	40	32
	----	----	----
Total.....	162	160	122
	=====	=====	=====
Response rates.....	2.18%	2.12%	2.08%

The Company's in-house staff designs all of the Company's catalogs. Catalog paper is purchased from various sources and has historically been subject to price fluctuations. The printing of the catalogs is done by several sources under fixed pricing arrangements. In-house catalog production helps reduce overall catalog expense and shortens catalog production time. This allows the Company the flexibility to alter its product offerings and pricing and refine its catalog formats more quickly.

### **INBOUND SALES**

Global's catalogs generate calls to the in-bound sales group. Sales representatives use the capabilities of the Company's systems to fulfill orders and explore additional customer product needs. Each sales representative has immediate access to customer files, including usage and billing information, and real-time inventory levels by distribution center. Using this data, inbound sales personnel are also prompted by their computer screen to cross-sell selected products and obtain specific information relating to customer-specific purchasing habits and product needs.

### **MAJOR ACCOUNT MANAGEMENT**

The Company has established a major accounts management program focused on expanding penetration of larger businesses. In the United States, Global has the ability to provide such customers with EDI ordering and customized billing services, customer savings reports and stocking of specialty items specifically requested by customers. The Major Account sales force's goal is to increase the purchasing productivity of current customers and to actively solicit newly targeted prospects to become customers.

### **OTHER MARKETING**

The Company also uses targeted fax campaigns, special single-product "solo" mailings and the Internet to generate incremental sales to business customers. During 1997, the Company initiated Internet marketing with three build-to-order PC configurator websites.

### **CUSTOMER SERVICE AND SUPPORT**

Order entry and fulfillment occurs at each of the Company's 15 locations. Global generally provides toll-free telephone number access to its customers. The integration of the Company's call centers also provide some domestic locations with telephone backup in the event of a disruption in phone service. In addition to telephone orders, Global also receives orders by mail, by fax, via electronic data interchange ("EDI") and on the Internet.

When an order is entered into the system, a credit check is performed, and, if the credit is approved, the order is electronically transmitted to the warehouse and a packing slip is printed for order fulfillment. Approximately 70% of the Company's 1997 sales were on open account and the Company's bad debt experience has traditionally been less than 1% of sales. Orders generally are shipped by United Parcel Service in the United States and by similar national small package delivery services in Europe, as well as by various freight lines and local carriers. Air freight is also available. As a result of the regional locations of the Company's warehouses, Global estimates that most customers receive their orders (other than custom items, large furniture and large industrial items shipped directly by the vendor) within one or two business days of the order date. Customers are invoiced for merchandise, shipping and handling promptly after shipment.

The Company conducts regular on-site training seminars for its sales representatives and operates a separate customer service department which responds to customer concerns. The Company also maintains a separate technical support group dedicated to answering customer inquiries and assisting customers with the operation of their products. Technical support questions are logged into the computer, thus forming a database of commonly asked questions for each product. This database helps sales representatives respond quickly to similar questions from future customers and also allows product managers to monitor the effectiveness of the information provided in the catalogs. The Company also employs a fax-back system that allows customers to call directly into a computer system that automatically faxes the requested information to the customer.

### **DISTRIBUTION CENTERS**

#### **NORTH AMERICA**

The Company operates eight separate facilities in North America. Each sales and distribution center has a general manager in charge of inbound sales, outbound telemarketing, on-site operations, credit review, product fulfillment and asset management.

Many of the facilities are linked by a wide area network management information system. In the event of adverse delivery conditions (such as bad weather) the Company can shift inbound calls and/or order fulfillment and shipping to an alternative location. Management believes this provides Global with important operating flexibility and protection from possible sales interruptions for many of its North American businesses. See "Management Information Systems."

A large number of the Company's products are carried in stock, and consequently orders for such products are fulfilled from the distribution center. Certain products (such as selected computer hardware and large furniture and industrial items) are shipped directly by the supplier. The layout of the Company's distribution centers is managed with a computer-based tracking system which dictates the location of specific stock

items. Individual product types are consistently stocked in the same physical picking location, allowing ease of picking and minimizing picking errors. Picking of products at the distribution centers is done continuously throughout the day. Customer orders are packed and shipped as they are received.

## **EUROPE**

The Company has seven separate European market branch facilities in six countries and a central office near London to direct their activities. The central office is responsible for marketing support, catalog production, financial reporting, logistics and computer programming support. In addition, each market has a full service sales and distribution center to process orders and reports to the respective country manager who has ultimate profit and loss responsibility.

## **SUPPLIERS**

In North America, the Company purchases the majority of its products and components directly from manufacturers, except for certain peripherals, software and hardware products which are purchased through wholesale distributors. In Europe, products are sourced from a combination of local manufacturers and wholesalers. Substantially all of the European catalog product content is sourced in Europe. No single supplier accounted for more than 10% of Global's total purchases in 1997.

Private label products are manufactured either by the Company or by third parties to the Company's specifications. Many of these private label products have been designed or developed by the Company's in-house research and development team. See "Research and Development.

## **MANAGEMENT INFORMATION SYSTEMS**

In North America, the Company operates a proprietary system that allows centralized management of key management functions. These include communication links between distribution centers, inventory and accounts receivable management, purchasing, pricing, sales and distribution, and the preparation of daily operating control reports which provide concise and timely information regarding key aspects of its business. This proprietary management information system enables the Company to enhance its flexibility by shipping customer orders usually on a same-day basis, responding quickly to order changes and providing a high level of customer service. The Company maintains a database of over 40 million customer and prospect names and keeps records of historical purchasing patterns in order to prompt sales personnel with product suggestions to expand customer order values. In addition, the Company has developed a customer prospecting function based upon geographic, economic and demographic data which enables Global to utilize its information systems to maintain and expand its customer data file. These applications enable the Company to achieve cost savings, deliver extensive customer service and centrally manage its operations.

In the United States, the Company's management information systems are networked, real-time information systems. These allow each distribution center to share information and monitor daily progress relating to sales activity, credit approval, inventory levels, stock balancing, vendor returns, order fulfillment and other measures of performance.

## **THE YEAR 2000 ISSUE**

As is the case with virtually all companies and organizations, the Company currently utilizes certain computer programs that store two digits in identifying the year in the date field. Those programs were designed and developed without considering the impact of the upcoming change in the century. If not corrected those computer programs could fail or create erroneous results by or at the year 2000.

The Company currently believes it will be able to modify or replace any affected computer program in time to minimize any potential harmful effects on operations. While it is not possible, at present, to give an accurate estimate of the impact on the Company's operations or the cost of correcting the affected computer programs, the Company expects that the impact and associated costs will not be material to the Company's operations. The Company is in the process of contacting customers and vendors to determine which of them is affected by the year 2000 problem, and to what extent, in order to assess the potential impact on the Company.

System maintenance and modification costs to existing computer programs will be expensed as incurred. The costs associated with new computer programs that are year 2000 compliant will be capitalized and amortized over the software's expected useful life.

## **RESEARCH AND DEVELOPMENT**

The Company's research and development team designs and develops products for Global's private label program. The individuals responsible for research and development have backgrounds in engineering and industrial design.

This in-house capability provides important support to the private label program. Many of the Company's private label products were designed or developed by the in-house research and development team. Examples of products designed in-house include: furniture, ergonomic monitor support arms, printer and monitor stands, wrist rests and other durable computer related products, storage racks and shelving systems, various stock and storage carts, work benches, plastic bins and shop furniture. The Company owns the tooling for many of these products, including plastic bins, computer accessories, furniture, and metal alloy monitor arms. See "Research and Development Costs" in Footnote 1 to the Consolidated Financial Statements.

## **COMPETITION**

### **COMPUTER RELATED PRODUCTS**

The North American computer related products market is highly fragmented and characterized by multiple channels of distribution, including direct response (mail order) distributors, local and national retail computer stores that carry computer supplies, computer resellers, mass merchants, computer "superstores" and the Internet. The tremendous growth in the computer related products market during the past 10 years has been accompanied by substantial changes in the nature of product distribution and sales. The decentralization of computers throughout factory, business, engineering and office environments has made it increasingly difficult and expensive for many suppliers to use traditional direct sales methods to locate users, initiate sales contacts and effectively provide service to customers. Average order values also tend to be smaller than in the past, reflecting individual requirements rather than the greater needs traditionally associated with centralized data processing departments. These changes in the structure of the computer related products market have placed traditional distributors with direct sales forces at a competitive disadvantage due to their cost structures and established selling methods. As a result, direct marketers have been able to increase sales to the larger businesses that have traditionally been served by contract stationers and VARs. They have also been able to capture sales volume and market share from the numerous small retail computer stores.

In Europe, the Company's major competitors are regional or country-specific retail and direct-mail distribution companies. The Company's presence in seven major European countries provides Global with the flexibility to purchase large volumes centrally. In addition, the commonality of certain core pages of the European catalogs provides for economies in catalog production. The Company believes that these factors allow it to take advantage of cost savings not available to many of its competitors in Europe.

There can be no assurance that the Company will be able to maintain or improve its current competitive position with respect to any of these or other competitive factors.

### **PCS AND NOTEBOOK COMPUTERS**

The computer industry is fiercely competitive with many U.S., Asian and European companies vying for market share. There are few barriers to the PC market with PCs being sold through the direct market channel, directly from manufacturers, computer superstores, mass merchants and over the Internet. Timely introduction of new products or product features are critical elements to maintaining a competitive advantage. Other competitive factors include product performance, quality and reliability, technical service and customer support, marketing and distribution and price. There can be no assurance that the Company will be able to maintain or improve its current competitive position with respect to any of these or other competitive factors. Some of the Company's competitors have stronger brand-recognition, broader product lines and greater financial, marketing, manufacturing and technological resources than the Company. Additionally, the Company's results could also be adversely affected should it be unable to implement effectively its technological and marketing arrangements with other companies, such as Microsoft(R) and Intel(R).

### **OFFICE PRODUCTS**

The distribution of office products in the United States is highly fragmented, with no one participant having more than a 10% market share. Sourcing of products from vendors and distributors also has been through a highly-fragmented supplier base without volume discounts or central purchasing efficiencies. Office products are typically sold through one of three channels: retail outlets, contract stationers and direct mail. However, due to the rapid growth of the office products market, competition and consolidation in this market are increasing, particularly with respect to the SOHO and large corporate (companies with over 1,000 employees) segments. Large contract stationers, direct mail distributors and office products superstores have grown at the expense of small independent retail dealers. The companies leading this consolidation have not, however, captured a large market position with the mid-sized facilities which the Company targets. The Company believes that this lack of penetration results from the fact that office products superstores and direct mail marketers have focused on serving the SOHO segment while contract stationers have focused on serving the large corporate sector. The Company believes that direct mail will continue to be a growing channel of distribution for office products and that price, breadth of product line and customer service will be key factors in the success of direct mail distribution of office products. There can be no assurance that the Company will be able to maintain or improve its current competitive position with respect to any of these or other competitive factors.

### **INDUSTRIAL PRODUCTS**

The market for the sale of industrial products in the United States is highly fragmented and is characterized by multiple distribution channels such as retail outlets, small dealerships, direct mail distribution and large warehouse stores. Global also faces competition from manufacturers' own sales representatives who sell industrial equipment directly to customers, and from regional or local distributors. Many high volume purchasers, however, utilize catalog distributors as their first source of product specifications. In the industrial products market, customer purchasing decisions are, primarily, based on price, product selection, product availability, level of service and convenience. As is the case with the office products industry, the Company believes that direct mail is one of the most effective and convenient distribution methods to reach mid-sized facilities which place many small orders and require a wide selection of products. In addition, because the industrial product market is highly fragmented and generally less brand oriented, it is well suited to private label products. The majority of the Company's industrial products are high gross profit margin, private label products.

Competition, with respect to industrial products, in the United Kingdom is similar to competition in the U.S. with the exception that most direct mail companies in the United Kingdom drop ship the majority of their products from the manufacturer, resulting in long delivery lead times. As

Global intends to stock the majority of its products, management believes it will have a significant advantage over most of its direct mail competitors in the United Kingdom.

There can be no assurance that the Company will be able to maintain or improve its current competitive position with respect to any of these or other competitive factors.

## EMPLOYEES

As of December 31, 1997, the Company employed a total of 2,792 employees, including 2,554 full-time and 238 part-time employees, of whom 2,137 were in North America and 655 were in Europe.

None of the Company's North American employees is represented by a labor union, except for approximately 60 warehouse and assembly employees in New York who are covered by an "open-shop" agreement with the Company, which expires at the end of 1998. These employees are not required to join the union. In Europe, union membership and affiliations vary by country. In general, the European unions tend to be national, rather than local, in scope and are industry specific.

The Company considers its relationships with employees to be good and has not experienced a work stoppage in 22 years.

## ENVIRONMENTAL MATTERS

Under various national, state and local environmental laws and regulations in North America and Europe, a current or previous owner or operator (including the lessee) of real property may become liable for the costs of removal or remediation of hazardous substances at such real property. Such laws and regulations often impose liability without regard to fault. The Company leases most of its facilities. In connection with such leases, the Company could be held liable for the costs of removal or remedial actions with respect to hazardous substances. Although the Company has not been notified of, and is not otherwise aware of, any material environmental liability, claim or non-compliance, there can be no assurance that the Company will not be required to incur remediation or other costs in connection with environmental matters in the future.

## FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS

See "Geographic Information" contained in Footnote 10 to the financial statements.

## ITEM 2. PROPERTIES.

The Company's primary facilities, which are leased except where otherwise indicated, are as follows:

FACILITY	LOCATION	APPROX SQ. FT.	EXPIRATION OF LEASE
Headquarters, Sales and Distribution Center, Catalog Operations(1).....	Port Washington, NY	178,000	2007
Sales and Distribution Center(1).....	Suwanee, GA	130,000	1999
Sales and Distribution Center.....	Compton, CA	140,000	2007
Sales and Distribution Center.....	Naperville, IL	241,000	2010
Sales and Distribution Center.....	Holmdel, NJ	51,000	1999
Sales and Distribution Center.....	Markham, Ontario	45,000	2005
Sales and Distribution Center.....	Verrieres le Buisson, France	24,000	2000
Sales and Distribution Center.....	Dreieich, Germany	55,000	2000
Sales and Distribution Center.....	Madrid, Spain	35,000	2 months notice
Sales and Distribution Center.....	Milan, Italy	80,000	1999
Sales and Distribution Center.....	Greenock, Scotland	78,000	owned
Sales and Distribution Center.....	Wellingborough, England	38,000	2013
Sales Center and Catalog Operations.....	Miami, FL	32,000	2000
Sales Center.....	Amstelveen, Netherlands	5,000	2000
Assembly, Sales and Distribution Center....	Fletcher, Ohio	185,000	owned
European Headquarters.....	Uxbridge, England	7,400	2005
-----			

(1) Facilities leased from related party. See "Certain Relationships and Related Transactions--Agreements-- Leases and Related Guarantees."

## ITEM 3. LEGAL PROCEEDINGS.

The Company is a party to various legal actions arising out of the normal course of business, none of which is anticipated to have a material adverse effect on the Company's financial position or results of operations.

On March 9, 1998 the Company filed suit in U.S. District Court (Eastern District of New York) against a bankrupt supplier and its lenders seeking monetary damages for breach of contract and warranty as well as a declaration that the Company has certain legal and equitable rights

of offset against amounts otherwise due the supplier, including a contractual right to offset \$4 million paid by the Company to one of the lenders under a letter of credit. The Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial position or results of operations.

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

During the quarter ended December 31, 1997, there were no matters submitted to a vote of the Company's security holders.

### PART II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock has been traded on the New York Stock Exchange under the symbol "GML" since its initial public offering on June 26, 1995 (the "IPO"). The following table sets forth the high and low sales price of the Company's Common Stock as reported on the New York Stock Exchange for the periods indicated.

1997	HIGH	LOW
FIRST QUARTER.....	43 7/8	17
SECOND QUARTER.....	26 1/4	13 1/8
THIRD QUARTER.....	27 3/4	20
FOURTH QUARTER.....	22 3/8	15 5/8
1996		
First quarter.....	35	24 1/4
Second quarter.....	47	32 1/8
Third quarter.....	47 1/4	36 1/4
Fourth quarter.....	52 1/4	39 1/4

On March 23, 1998, the last reported sale price of the Company's Common Stock on the New York Stock Exchange was \$1813/16 per share. As of March 23, 1998, the Company had 255 stockholders of record.

The Company has not paid any dividends since its initial public offering and anticipates that all of its income in the foreseeable future will be retained for the development and expansion of its business, and therefore does not anticipate paying dividends on its Common Stock in the foreseeable future. See "Certain Relationships and Related Transactions" for a description of the Company's historical distributions.

On September 30, 1997 the Company acquired the assets of Midwest Micro for approximately \$40 million in cash and 375,000 shares of the Company's common stock. These shares have not been registered with the Securities and Exchange Commission as they were issued privately to Midwest Micro pursuant to the private placement exemption provided in Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder.

#### ITEM 6. SELECTED FINANCIAL DATA.

The following selected financial information is qualified by reference to, and should be read in conjunction with, the Company's Consolidated Financial Statements and the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere in this report. The selected income statement data for the years ended December 31, 1997, 1996 and 1995 and the selected balance sheet data as of December 31, 1997 and 1996 is derived from the audited consolidated financial statements which are included elsewhere herein. The selected balance sheet data as of December 31, 1995 is derived from the audited financial statements of the Company which are not included herein. The selected balance sheet data as of December 31, 1994 and 1993 and the selected income statement data for the years ended December 31, 1994 and 1993 are derived from the audited financial statements of the Predecessor Companies which are not included herein.

##### INCOME STATEMENT DATA:

(IN MILLIONS, EXCEPT PER COMMON SHARE DATA, NUMBER OF CATALOG TITLES AND NUMBER OF COUNTRIES)

YEAR ENDED DECEMBER 31	1997	1996	1995	1994	1993
-----	----	----	----	----	----
Net sales.....	\$ 1,145.4	\$ 911.9	\$ 634.5	\$ 484.2	\$ 393.6
Cost of sales.....	879.8	662.3	437.2	318.5	244.5
Gross profit.....	265.6	249.6	197.3	165.7	149.1
Selling, general and administrative expenses.....	206.3	180.1	143.2	129.5	119.3
Income from operations.....	59.3	69.5	54.1	36.2	29.8
Interest income.....	3.3	2.5	1.2	1.1	1.1
Interest expense.....	.4	.5	1.3	1.8	2.1
Income taxes.....	23.3	27.7	21.0(3)	14.0(3)	11.1(3)
Net income.....	38.8	43.7	33.1(3)	21.9(3)	17.4(3)

Net income per common share:					
Basic.....	\$ 1.02	\$ 1.16	\$ .93(3)	\$ .65(3)	\$ .51(3)
Diluted.....	\$ 1.02	\$ 1.15	\$ .93(3)	\$ .65(3)	\$ .51(3)
Weighted average common shares outstanding					
Basic.....	38.0	37.6	35.5(3)	33.8(3)	33.8(3)
Diluted.....	38.2	38.1	35.5(3)	33.8(3)	33.8(3)

SELECTED OPERATING DATA:

Active customers (1).....	1.8	1.7	1.7	1.1	.9
Orders entered.....	3.5	3.4	2.5	2.2	1.9
Number of catalogs distributed.....	162	160	122	114	98
Number of catalog titles.....	41	40	32	24	18
Number of countries receiving catalogs.....	13	12	10	7	7

BALANCE SHEET DATA (AT DECEMBER 31, IN MILLIONS):

Working capital (2).....	\$ 135.3	\$ 128.7	\$ 99.1	\$ 84.6	\$ 65.8
Total assets.....	399.7	331.4	247.5	164.2	127.1
Short-term debt.....	-	.5	5.4	19.2	4.8
Long-term debt, excluding current portion.....	2.0	2.0	2.9	11.5	13.9
Stockholders' equity.....	272.2	228.6	154.0	69.1	58.1

- (1) An "active customer" is defined as a customer who has purchased from the Company within the preceding 12 months.
- (2) Working capital excludes cash and cash equivalents, short-term investments and short-term debt.
- (3) Amount is calculated on a pro forma basis. Net income per common share and weighted average common shares outstanding give effect to the shares outstanding and exchanged prior to the Company's IPO.

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

**RESULTS OF OPERATIONS**

The following table represents the Company's statement of income data expressed as a percentage of net sales for the three most recent fiscal years:

YEAR ENDED DECEMBER 31	1997	1996	1995
-----	----	----	----
Net sales.....	100.0%	100.0%	100.0%
Gross profit.....	23.2	27.4	31.1
Selling, general and administrative expenses.....	18.0	19.8	22.5
Income from operations.....	5.2	7.6	8.6
Interest income.....	.3	.3	.2
Interest expense.....	-	.1	.4
Income taxes.....	2.0	3.0	2.0
Net income.....	3.4	4.8	5.6

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

Net sales increased by \$233.5 million or 25.6% to \$1.15 billion in 1997 from \$911.9 million in 1996. The increase was primarily attributable to (i) an increase in revenue from the Company's major account sales program, (ii) the inclusion of sales from Midwest Micro since its acquisition at the end of September 1997, (iii) an increase in the sales of brand name and private label PCs and notebook computers and (iv) an increased average order value resulting from increased offerings and sales of brand name products. Sales attributable to the Company's North American operations increased 29.1% to \$875.2 million in 1997 from \$677.8 million in 1996. European sales increased to \$270.2 million in 1997 from \$234.1 million in 1996, an increase of 15.4%. In local currencies without foreign exchange rate effects, European sales increased 21.3%.

Gross profit, which consists of net sales less product, shipping and certain distribution center costs, increased by \$15.9 million or 6.4% to \$265.5 million in 1997 from \$249.6 million in 1996. Gross profit margin decreased to 23.2% in 1997 from 27.4% in 1996. The decrease in gross profit margin was primarily due to (i) the Company's strategic decision to increase the proportion of net sales attributable to brand name products, particularly PCs, notebook computers, computer related products and hardware which typically have lower gross profit margin percentages than many of the Company's other products, (ii) the increase in the proportion of sales from the Company's major account sales group which generally sells to larger customers at discounted prices, and (iii) increased shipping and other costs associated with the United Parcel Service labor action in August 1997.

A significant portion of this decline in gross profit margin has been offset by the continued decline in selling, general and administrative expenses as a percentage of net sales. While selling, general and administrative expenses increased by \$26.1 million or 14.5% to \$206.3 million in 1997 from \$180.1 million in 1996, as a percentage of net sales they decreased to 18.0% in 1997 from 19.8% in 1996. The decrease as a percentage of net sales was primarily attributable to reduced catalog costs in North America as a result of the increased efficiencies from larger

average order sizes, vendor supported advertising, continued expense control and the leveraging of selling, general and administrative expenses over a larger sales base. Included in selling, general and administrative expenses in 1997 was a one time charge of \$9.6 million incurred during the third quarter relating to the impairment of certain long lived assets, principally goodwill.

As a result of the above, income from operations decreased by \$10.2 million or 14.7% to \$59.3 million in 1997 from \$69.5 million in 1996. Income from operations as a percentage of net sales decreased to 5.2% from 7.6% in 1996.

Interest income increased \$ .8 million to \$3.3 million in 1997 from \$2.5 million in 1996 primarily due to higher levels of investments in short-term securities. Interest expense decreased \$ .1 million to \$ .4 million in 1997 from \$ .5 million in 1996.

Net income decreased \$4.9 million or 11.2% to \$38.8 million in 1997 principally as a result of the above.

## YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

Net sales increased by \$277.4 million or 43.7% to \$911.9 million in 1996 from \$634.5 million in 1995. The increase was primarily attributable to (i) internal growth fueled by an increase in the number of catalogs mailed (including eight new catalog titles), an increase in revenue from the Company's major account sales program and an increased average order value resulting from increased offerings and sales of brand name products and (ii) the inclusion of a full year of sales from TigerDirect verses one month in 1995. Sales attributable to the Company's North American operations increased 52.1% to \$677.8 million in 1996 from \$445.7 in 1995 as compared with a 24.0% increase in European sales to \$234.1 million in 1996 from \$188.8 million in 1995.

Gross profit, which consists of net sales less product, shipping and certain distribution center costs, increased by \$52.3 million or 26.5% to \$249.6 million in 1996 from \$197.3 million in 1995. Gross profit margin decreased to 27.4% in 1996 from 31.1% in 1995. The decrease in gross profit margin was due in part to the inclusion of a full year of sales from TigerDirect whose product mix has a lower gross profit margin, and the Company's strategic decision to increase the proportion of net sales attributable to brand name products, particularly computer related products and hardware which typically have lower gross profit margins than many of the Company's other products.

A significant portion of this decline in gross profit margin has been offset by the continued decline in selling, general and administrative expenses as a percentage of net sales. While selling, general and administrative expenses increased by \$37.1 million or 25.9% to \$180.1 million in 1996 from \$143.0 million in 1995, as a percentage of net sales they decreased to 19.8% in 1996 from 22.5% in 1995. The decrease as a percentage of net sales was primarily attributable to reduced catalog costs in North America as a result of the increased vendor supported advertising, continued expense control and the leveraging of selling, general and administrative expenses over a larger sales base. As a result of expenses associated with the Company's launching of cross border catalogs in the first quarter in Europe, selling, general and administrative expenses as a percentage of net sales for Europe did not decrease significantly. These European cross border catalogs were mailed into countries where the Company did not have an existing customer base and accordingly yielded lower catalog response rates than the Company's other catalogs.

Income from operations increased by \$15.2 million or 28.0% to \$69.5 million in 1996 from \$54.3 million in 1995. Income from operations as a percentage of net sales decreased to 7.6% from 8.6% in 1995 as a result of a \$4.6 million decrease in operating profits for Europe and the inclusion of a full year of Tiger which had a lower operating profit margin than the rest of North America.

Interest income increased \$1.3 million to \$2.5 million in 1996 from \$1.2 million in 1995 primarily due to investment in short-term securities.

Interest expense decreased \$1.9 million to \$ .5 million in 1996 from \$2.4 million in 1995 primarily as a result of the repayments of officers' notes issued during 1995.

Net income increased \$8.0 million or 22.4% to \$43.7 million in 1996 as a result of the increase in income from operations described above and a \$4.7 million decrease in Officers Compensation and an increase of \$15.0 million in income taxes as a result of the predecessor companies termination of S Corporation status. Net income increased \$10.6 million or 32.0% compared to 1995 pro forma net income of \$33.1 million, as described below.

## SEASONALITY

The operations of the Company are somewhat seasonal. In particular, net sales have historically been modestly weaker during the second and third quarter as a result of lower business activity during the summer months. The following table sets forth net sales, gross profit and income from operations for each of the quarters since January 1, 1996 (AMOUNTS IN MILLIONS).

1997	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
----	-----	-----	-----	-----
NET SALES.....	\$273.5	\$259.5	\$259.7	\$352.7 (1)
GROSS PROFIT.....	69.4	64.2	57.3	74.7
INCOME FROM OPERATIONS.....	18.6	17.9	2.5	20.3
1996	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
----	-----	-----	-----	-----

Net sales.....	\$ 218.7	\$ 213.7	\$ 225.9	\$ 253.6
Gross profit.....	65.0	60.1	60.3	64.2
Income from operations.....	18.3	15.5	16.8	18.9

(1) Includes approximately \$62 million of net sales from Midwest Micro acquired on September 30, 1997.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital needs have been to fund the working capital requirements necessitated by its sales growth and acquisitions. The Company's primary sources of financing have been cash from operations, equity offerings, and to a lesser extent bank borrowings. The Company believes that its cash flows from operations and available lines of credit will be adequate to support its current and anticipated activities.

Net cash provided by operating activities was \$33.1 million, \$22.7 million and \$11.0 million in 1997, 1996 and 1995, respectively. The increase from 1996 to 1997 was due to increased asset management, specifically accounts receivable and inventory. The increase from 1995 to 1996 was due to increased working capital as a result of increased sales, improved management of inventory and accounts receivable and reduced levels of unprinted catalog paper in response to stabilizing paper prices.

Net cash used in investing activities in 1997 was primarily the result of the acquisition of Midwest Micro and the acquisition of additional furniture, fixtures and leasehold improvements at the new Compton, California facility to accommodate the increased staff levels. Those expenditures were partially offset by a decrease in short-term investments, for a net outlay of \$25.2 million for the year. For 1996, net cash used in investing activities was \$39.8 million, resulting from the investment of surplus cash and the acquisition of computer equipment and additional furniture and fixtures at the Naperville, Illinois facility to accommodate increased staff levels. For 1995, net cash used in investing activities was \$11.7 million resulting from the acquisition of TigerDirect, property and equipment and the repayment of amounts due to affiliates.

Net cash (used in) provided by financing activities was (\$.5) million, \$23.9 million and \$20.2 million in 1997, 1996 and 1995, respectively. The use of funds in 1997 was primarily due to the repayment of long-term debt. For 1996 net cash provided by financing activities resulted from the net proceeds from the sale and issuance of 1.0 million shares of common stock, as partially offset by the repayment of long-term bank debt and the settlement of long-term capital leases. The source of funds in 1995 was due mainly to the net proceeds of the Company's initial public offering net of the repayment of officers' notes payable and repayment of bank debt.

The Company maintains unsecured lines of credit with various financial institutions under which the maximum aggregate amount available is \$95.0 million. As of December 31, 1997, the Company had no outstanding borrowings under the lines of credit. The lines of credit bear interest at either the prime rate, LIBOR plus 63 basis points or at the respective bank's base rate and expire on various dates through December 1998. In addition, the Company may have outstanding letters of credit equal to an amount of the total line less outstanding borrowings.

The Company also maintains a secured line of credit with a bank with a maximum amount available of 2.0 Pounds Sterling. There were no borrowings under this facility as of December 31, 1997. This line expires in April 1998 and provides for interest at the bank's base rate (6% at December 31, 1997) plus 2%.

The Company does not anticipate any difficulty in renewing or replacing any of its lines of credit as they expire.

Anticipated capital expenditures in 1998 are expected to be approximately \$20 million, which the Company plans to fund out of cash from operations and existing cash and cash equivalents. These capital expenditures are primarily for (i) the relocation and expansion of the Company's sales and distribution centers and (ii) the acquisition of information technology systems and other fixed assets.

## FORWARD LOOKING STATEMENTS

This report contains forward looking statements within the meaning of that term in the Private Securities Litigation Reform Act of 1995 (Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). Additional written or oral forward looking statements may be made by the Company from time to time, in filings with the Securities Exchange Commission or otherwise. Statements contained herein that are not historical facts are forward looking statements made pursuant to the safe harbor provisions referenced above. Forward looking statements may include, but are not limited to, projections of revenue, income or loss and capital expenditures, statements regarding future operations, financing needs, compliance with financial covenants in loan agreements, plans for acquisition or sale of assets or businesses and consolidation of operations of newly acquired businesses, and plans relating to products or services of the Company, assessments of materiality, predictions of future events and the effects of pending and possible litigation, as well as assumptions relating to the foregoing. In addition, when used in this discussion, the words "anticipates", "believes", "estimates", "expects", "intends", "plans" and variations thereof and similar expressions are intended to identify forward looking statements.

Forward looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified based on current expectations. Consequently, future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward looking statements contained in this report. Statements in this report, particularly in "Item 1. Business", "Item 3. Legal Proceedings",

"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations", and the Notes to Consolidated Financial Statements describe certain factors, among others, that could contribute to or cause such differences. Other factors that could contribute to or cause such differences include, but are not limited to, unanticipated developments in any one or more of the following areas: (i) the Company's ability to manage rapid growth as a result of internal expansion and strategic acquisitions, (ii) the effect on the Company of volatility in the price of paper and periodic increases in postage rates, (iii) the operation of the Company's management information systems including the costs and effects associated with the year 2000 date change problem, (iv) the general risks attendant to the conduct of business in foreign countries, including currency fluctuations associated with sales not denominated in United States dollars, (v) significant changes in the computer products retail industry, especially relating to the distribution and sale of such products, (vi) competition in the PC, notebook computer, computer related products, office products and industrial products markets from superstores, direct response (mail order) distributors, mass merchants, value added resellers, the Internet and other retailers, (vii) the potential for expanded imposition of state sales taxes, use taxes, or other taxes on direct marketing companies, (viii) the continuation of key vendor relationships including the ability to continue to receive vendor supported advertising, (ix) timely availability of existing and new products, (x) risks due to shifts in market demand and/or price erosion of owned inventory, (xi) borrowing costs, (xii) changes in taxes due to changes in the mix of U.S. and non-U.S. revenue, (xiii) pending or threatened litigation and investigations and (xiv) the availability of key personnel, as well as other risk factors which may be detailed from time to time in the Company's Securities and Exchange Commission filings.

Readers are cautioned not to place undue reliance on any forward looking statements contained herein, which speak only as of the date hereof. The Company undertakes no obligation to publicly release the result of any revisions to these forward looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unexpected events.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.**

The Company is exposed to market risks, which include changes in U.S. and international interest rates as well as changes in currency exchange rates as measured against the U.S. dollar and each other. Global attempts to reduce these risks by utilizing certain derivative financial instruments.

The value of the U.S. dollar affects the Company's financial results. Changes in exchange rates may positively or negatively affect Global's sales (as expressed in U.S. dollars), gross margins, operating expenses and retained earnings. The Company engages in hedging programs aimed at limiting in part the impact of certain currency fluctuations. Using primarily forward exchange and foreign currency option contracts, Global, from time to time, hedges certain of its assets that, when remeasured according to generally accepted accounting principles, may impact the Statement of Consolidated Income. These hedging activities provide only limited protection against currency exchange risks. Factors that could impact the effectiveness of the Company's hedging programs include accuracy of sales forecasts, volatility of the currency markets, availability of hedging instruments and the credit-worthiness of the parties which have entered into such contracts with the Company. All currency contracts that are entered into by Global are for the sole purpose of hedging an existing or anticipated currency exposure, not for speculative or trading purposes. In spite of Global's hedging efforts to reduce the effect of changes in exchange rates against the U.S. dollar, the Company sales or costs could still be adversely affected by changes in those exchange rates.

As of December 31, 1997, the Company had outstanding forward exchange contracts in the amount of 1.0 million Pounds Sterling, 30.0 million French Francs and 700.0 million Italian Lire.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The information required by Item 8 of Part II is incorporated herein by reference to the Consolidated Financial Statements filed with this report; see Item 14 of Part IV.

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

None.

### **PART III**

#### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

The information required by Item 10 of Part III is hereby incorporated by reference from the Company's Proxy Statement for the 1998 Annual Meeting of Stockholders (the "Proxy Statement").

#### **ITEM 11. EXECUTIVE COMPENSATION.**

The information required by Item 11 of Part III is hereby incorporated by reference from the Proxy Statement.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.**

The information required by Item 12 of Part III is hereby incorporated by reference from the Proxy Statement.

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

The information required by Item 13 of Part III is hereby incorporated by reference from the Proxy Statement.

**PART IV**

**ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K.**

- (a) 1. The Consolidated Financial Statements of Global DirectMail Corp.  
2. Financial Statement Schedules:  
Schedules not included with this additional financial data have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.  
3. Exhibits.

EXHIBIT NO.	EXHIBIT INDEX DESCRIPTION
3.1	Certificate of Incorporation of Registrant*
3.2	By-laws of Registrant*
4.1	Stockholders Agreement**
4.2	Specimen Stock Certificate of Registrant*
10.1	Form of 1995 Long-Term Stock Incentive Plan****
10.2	Exchange Agreement dated as of May 8, 1995 between certain stockholders of the Predecessor Companies and the Company*
10.3	Lease Agreement dated October 14, 1992 between the Company and 2RB Associates Co. (Port Washington facility)*
10.4	Lease Agreement dated September 20, 1988 between the Company and Addwin Realty Associates (Port Washington facility)*
10.5	Lease Agreement dated May 25, 1989 between the Company and Addwin Realty Associates (Suwanee facility)*
10.6	Lease Agreement dated as of July 17, 1997 between the Company and South Bay Industrials Company (New Compton facility)
10.7	Build-to-Suit Lease Agreement dated April, 1995 among the Company, American National Bank and Trust Company of Chicago and Walsh, Higgins & Company (Naperville facility)*
10.8	Rent Guaranty dated as of October 14, 1992 by the Company to the Bank of New York*
10.9	Royalty Agreement dated June 30, 1986 between the Company and Richard Leeds, Bruce Leeds and Robert Leeds, and Addendum thereto*
10.10	Consulting Agreement dated as of December 22, 1992 between the Company and Paul Leeds*+
10.11	Form of 1995 Stock Plan for Non-Employee Directors****
10.12	Consulting Agreement dated as of January 1, 1996 between the Company and Gilbert Rothenberg****
10.13	Asset Purchase Agreement dated September 12, 1997 among Infotel, Inc., Mark L. Runkle, Midwest Micro Corp. and the Company ****
10.14	Employment Agreement dated as of December 12, 1997 between the Company and Steven M. Goldschein+
21.1	Subsidiaries of the Registrant
23	Consent of experts and counsel: Consent of Independent Public Accountants
27	Financial Data Schedule (EDGAR version only)

\* Incorporated herein by reference to the Company's registration statement on Form S-1 (Registration No. 33-92052). \*\* Incorporated herein by reference to the Company's quarterly report on Form 10-Q for the quarterly period ended September 30, 1995. \*\*\* Incorporated herein by reference to the Company's registration statement on Form S-1 (Registration No. 333-1852). \*\*\*\* Incorporated herein by reference to the Company's report on Form 8-K dated September 26, 1997  
+ Management contract or compensatory plan or arrangement

(b) Reports on Form 8-K.

On October 15, 1997, the Company filed a report on Form 8-K regarding its September 30, 1997 acquisition of substantially all of the assets of Infotel, Inc.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of New York, State of New York, on the 27th day of March, 1998.

**GLOBAL DIRECTMAIL CORP**

By: /s/ RICHARD LEEDS  
.....  
Richard Leeds  
Chairman and Chief Executive Officer

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

<i>SIGNATURE</i>	<i>TITLE</i>	<i>DATE</i>
/s/ RICHARD LEEDS ..... Richard Leeds	Chairman and Chief Executive Officer (Principal Executive Officer)	March 27, 1998
/s/ BRUCE LEEDS ..... Bruce Leeds	Vice Chairman and President of International Operations	March 27, 1998
/s/ ROBERT LEEDS ..... Robert Leeds	Vice Chairman and President of Domestic Operations	March 27, 1998
/s/ ROBERT DOOLEY ..... Robert Dooley	Director and Senior Vice President-- Worldwide Computer Sales and Marketing	March 27, 1998
/s/ STEVEN GOLDSCHHEIN ..... Steven Goldschein	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 27, 1998
/s/ HOWARD KOHOS ..... Howard Kohos	Corporate Controller (Principal Accounting Officer)	March 27, 1998
/s/ ROBERT D. ROSENTHAL ..... Robert D. Rosenthal	Director	March 27, 1998
/s/ STACY DICK ..... Stacy Dick	Director	March 27, 1998

\*\*\*\*\*

## INDEPENDENT AUDITORS' REPORT

### **The Shareholders and Board of Directors of THE GLOBAL DIRECTMAIL CORP:**

We have audited the accompanying consolidated balance sheets of Global DirectMail Corp and its subsidiaries, (the "Company"), as of December 31, 1997 and 1996 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years ended December 31, 1997 in conformity with generally accepted accounting principles.

*/S/ Deloitte & Touche LLP  
DELOITTE & TOUCHE LLP  
New York, New York  
February 5, 1998, March 9, 1998 as it relates to the second paragraph under  
LITIGATION of Note 9.*

**GLOBAL DIRECTMAIL CORP**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 1997 AND 1996**  
(IN THOUSANDS)

	1997	1996
	----	----
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 43,432	\$ 35,211
Short term investments	9,017	31,031
Accounts receivable, net	132,741	111,709
Inventories	102,599	93,033
Prepaid catalog expense	11,917	12,305
Other prepaid expenses and current assets	9,565	7,427
Deferred income tax benefit	4,059	3,266
	-----	-----
Total current assets	313,330	293,982
PROPERTY, PLANT AND EQUIPMENT, net	29,401	21,878
GOODWILL, net	53,258	13,545
DEFERRED INCOME TAX BENEFIT	3,122	-
OTHER ASSETS	634	2,034
	-----	-----
TOTAL	\$ 399,745	\$ 331,439
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 125,562	\$ 99,053
Current portion of long-term debt	12	495
	-----	-----
Total current liabilities	125,574	99,548
	-----	-----
LONG-TERM DEBT	1,972	2,030
	-----	-----
DEFERRED INCOME TAXES	-	1,224
	-----	-----
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred shares	-	-
Common shares	382	379
Additional paid-in capital	176,743	168,356
Retained earnings	97,204	58,392
Cumulative translation adjustment	(2,130)	1,510
	-----	-----
Total shareholders' equity	272,199	228,637
	-----	-----
TOTAL	\$ 399,745	\$ 331,439
	=====	=====

See notes to consolidated financial statements.

**GLOBAL DIRECTMAIL CORP**  
**STATEMENTS OF CONSOLIDATED INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995**  
(IN THOUSANDS, EXCEPT PER COMMON SHARE AMOUNTS)

	1997 ----	1996 ----	1995 ----
NET SALES	\$1,145,388	\$ 911,893	\$ 634,484
COST OF SALES	879,846	662,277	437,179
	-----	-----	-----
GROSS PROFIT	265,542	249,616	197,305
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	206,280	180,142	143,034
	-----	-----	-----
INCOME FROM OPERATIONS	59,262	69,474	54,271
OTHER (INCOME) EXPENSE, net (including \$4,707 of Shareholders' compensation in 1995)	(6)	39	4,748
INTEREST INCOME	(3,255)	(2,470)	(1,246)
INTEREST EXPENSE	425	521	2,394
	-----	-----	-----
INCOME BEFORE INCOME TAXES	62,098	71,384	48,375
PROVISION FOR INCOME TAXES	23,286	27,680	12,655
	-----	-----	-----
NET INCOME	\$ 38,812	\$ 43,704	\$ 35,720
	=====	=====	=====
NET INCOME PER COMMON SHARE:			
BASIC	\$ 1.02	\$ 1.16	
	=====	=====	
DILUTED	\$ 1.02	\$ 1.15	
	=====	=====	
 PRO FORMA INCOME DATA (UNAUDITED)			
Historical income before income taxes			\$ 48,375
Pro forma other adjustments			5,684
			-----
Pro forma income before income taxes			54,059
Pro forma income taxes			21,008
			-----
Pro forma net income			\$ 33,051
			=====
Pro forma net income per common share - basic and diluted			\$ 0.93
			=====

See notes to consolidated financial statements.

**GLOBAL DIRECTMAIL CORP**  
**STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 1995, 1996 AND 1997**  
**(IN THOUSANDS)**

	Common SHARES -----	Additional Paid-in CAPITAL -----	Retained EARNINGS -----	Cumulative Translation ADJUSTMENT -----	Notes Receivable from Related PARTIES -----
BALANCES, JANUARY 1, 1995	\$ 24,934	\$ 14,539	\$ 39,591	\$ 315	\$ (10,273)
Differences arising from translation of foreign statements	-	-	-	165	-
Dividends paid	-	-	(2,000)	-	-
Other	(30)	-	30	-	-
Effect of exchange of common shares, issuance of notes and collection of notes receivable	(24,620)	(14,528)	(58,653)	-	10,273
Initial public offering of common shares	83	134,329	-	-	-
Issuance of common shares for the acquisition of TigerDirect, Inc.	2	4,130	-	-	-
Net income	-	-	35,720	-	-
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 1995	369	138,470	14,688	480	-
Differences arising from translation of foreign statements	-	-	-	1,030	-
Net proceeds from sale of common shares	10	29,886	-	-	-
Net income	-	-	43,704	-	-
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 1996	379	168,356	58,392	1,510	-
Differences arising from translation of foreign statements	-	-	-	(3,640)	-
Issuance of 375,000 common shares as partial consideration for the acquisition of the net assets of Infotel, Inc.	3	8,387	-	-	-
Net income	-	-	38,812	-	-
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 1997	\$ 382	\$ 176,743	\$ 97,204	\$ (2,130)	\$ -
	=====	=====	=====	=====	=====

See notes to consolidated financial statements.

**GLOBAL DIRECTMAIL CORP**  
**STATEMENTS OF CONSOLIDATED CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995**  
(IN THOUSANDS)

	1997	1996	1995
	----	----	----
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:			
Net income	\$ 38,812	\$ 43,704	\$ 35,720
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, net	5,715	3,813	2,098
Charges associated with the impairment of certain long lived assets	9,200	-	-
Benefit for deferred income taxes	(5,308)	(330)	(1,959)
Provision for returns and doubtful accounts	3,283	2,745	4,178
Changes in certain assets and liabilities:			
Accounts receivable	(18,395)	(29,242)	(15,261)
Inventories	3,103	(20,748)	(12,155)
Prepaid catalog and other prepaid expenses	(1,569)	7,028	(8,500)
Accounts payable and accrued expenses	(1,727)	15,760	6,921
	-----	-----	-----
Net cash provided by operating activities	33,114	22,730	11,042
	-----	-----	-----
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Net change in short term instruments	22,014	(31,031)	-
Investments in property, plant and equipment	(9,989)	(8,805)	(4,859)
Loans to affiliated entities	-	-	(5,631)
Acquisition of net assets of businesses acquired	(37,227)	-	(1,185)
	-----	-----	-----
Net cash used in investing activities	(25,202)	(39,836)	(11,675)
	-----	-----	-----
CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES:			
Net cash provided by short term borrowings from banks	-	478	-
Borrowings of long term debt	-	-	8,392
Repayment of long term debt	(470)	(6,442)	(27,550)
Repayment from related parties	-	-	4,702
Proceeds from sale and issuance of common shares	-	29,896	134,412
Dividends paid	-	-	(2,000)
Payment of notes payable to shareholders	-	-	(97,800)
	-----	-----	-----
Net cash (used in) provided by financing activities	(470)	23,932	20,156
	-----	-----	-----
EFFECTS OF EXCHANGE RATES ON CASH	779	(92)	128
	-----	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,221	6,734	19,651
	-----	-----	-----
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	35,211	28,477	8,826
	-----	-----	-----
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 43,432	\$ 35,211	\$ 28,477
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES:			
Interest paid	\$ 376	\$ 1,194	\$ 2,548
	=====	=====	=====
Income taxes paid	\$ 29,497	\$ 26,606	\$ 14,957
	=====	=====	=====

See notes to consolidated financial statements.

**GLOBAL DIRECTMAIL CORP**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995**

**1. BASIS OF PRESENTATION, DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF PRESENTATION** - The accompanying consolidated financial statements include the accounts of Global DirectMail Corp and its wholly-owned subsidiaries (collectively, the "Company" or "Global"). The Company is the successor to several corporations, previously referred to as the Global Group, which were owned by related shareholders. In connection with the consummation of an initial public offering in June 1995 (the "IPO"), the stockholders of these predecessor companies exchanged all of the outstanding capital stock for common shares of Global. That transaction was accounted for as a pooling of interests.

**DESCRIPTION OF BUSINESSES** - The Company is involved in the marketing and sale of personal computers (PCs), notebook computers, computer related products, office products and industrial products, through the distribution of mail order catalogs and a network of major account sales representatives in the North America and Western Europe.

**PRINCIPLES OF CONSOLIDATION** - All significant intercompany accounts and transactions have been eliminated in consolidation. When necessary, the results of operations of the Company's foreign subsidiaries have been adjusted to conform to accounting principles generally accepted in the United States of America.

**CASH AND CASH EQUIVALENTS** - The Company considers amounts held in money market accounts and other short-term investments with an original maturity date of approximately three months or less to be cash equivalents.

**SALES RECOGNITION AND ACCOUNTS RECEIVABLE** - The Company recognizes sales of products, including shipping revenue at the time of shipment. Accounts receivable are shown in the consolidated balance sheets net of allowances for doubtful collections and subsequent customer returns of approximately \$7,338,000 and \$7,724,000 at December 31, 1997 and 1996, respectively. The changes in these allowance accounts are summarized as follows (in thousands):

YEAR ENDED DECEMBER 31	1997	1996	1995
Balance, beginning of year.....	\$ 7,724	\$7,731	\$ 4,598
Charged to expense.....	3,283	2,745	4,178
Reductions, principally write-offs.....	(3,669)	(2,752)	(1,045)
Balance, end of year.....	\$ 7,338	\$7,724	\$ 7,731
	=====	=====	=====

**INVENTORIES** - Inventories consist primarily of finished goods and are stated at the lower of cost or market value. Cost is determined by using the first-in, first-out method.

**PREPAID CATALOG EXPENSE** - Prepaid catalog expense includes (i) unused catalog paper, (ii) cost associated with the production and mailing of finished catalogs, net of (iii) funding from certain of the Company's vendors for advertisements placed, advertising allowances and incentives ("Co-op") relating to those catalogs. Finished catalog expense net of the respective Co-op is deferred and charged to expense over the period that the catalog remains the most current selling vehicle, generally three months.

**PROPERTY, PLANT AND EQUIPMENT** - Property, plant and equipment is stated at cost. Depreciation of furniture, fixtures and equipment is on the straight line or accelerated method over their estimated useful lives ranging from three to eight years. Depreciation of buildings is on the straight line method over estimated useful lives of 30 to 50 years. Leasehold improvements are amortized over the lesser of their useful lives or the term of the lease.

**FOREIGN CURRENCY TRANSLATION** - The financial statements of the foreign entities are translated into U.S. dollars, the reporting currency, using year-end exchange rates for consolidated balance sheet items and average exchange rates for the consolidated statement of income items. The translation differences are recorded directly in the consolidated statement of shareholders' equity.

**FOREIGN CURRENCY TRANSACTIONS** - Transactions in foreign currencies are recorded at the exchange rate in effect at the transaction date. Realized and unrealized exchange gains and losses during the year are included in the respective year's consolidated statement of income.

**RESEARCH AND DEVELOPMENT COSTS** - Costs incurred in connection with research and development are expensed as incurred. Such expenses for the years ended December 31, 1997, 1996 and 1995 aggregated approximately \$674,000, \$573,000 and \$443,000, respectively.

**GOODWILL, NET** - Goodwill and negative goodwill are combined and presented net of the respective accumulated amortization. For acquisitions that the Company has recorded as purchase transactions, the amount of the excess of the purchase price over the identifiable assets, is recorded as goodwill. In instances where the Company had acquired a business below the fair value of the assets acquired, the Company recorded negative goodwill. Goodwill and negative goodwill are being amortized over periods ranging from 10 to 40 years.

USE OF ESTIMATES IN FINANCIAL STATEMENTS - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NET INCOME PER COMMON SHARE - In December 1997 the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share" and restated net income per common share for all periods presented. Net income per common share-basic was calculated based upon the weighted average number of common shares outstanding during respective periods. Net income per common share-diluted was calculated based upon the weighted average number of common shares outstanding and included the equivalent shares for dilutive options outstanding during the respective periods.

The weighted average common shares outstanding for the computation of basic earnings per common share for 1997 and 1996 were 38.0 million and 37.6 million, respectively. Additionally 262,000 and 505,000 of equivalent common shares were included in 1997 and 1996, respectively, for the diluted calculation.

## 2. PRO FORMA INFORMATION (UNAUDITED)

### PRO FORMA INCOME ADJUSTMENTS

The pro forma income data for the year ended December 31, 1995 present the effects on the historical consolidated financial statements of certain transactions related to the June 1995 IPO as if they occurred as of the beginning of the year, including (1) reduced levels of compensation and royalty payments to officers, (2) the elimination of \$500,000 per year of compensation paid to a shareholder pursuant to a consulting agreement entered into in 1992 which terminated in connection with the IPO, (3) the elimination of interest paid on officers notes in 1995, and (4) the provision for income taxes to eliminate the benefit, for income tax purposes, of the predecessor companies with S Corporation status.

### PRO FORMA NET INCOME PER COMMON SHARE

Pro forma net income per common share-basic was based on the weighted average number of shares of common stock outstanding prior to and after the IPO. Pro forma net income per common share-diluted was calculated based on the weighted average number of shares outstanding plus the effect of approximately 201,000 options assumed outstanding after the IPO.

## 3. ACQUISITIONS

During 1997 the Company acquired the net assets of three businesses for a total of \$50.8 million in cash, stock and purchase related costs with additional contingent cash consideration possible. These acquisitions are being accounted for as purchase transactions. The Company recorded the fair market value of the net assets acquired at \$15.9 million and the excess of the purchase price over that amount as goodwill.

The unaudited pro forma results of operations of the Company, including the pro forma effect as if those companies had been acquired as of January 1, 1995, are as follows (in thousands, except earnings per common share):

YEAR ENDED DECEMBER 31 -----	1997 ----	1996 ----	1995 ----
Net sales	\$ 1,334,183	\$ 1,207,625	\$ 975,946
Net income	\$ 39,286	\$ 42,251	\$ 29,839
Earnings per common share - basic and diluted	\$ 1.02	\$ 1.10	\$ .83

In November 1995, Global acquired TigerDirect, Inc. ("Tiger") and recorded, at that time the purchase price in excess of the fair value of the net assets acquired as goodwill. The estimated fair values were further evaluated by the Company during 1996 and, as a result, goodwill was reduced by approximately \$3.1 million. During 1997 the Company had determined that, as a result of its decision to exit certain lines of Tiger's business acquired as part of the original purchase, an impairment of the goodwill associated with those exited business lines had occurred. As such, the Company recorded a write down in the value of the goodwill of approximately \$6.3 million.

## 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net consists of the following (in thousands):

DECEMBER 31 -----	1997 -----	1996 -----
Land and buildings.....	\$ 8,085	\$ 5,226
Furniture and fixtures, office and warehouse equipment.....	32,857	27,273
Leasehold improvements.....	6,096	3,990
Transportation equipment.....	1,817	1,555
	-----	-----
	48,855	38,044

Less accumulated depreciation and amortization.....	19,454	16,166
	-----	-----
Net property, plant and equipment.....	\$ 29,401	\$ 21,878
	=====	=====

During 1997 the Company recorded a charge relating to the impairment of certain long-lived assets of approximately \$2.9 million

## 5. RELATED PARTY TRANSACTIONS

The Company leases several warehouse and office facilities from affiliates (see Note 9). Rent expense under those leases aggregated approximately \$1,901,000, \$2,130,000 and \$2,366,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

## 6. LONG-TERM DEBT

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

DECEMBER 31 -----	1997 -----	1996 -----
Foreign denominated secured loan (a).....	\$1,972	\$ 2,030
Capitalized lease obligations.....	12	17
	-----	-----
Total.....	1,984	2,047
Less: current maturities.....	12	17
	-----	-----
Long-term debt .....	\$1,972	\$ 2,030
	=====	=====

At December 31, 1997, the aggregate maturities of long-term debt are as follows (in thousands):

YEAR ENDING DECEMBER 31	AMOUNT
1998.....	\$ 12
1999.....	1,972
Total notes payable.....	\$ 1,984
	=====

(a) A subsidiary of the Company entered into a mortgage agreement ("Mortgage") in the amount of 1.2 million Pounds Sterling due in its entirety in June 1999, with interest payable semi-annually at a rate of 9.6 percent per annum. The Mortgage is secured by land and building with an aggregate net book value of 2.4 million Pounds Sterling at December 31, 1997. The Mortgage contains certain covenants calling for timely reporting of financial information, restrictions on changes in ownership and employment levels by such subsidiary. As of December 31, 1997 the Company was in compliance with those covenants.

The Company maintains lines of credit with various financial institutions. The maximum aggregate amounts available under these lines of credit were \$95 million and \$52 million at December 31, 1997 and 1996. No amounts were outstanding under these lines at December 31, 1997. These lines accrue interest at variable rates of either the prime rate or LIBOR plus 63 basis points. The prime rate and LIBOR were 8.25 percent and 5.9 percent, respectively, at December 31, 1997. These lines expire on various dates through December 1998.

Associated with the lines of credit, the Company may have outstanding letters of credit equal to the amount of the total line less outstanding borrowings. At December 31, 1997 there was a \$4 million outstanding standby letter of credit.

The Company maintains a secured line of credit with a bank with a maximum amount available of 2.0 million Pounds Sterling. Borrowings, of which there were none as of December 31, 1997 and 1996, bear interest at the bank's base rate (6% at December 31, 1997) plus 2% and are secured by substantially all of the assets of the Company's United Kingdom subsidiaries. This line expires in April 1998 and is renewable at the Company's option.

## 7. SHAREHOLDERS' EQUITY

At December 31, 1997, there were 25.0 million shares of preferred stock, \$.01 par value, of which none were issued. Common stock at such date consisted of 150.0 million shares authorized, par value of \$.01 per share, of which 38,231,990 were issued and outstanding.

As required by law, certain foreign subsidiaries must retain a percentage of shareholders' capital in the respective company. Accordingly, a portion of retained earnings is restricted and not available for distribution to shareholders. Such amount at December 31, 1997 was not material.

**STOCK OPTION PLANS** - The Company has two fixed option plans which reserve shares of common stock for issuance to key employees, directors, consultants and advisors to the company. The following is a description of these plans:

THE 1995 LONG-TERM STOCK INCENTIVE PLAN - This plan allows the Company to issue from time to time qualified, non-qualified and deferred compensation stock options, stock appreciation rights, restricted stock and restricted unit grants, performance unit grants and other stock based awards authorized by the Compensation Committee of the Board of Directors. Options issued under this plan expire ten years after the options are granted and generally become exercisable ratably on the third, fourth, and fifth anniversary of the grant date. A maximum total number of 2.0 million shares may be granted under this plan of which a maximum of 800,000 shares may be of restricted stock and restricted stock units. No award shall be granted under this plan after December 31, 2005. A total of 1,290,948 options were outstanding under this plan as of December 31, 1997.

THE 1995 STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS - This plan provides for automatic awards of non-qualified options to directors of the company who are not employees of the Company or its affiliates. All options granted under this plan will have a ten year term from grant date and are immediately exercisable. A maximum of 100,000 shares may be granted for awards under this plan. This plan will terminate the day following the tenth annual stockholders meeting. A total of 14,000 options were outstanding under this plan as of December 31, 1997.

The Company accounts for these plans in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees", under which no compensation costs have been recognized for stock options. Had compensation costs of the plans been determined under a fair value alternative method as stated in Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensations", the Company would have prepared a fair value model for such options and recorded such amount in the accompanying consolidated financial statements as compensation expense. On a pro forma basis, net income for 1997 and 1996 would have been \$37.7 million and \$42.3 million respectively and diluted earnings per common share for 1997 and 1996 would have been \$.99 and \$1.11 respectively. The Company arrived at the fair value of stock grant at the date of the grant by using the Black-Scholes pricing option model with the following assumptions used for grants: risk-free interest rate of 6.2%; expected dividend rate of 0%; expected level of 3.75 years; and expected volatility of 35%. The weighted average stock options at December 31, 1997 have a weighted average contractual level of 8 years. The following table reflects the plan activity for year ended December 31, 1997:

	OPTIONS FOR SHARES	OPTION PRICES
Outstanding, January 1, 1997	1,206,500	\$17.50 to \$49.13
Granted during the year	604,146	\$17.50 to \$18.41
Cancelled during the year	(505,698)	\$24.38 to \$49.13
Exercised during the year	-	-
	-----	-----
Outstanding, December 31	1,304,948	\$17.50 to \$39.06
	=====	=====

The following table summarizes information for the three years ended December 31, 1997 concerning currently outstanding and exercisable options:

	1997		1996		1995	
	SHARES	Weighted-Average EXERCISE PRICE	SHARES	Weighted Average EXERCISE PRICE	SHARES	Weighted Average EXERCISE PRICE
Fixed Options						
Outstanding at beginning of year	1,206,500	\$25.45	865,500	\$ 20.49	-	-
Granted .....	604,146	\$19.19	365,150	\$ 36.80	876,900	\$20.45
Exercised .....	-	-	-	-	-	-
Cancelled .....	(505,698)	\$33.90	(24,150)	\$ 19.39	(11,400)	\$17.50
	-----	-----	-----	-----	-----	-----
Outstanding at end of year.....	1,304,948	\$19.28	1,206,500	\$ 25.45	865,500	\$20.49
	=====	=====	=====	=====	=====	=====
Options exercisable at year end.....	189,000		139,000		10,000	
Weighted average fair value per option granted during the year.....	\$13.05		\$13.57		\$7.05	

Range of Exercise PRICE	Number Outstanding at 12/31/97	Weighted-Average Remaining CONTRACTUAL LIFE	Weighted-Average Exercise PRICE	Number Exercisable AT 12/31/97	Weighted-Average Exercise PRICE
\$ 17.50 to \$ 22.50	1,070,948	8.11	\$ 17.57	5,000	\$ 21.56
\$ 22.51 to \$ 30.00	230,000	7.64	\$ 26.88	180,000	\$ 26.87
\$ 30.01 to \$ 39.06	4,000	8.33	\$ 39.06	4,000	\$39.06
\$ 17.50 to \$ 39.06	1,304,948	8.03	\$ 19.28	189,000	\$ 26.99
=====	=====	=====	=====	=====	=====

Of the options issued during 1997, 420,348 options originally issued with exercise prices ranging from \$24.38 to \$49.13 were repriced on April 28, 1997 with an exercise price of \$17.50, representing the market price of the outstanding common stock at that time. All other terms of these options remained unchanged.

## 8. INCOME TAXES

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

YEAR ENDED DECEMBER 31	1997	1996	1995
Current:			
Federal	\$ 23,274	\$ 23,140	\$ 10,400
State	4,107	3,787	1,895
Foreign	1,041	1,038	2,319
Deferred	(5,279)	(865)	(369)
Change in valuation allowance	143	580	(1,590)
Total	\$ 23,286	\$ 27,680	\$ 12,655

Prior to the IPO, a number of the predecessor companies were S Corporations and accordingly their income was not taxable for Federal and certain state tax purposes. Subsequent to the IPO, all of the former S Corporations terminated such status and accordingly became taxable entities thereafter. Income taxes are accrued and paid by each foreign entity in accordance with applicable local regulations. The difference between the income tax expense and the computed income tax based on the Federal statutory corporate rate is as follows (in thousands):

YEAR ENDED DECEMBER 31	1997	1996	1995
Federal statutory rate	\$ 21,734	\$ 24,984	\$ 16,931
State and local income taxes, net of Federal tax benefit	2,092	2,456	1,001
Foreign tax	(303)	(175)	2,778
Foreign source income	(72)	(573)	(2,685)
Increase (reduction) in valuation allowance	143	580	(923)
Net operating loss utilized	165	335	-
Other items, net	(473)	73	-
Federal, state and local tax benefit of S Corporation status	-	-	(4,447)
	\$23,286	\$27,680	\$ 12,655

The deferred tax assets (liabilities) at December 31, 1997 and 1996 are comprised of the following:

	1997	1996
Current:		
Deductible assets.....	\$ (3,649)	\$ (2,542)
Non-deductible accruals and reserves.....	7,458	4,244
Non-deductible assets.....	553	826
Foreign net operating loss carryforwards.....	26	1,027
Other.....	(329)	(289)
Current.....	4,059	3,266
Non-Current:		
Foreign net operating loss carryforwards.....	4,980	1,712
Accelerated depreciation.....	(1,243)	(1,441)
Basis differences from acquisitions.....	1,843	356
Other assets.....	-	(332)
Valuation allowances.....	(2,458)	(1,519)
Non-Current.....	3,122	(1,224)
Total.....	\$ 7,181	\$ 2,042

The foreign net operating loss carryforwards generally expire at dates through 2004. The Company maintains valuation allowances against its foreign net operating loss carryforwards since, at this time, the realizability of the related deferred tax benefits can not be reasonably assured.

## 9. COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

LEASES - The Company is obligated under operating lease agreements for the rental of certain office and warehouse facilities and equipment which expire at various dates through October 2013.

At December 31, 1997 future minimum annual lease payments for related and third-party leases were as follows (in thousands):

YEAR ENDING DECEMBER 31	RELATED PARTY	THIRD PARTY	TOTAL
1998.....	\$ 1,632	\$ 4,163	\$ 5,795

1999.....	1,122	3,862	4,984
2000.....	612	2,448	3,060
2001.....	612	1,897	2,509
2002.....	612	1,897	2,509
2003-2007.....	2,958	9,062	12,020
2008-2012.....	-	3,935	3,935
Thereafter.....	-	410	410
	-----	-----	-----
	\$ 7,548	\$ 27,674	\$35,222
	=====	=====	=====

Rent expense for the years ended December 31, 1997, 1996 and 1995 aggregated approximately \$7,151,000, \$7,406,000 and \$5,235,000 respectively.

**GUARANTEES** - The Company has guaranteed a mortgage obtained by an affiliate (\$2.3 million at December 31, 1997) relating to property which the Company leases from the affiliate. Additionally the Company's U.K. subsidiaries have granted a security interest for substantially all of their assets to secure a line of credit with a U.K. financial institution.

**LITIGATION** - The Company has been named as a defendant in lawsuits incidental to its businesses. Management of the Company, based on discussions with legal counsel, believes the ultimate resolution of these lawsuits will not have a material effect on the Company's consolidated financial position or results of operations.

At December 31, 1997 the Company was contingently liable under a standby letter of credit guaranteeing the obligations of a third party supplier in the amount of \$4 million. Such amount was paid on March 2, 1998. The Company has initiated legal action seeking a declaration that the Company has a contractual right to offset the \$4 million against amounts otherwise due to the supplier. The Company believes that the ultimate outcome of this matter will not have a material adverse effect on the Company's consolidated financial statements.

**CONTINGENCY** - The Company is required to collect sales tax on certain of its out-of-state sales. In accordance with current law, approximately 20% of the Company's 1997 domestic sales were subject to sales tax. A change in law could require the Company to collect sales tax in additional states.

**EMPLOYEE BENEFIT PLANS** - Certain of the U.S. subsidiaries participate in defined contribution compensatory 401(k)/profit sharing benefit plans covering such eligible employees as defined by the plan document. Contributions to the plan by the Company is determined as a percentage of the employees' contributions. Aggregate expense to the Company for contributions to such plans was approximately \$373,000, \$267,000 and \$211,000 in the years ended December 31, 1997, 1996 and 1995, respectively.

Certain foreign entities require amounts to be accrued for each employee's retirement, determined in accordance with labor laws and labor agreements in effect in the respective country. Liabilities relative to such termination indemnities were not material.

**FOREIGN EXCHANGE RISK MANAGEMENT** - The Company has limited involvement with derivative financial instruments and does not use them for trading purposes. The Company enters into foreign currency options or forward exchange contracts to hedge certain foreign currency transactions. The intent of this practice is to minimize the impact of foreign exchange rate movements on the Company's operating results. As of December 31, 1997, the Company had outstanding forward exchange contracts in the amount of 1.0 million Pounds Sterling, 30.0 million French Francs and 700.0 million Italian Lire.

**FAIR VALUE OF FINANCIAL INSTRUMENTS** - Financial instruments consist primarily of investments in cash, trade account receivables, accounts payable and debt obligations. The Company estimates the fair value of financial instruments based on interest rates available to the Company and by comparison to quoted market prices. At December 31, 1997 and 1996, the fair value of the Company's financial instruments approximated their carrying values.

**CONCENTRATION OF CREDIT RISK** - Concentrations of credit risk with respect to trade account receivables are limited due to the large number of customers comprising the Company's customer base. Ongoing credit evaluations of customer's financial condition are performed.

## 10. GEOGRAPHIC INFORMATION

The Company conducts its business in North America (the United States and Canada) and Europe. The following sets forth the Company's operations in its two geographic markets (in thousands):

YEAR ENDED DECEMBER 31, 1997	EUROPE	NORTH AMERICA	TOTAL
-----	-----	-----	-----
Net sales.....	\$ 270,236	\$ 875,152	\$ 1,145,388
Income from operations.....	3,423	55,839	59,262
Identifiable assets.....	82,548	317,197	399,745
	-----	-----	-----
YEAR ENDED DECEMBER 31, 1996	EUROPE	NORTH AMERICA	TOTAL
-----	-----	-----	-----

Net sales.....	\$ 234,078	\$ 677,815	\$ 911,893
Income from operations.....	4,224	65,250	69,474
Identifiable assets.....	78,490	252,949	331,439

YEAR ENDED DECEMBER 31, 1995	EUROPE	NORTH AMERICA	TOTAL
Net sales.....	\$ 188,765	\$ 445,719	\$ 634,484
Income from operations.....	8,846	45,425	54,271
Identifiable assets.....	66,369	181,146	247,515

## 11. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data is as follows:

DECEMBER 31, 1997	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net sales.....	\$273,537	\$ 259,485	\$ 259,661	\$ 352,705
Gross profit.....	69,407	64,167	57,289	74,679
Net income.....	12,088	11,665	2,136	12,923
Net income per common share:				
Basic and diluted.....	\$ .32	\$ .31	\$ .06	\$ .34

  

DECEMBER 31, 1996	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net sales.....	\$218,732	\$ 213,707	\$ 225,868	\$ 253,586
Gross profit.....	65,021	60,070	60,313	64,212
Net income.....	11,392	9,787	10,683	11,842
Net income per common share:				
Basic and diluted.....	\$ .31	\$ .26	\$ .28	\$ .31

\* \* \* \* \*

### EXHIBIT INDEX

10.6	Lease Agreement dated as of July 17, 1997 between the Company and South Bay Industrials Company (New Compton facility)
10.14	Employment Agreement dated as of December 12, 1997 between the Company and Steven M. Goldschein
21.1	Subsidiaries of the Registrant
23	Consent of experts and counsel; Consent of Independent Public Accountants
27	Financial Data Schedule

**STANDARD FORM**

**SINGLE TENANT INDUSTRIAL LEASE  
(NET)**

LANDLORD: South Bay Industrials Company, L.L.C.,  
a Delaware limited liability company

TENANT: Systemax, Inc., a New York corporation,  
dba: Global Computer Supplies

PROJECT: 921 West Artesia Boulevard

CITY, STATE Compton, California

DATE: July 17, 1997

STANDARD FORM  
SINGLE TENANT INDUSTRIAL LEASE  
(NET)

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**STANDARD INDUSTRIAL LEASE  
(NET)**

1. BASIC LEASE TERM.

a. DATE OF LEASE EXECUTION: July 17, 1997

b. TENANT:	Systemax, Inc., a New York corporation
Trade Name	Global Computer Supplies
Address (Leased Premises):	921 West Artesia Boulevard
City, State Zip Code:	Compton, CA 90220
Building/Suite/Unit:	921 West Artesia Boulevard

c. LANDLORD: South Bay Industrials Co., L.L.C., a Delaware limited liability company Address (FOR RENT AND NOTICES): c/o SARESoREGIS Group 9500 Telstar Avenue, Suite 106, El Monte, CA 91731, with a copy to: J.P. Morgan Investment Management, 522 Fifth Avenue, New York, NY 10036 and to: SARESoREGIS Group, 18802 Bardeen Avenue, Irvine, CA 92712

d. TENANT'S PERMITTED USE OF PREMISES: Warehousing and distribution of computer related products, materials handling equipment, retail sales and related office activities.

e. PREMISES: Those Certain Premises Defined in PARAGRAPH 2 Below.

f. PREMISES AREA: approximately 140,720 Rentable Square Feet

g. TERM: Commencement Date: NOVEMBER 1, 1997 Expiration Date: OCTOBER 21, 2007 Number of Months 120

h. MONTHLY BASIC RENT: FORTY-SIX THOUSAND FOUR HUNDRED THIRTY-SEVEN AND 60/100 DOLLARS (\$46,437.60)

i. ANNUAL BASIC RENT: FIVE HUNDRED FIFTY-SEVEN THOUSAND TWO HUNDRED FIFTY-ONE AND 20/100 DOLLARS (\$557,251.20)

j. RENT ADJUSTMENT:

Cost of Living. The cost of living provisions of Subparagraph 5(c) apply using the Consumer Price Index - Urban Wage Earners and Clerical Workers (Los Angeles- Anaheim-Riverside), all items, Base 1982-1984 ("Index"), (1967=100), with a minimum increase of 3% per annum and a maximum increase of 7%, said adjustments calculated and effective at the commencement of the 31st, 61st and 91st months of the Term.

k. PREPAID RENT (for FIRST month of term): FORTY-SIX THOUSAND FOUR HUNDRED THIRTY-SEVEN AND 60/100 DOLLARS (\$46,437.60).

l. TOTAL SECURITY DEPOSIT: \$60,590.50, including a \$0.00 non-refundable cleaning fee.

m. BROKER(S): CB Commercial - Jeffery S. Morgan and John J. Schumacher, representing Tenant.

n. GUARANTOR(S): N/A

o. TENANT IMPROVEMENTS: All work performed by Landlord to prepare the Premises for occupancy pursuant to the terms of the work Letter Agreement attached hereto as EXHIBIT C.

p. TENANT IMPROVEMENT ALLOWANCE: If applicable, Landlord grants to Tenant a Tenant Improvement Allowance pursuant to the terms of the Work Letter Agreement attached hereto as EXHIBIT C.

q. PARKING: Tenant shall have exclusive rights to all available designed parking appurtenant to the property.

r. ADDITIONAL SECTIONS: Additional sections of this Lease, contained in the "Addendum to the Lease", numbered 36 through 0 - - are attached hereto and made a part hereof. If none, so state in the following space NONE.

v. RIDERS: Riders numbered 1 through 2 are attached hereto and made a part hereof. If none, so state in the following space - - .

w. EXHIBITS: Exhibits lettered A through I are attached hereto and made a part hereof. If none, so state in the following space - - .

This PARAGRAPH 1 represents a summary of the basic terms of this lease. In the event of any inconsistency between the terms contained in this PARAGRAPH 1 and any specific provision of this Lease, the terms of the more specific provision shall prevail.

## 2. PREMISES.

(a) Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, the premises referenced in PARAGRAPH 1 and outlined in EXHIBIT A (the "Premises"), consisting of that certain building (the "Building") AND THE EXCLUSIVE PARKING AND DELIVERY AREAS APPURTENANT THERETO which is a part of the project described on EXHIBIT B (the "Project"). By entry on the Premises, Tenant acknowledges that it has examined the Premises and accepts the Premises in their present condition, subject to any additional work Landlord has agreed to perform pursuant to the provisions of this Lease.

(b) The parties agree that the letting and hiring of the Premises is upon and subject to the terms, covenants and conditions herein set forth and Tenant covenants as a material part of the consideration for this Lease to keep and perform each and all of said terms, covenants and conditions by it to be kept and performed and that this Lease is made upon the condition of such performance.

## 3. LEASE TERM.

The term of this Lease shall be for the period designated in Subparagraph 1(g) commencing on the commencement Date, and ending on the Expiration Date as set forth in said Subparagraph 1(g), unless the term hereby demised shall be sooner terminated as herein provided ("Term"). Notwithstanding the foregoing, if the Commencement Date falls on any day other than the first day of a calendar month then the Term of this Lease shall be measured from the first day of the month following the month in which the commencement Date occurs.

## 4. POSSESSION.

(a) DELIVERY OF POSSESSION. Landlord agrees to deliver possession of the Premises to Tenant upon the substantial completion of the Tenant Improvements as determined by Landlord's architect or space planner in accordance with the terms of this Lease and the Work Letter Agreement attached hereto as exhibit C. Notwithstanding the foregoing, Landlord shall not be obligated to deliver possession of the Premises to Tenant until Landlord has received from Tenant all of the following: (i) the Security Deposit and first monthly installment of Annual Basis Rent;

(ii) executed copies of policies of insurance of certificates thereof as required under Paragraph 18 of this Lease; (iii) copies of all governmental permits and authorizations required in connection with Tenant's operation of its business upon the Premises; and (iv) an executed original of the Hazardous Materials Questionnaire in the form attached hereto as Exhibit 1.

(b) CONDITION OF PREMISES. Prior to the Commencement Date and in accordance with the Work Schedule to be prepared by Landlord and Tenant pursuant to the Work Letter Agreement attached hereto as Exhibit C, Landlord and Tenant shall jointly conduct a walk-through inspection of the Premises and shall jointly prepare a list (the "Punch-List") of items needing additional work; provided, however, the Punch-List shall be limited to items required to be installed by landlord under the Work Letter Agreement and the Punch-List will not include any items of damage to the Premises caused by Tenant's move-in or early entry, if permitted. Damage caused by Tenant will be corrected or repaired by Landlord, at Tenant's expense. Other than the items specified in the Punch-List, by taking possession of the Premises, Tenant will be deemed to have accepted the Premises and the Building in their condition on the date of delivery of possession and to have acknowledged that Landlord has installed the Tenant Improvements as required by the work Letter Agreement and that there are no additional items needing work or repair. Landlord shall cause all items set forth in the Punch-List to be repaired or corrected within thirty (30) days following the preparation of the Punch-List or as soon as reasonably practicable after the preparation of the Punch-List. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises, the Building, the Project or any portions thereof or with respect to the suitability of same for the conduct of Tenant's business. Without limiting the foregoing, if the Building is newly constructed or renovated, Tenant's execution of the Notice attached hereto as Exhibit D shall constitute a specific acknowledgment and acceptance of the various start-up inconveniences that may be associated with the use of the Project and the Common Areas such as certain construction obstacles including scaffolding, uneven air conditioning services and other typical conditions incident to recently constructed or renovated buildings.

## 5. RENT.

(a) BASIC RENT. Tenant agrees to pay Landlord as Annual Basic Rent for the Premises the annual basic Rent designated in SUBPARAGRAPH 1(I) (adjusted as hereinafter provided) in twelve (12) equal monthly installments as designated in Subparagraph 1(h), each in advance on the first day of each and every calendar month during the Term, except that one month's rent shall be paid upon the execution of this Lease. If the Term of this Lease commences on a day other than the first day of a calendar month or ends on a day other than the last day of a calendar month, then the rent for such periods shall be prorated in the proportion that the number of days this Lease is in effect during such periods bears to thirty days (30), and such rent shall be paid at the commencement of such period. In addition to the Annual Basic Rent, Tenant agrees to pay additional rent as provided in PARAGRAPH 6 and the amount of all rental adjustments as and when hereinafter provided in this Lease. The Annual Basic Rent, any additional rent payable pursuant to the provisions of this lease and any rental adjustments shall be paid to Landlord, without any prior demand therefor, and without any deduction or offset whatsoever in lawful money of the United States of America, which shall be legal tender at the time of payment, at the address of Landlord designated in SUBPARAGRAPH 1(C) or to such other person or at such other place as Landlord may from time to time designate in writing. Further, all charges to be paid by Tenant hereunder, including, without limitation, payments for real property taxes, insurance, repairs, and parking, if any, shall be considered additional rent for the purposes of this Lease, and the word "rent" in this Lease shall include such additional rent unless the context specifically or clearly implies that only the

Annual Basic Rent is referenced. Annual Basic Rent shall be adjusted as provided in SUBPARAGRAPH 1(I).

(b) LATE PAYMENTS. Tenant acknowledges that late payment by Tenant to Landlord of any rent or other sums due under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of such costs being extremely difficult and impracticable to ascertain. Such costs include, without limitation, processing and accounting charges and late charges and late charges that may be imposed on Landlord by the terms of any encumbrance or note secured by the Premises. Therefore, if any rent or other sum due from Tenant is not received WITHIN FIVE (5) BUSINESS DAYS OF THE DATE when due, Tenant shall pay to landlord immediately thereafter an additional sum equal to FIVE PERCENT (5%) of such overdue payment. Landlord and Tenant hereby agree that such late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of any such late payment. Additionally, all such delinquent rent or other sums, plus this late charge, shall bear interest at the then maximum lawful rate permitted to be charged by Landlord. Any payments of any kind returned for insufficient funds will be subject to an additional handling charge of \$25.00.

(c) COST OF LIVING RENT ADJUSTMENT. Annual Basic Rent, including all prior adjustments, shall be increased (but never decreased) effective each thirty (30) month anniversary of the Commencement Date of this Lease or each anniversary of the first day of the month immediately following the month in which the Commencement Date occurs if the Commencement date occurs other than on the first day of a month ("Adjustment Date"), in accordance with the percentage increase, if any, in the Index described in SUBPARAGRAPH 1(L)1 as published by the United States Department of Labor, Bureau of Labor Statistics ("Bureau"). The Index most recently published prior to the Adjustment date shall be compared with the Index for the same month of the preceding period and the Annual Basic Rent shall be increased in accordance with the percentage increase, if any, between such Indices. Should the Bureau discontinue the publication of the Index, or publish the same less frequently, or alter the same in some other manner, Landlord, in its discretion, shall adopt a substitute index or procedure with reasonably reflects and monitors consumer prices.

## 6. PREPAID RENT.

Upon execution of this Lease, Tenant shall pay to Landlord the Prepaid Rent set forth in SUBPARAGRAPH 1(K), and if Tenant is not in default of any provisions of this Lease, such Prepaid Rent shall be applied toward the rent due for the FIRST month of the Term. Landlord's obligation with respect to the Prepaid Rent are those of a debtor and not of a trustee, and Landlord can commingle the Prepaid Rent with Landlord's general funds. Landlord shall not be required to pay Tenant interest on the Prepaid Rent. Landlord shall be entitled to immediately endorse and cash Tenant's Prepaid Rent; however, such endorsement and cashing shall not constitute Landlord's acceptance of this Lease. In the event Landlord does not accept this Lease, Landlord shall return said Prepaid Rent. If Landlord sells the Premises and deposits with the purchaser the Prepaid Rent, landlord shall be discharged from any further liability with respect to the Prepaid Rent.

## 7. SECURITY DEPOSIT.

Upon execution of this Lease, Tenant shall deposit the Security Deposit set forth in SUBPARAGRAPH 1(L) with Landlord, as security for the performance by Tenant of the provisions of this Lease. If Tenant is in default, regardless if such default is monetary or non-monetary. Landlord can use the Security Deposit or any portion of it to cure the default or to compensate Landlord for any damages sustained by Landlord resulting from Tenant's default. Upon demand, Tenant shall immediately pay to Landlord a sum equal to the portion of the Security Deposit expended or applied by Landlord to maintain the Security Deposit in the amount initially deposited with Landlord. If Tenant is not in default at the expiration or termination of this Lease, Landlord shall return the entire Security Deposit to Tenant. Landlord's obligations with respect to the Security Deposit are those of a debtor and not a trustee, and Landlord can commingle the Security Deposit with landlord's general funds. Landlord shall not be required to pay Tenant interest on the Security Deposit. Landlord shall be entitled to immediately endorse and cash Tenant's Security Deposit; however, such endorsement and cashing shall not constitute landlord's acceptance of this Lease. In the event Landlord does not accept this Lease, Landlord shall return said Security Deposit. If Landlord sells the Premises and deposits with the purchaser the then amount of the Security Deposit, Landlord shall be discharged from any further liability with respect to the Security Deposit.

## 8. USE OF PREMISES AND PROJECT FACILITIES.

(a) TENANT'S USE OF THE PREMISES. Tenant shall use the Premises for the use or uses set forth in SUBPARAGRAPH 1(D) above, and shall not use or permit the Premises to be used for any other purpose without the prior written consent of Landlord, which consent Landlord may withhold in its sole and absolute discretion. Nothing contained herein shall be deemed to give Tenant any exclusive right to such use in the Project.

(b) COMPLIANCE. At Tenant's sole cost and expense, Tenant shall procure, maintain and hold available for Landlord's inspection, all governmental licenses and permits required for the proper and lawful conduct of Tenant's business from and at the Premises. Tenant shall maintain the Premises in compliance with any and all CC&Rs and all laws, statutes, zoning restrictions, ordinances or governmental laws, rules, regulations or requirements of any duly constituted public authority having jurisdiction over the Premises now or hereafter in force, the requirements of the Board of Fire Underwriters or any other similar body now or hereafter constituted, or of the Certificate of Occupancy issued for the Building. Tenant shall not use or occupy the Premises in violation of any of the foregoing. Tenant shall, upon written notice from landlord, discontinue any use of the Premises which is declared by any authority having jurisdiction over the Premises, governmental or otherwise, to be a violation of law or of said Certificate of Occupancy. **NOTWITHSTANDING THE FOREGOING, TENANT SHALL HAVE THE RIGHT TO CONTEST SUCH DECLARATION SO LONG AS SAME SHALL STAY THE ENFORCEMENT OF ANY PROCEEDING AND NOT RESULT IN ANY PECUNIARY LOSS TO LANDLORD.** Tenant shall comply with all rules, orders, regulations and requirements of any insurance authority having jurisdiction over the Project or any present or future insurer relating to the Premises or the Project. Tenant shall promptly, upon demand, reimburse Landlord for any additional premium charged for any existing insurance policy or

endorsement required by reason of Tenant's failure to comply with the provisions of this PARAGRAPH 8. Tenant shall not do or permit anything to be done in or about the Premises which will in any manner obstruct or interfere with the rights of other tenants or occupants of the Project, or injure or annoy them, or use or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises. Tenant shall comply with all restrictive covenants and obligations created by private contracts which affect the use and operation of the Premises, or the Project including, without limitation, the CURRENT Rules and Regulations referred to in PARAGRAPH 32 and attached hereto as EXHIBIT F, as THEY RELATE TO THE PERMITTED USES DEFINED IN SECTION 1(D) OF THIS LEASE. Tenant shall not commit or suffer to be committed any waste in or upon the Premises and shall keep the Premises in first class repair and appearance. Further, Tenant's business machines and mechanical equipment which cause vibration or noise that may be transmitted to the Building structure or to any other space in the Building shall be so installed, maintained and used by Tenant as to eliminate or minimize such vibration or noise. Tenant shall be responsible for all structural engineering required to determine structural load, as well as the expense thereof.

#### 9. SURRENDER OF PREMISES; HOLDING OVER.

Upon expiration of the Term of this Lease, Tenant shall surrender to Landlord the Premises and all Tenant Improvements and alterations in good condition, except for ordinary wear and tear and alterations Tenant has the right or is obligated to remove under the provisions of PARAGRAPH 14 herein. Tenant shall remove all personal property and shall perform all restoration made necessary by the removal of any alterations of Tenant's personal property before the expiration of the Term, including for example, restoring all wall surfaces to their condition prior to the commencement of this Lease. Landlord can elect to retain or dispose of in any manner Tenant's personal property not removed from the Premises by Tenant prior to the expiration of the Term. Tenant waives all claims against Landlord for any damage to the Tenant resulting from Landlord's retention or disposition of Tenant's personal property. Tenant shall be liable to Landlord for Landlord's costs for storage, removal or disposal of Tenant's personal property.

If Tenant, with Landlord's consent, remains in possession of the Premises after expiration or termination of the Term, or after the date in any notice given by Landlord to Tenant terminating this Lease, such possession by Tenant shall be deemed to be a month-to-month tenancy terminable on written 30-day notice at any time, by either party. All provisions of this Lease, except those pertaining to term and rent, shall apply to the month-to-month tenancy. Tenant shall pay monthly rent in an amount equal to 125% of Monthly Basic Rent, subject to increases as provided in SUBPARAGRAPH 5(C), if applicable, for the last full calendar month during the regular Term plus 100% of said last month's estimate to Tenant's share of Expenses pursuant to PARAGRAPH 13, subject to increase as provided therein. If Tenant fails to surrender the Premises after expiration or termination of the Term, Tenant shall indemnify, defend and hold Landlord harmless from all loss or liability, including, without limitation, any loss or liability resulting from any claim against Landlord made by any succeeding tenant founded on or resulting from Tenant's failure to surrender the Premises together with actual attorney's fees and costs.

#### 10. SIGNAGE.

Landlord shall designate the location on the Building and/or the Premises, if any, for one or more exterior Tenant identification sign(s) Tenant shall install and maintain its identification sign(s) in such designated location in accordance with this PARAGRAPH 10 and EXHIBIT G. Tenant shall have no rights to install or maintain Tenant identification signs in any other location in, on or about the Premises or the Project and shall not display or erect any other signs, displays or other advertising materials that are visible from the exterior of the Building. The size, design, color and other physical aspects of permitted signs shall be subject to: (i) Landlord's written approval prior to installation, which approval may be withheld in Landlord's discretion, (ii) any covenants, conditions or restrictions encumbering the Premises, and (iii) any applicable municipal or governmental permits and approvals. The cost of the sign(s), including the installation, maintenance and removal thereof shall be at Tenant's sole cost and expense. If Tenant fails to install or maintain its sign(s), or if Tenant fails to remove same upon termination of this Lease and repair any damage caused by such removal including, without limitation, repainting the Building (if required by Landlord, in Landlord's sole but reasonable judgment), Landlord may do so at Tenant's expense. Tenant shall reimburse Landlord for all costs incurred by Landlord to effect such installation, maintenance or removal, which amount shall be deemed additional rent, and shall include, without limitation, all sums disbursed, incurred or deposited by Landlord including Landlord's costs, expenses and actual attorney's fees with interest thereon at the maximum interest rate permitted by law from the date of Landlord's demand until payment. Any sign rights granted to Tenant under this Lease are personal to Tenant and may not be assigned, transferred or otherwise conveyed to any assignee or subtenant of Tenant without Landlord's prior written consent, which consent Landlord may withhold in its sole and absolute discretion.

#### 11. TAXES.

(a) **PERSONAL PROPERTY TAXES.** Tenant shall pay before delinquency all taxes, assessments, license fees and public charges levied, assessed or imposed upon its business operation as well as upon all trade fixtures, leasehold improvements, merchandise and other personal property in or about the Premises.

(b) **REAL PROPERTY TAXES.** Tenant shall pay, as additional rent, all Real Property Taxes including all taxes, assessments (general and special) and other impositions or charges which may be taxed, charged, levied, assessed or imposed with respect to any calendar year or part thereof included within the term upon all or any portion of or in relation to the PREMISES, any leasehold estate in the Premises or measured by rent from the Premises, including any increase caused by the transfer, sale or encumbrance of the Project or any portion thereof. "Real Property Taxes" shall also include any form of assessment, levy, penalty, charge or tax (other than estate, inheritance, net income or franchise taxes) imposed by any authority having a direct or indirect power to tax or charge, including, without limitation, any city, county, state, federal or any improvement or other district, whether such tax is: (i) determined by the area of the PREMISES or the rent or other sums payable under this Lease: (2) upon or with respect to any legal or equitable interest of Landlord in the PREMISES or any part thereof;

(3) upon this transaction or any document to which Tenant is a party creating a transfer in any interest in the PREMISES; (4) in lieu of or as a direct substitute in whole or in part of or in addition to any real property taxes on the PREMISES; (5) based on any parking spaces or parking facilities provided in the PREMISES or (6) in consideration for services, such as police protection, fire protection, street, sidewalk and roadway maintenance, refuse removal or other services that may be provided by any governmental or quasi-governmental agency from time to time which were formerly provided without charge or with less charge to property owners or occupants. Tenant shall pay Real Property Tax cost on the date any taxes or installments of taxes are due and payable as determined by the taxing authority, evidenced by the tax bill. Landlord shall determine and notify Tenant of Tenant's share not less than thirty (30) days in advance of the date such taxes or installment of taxes is due and payable. In the event Landlord fails to deliver such timely determination and notice to Tenant, then Tenant shall have thirty (30) days from receipt of such notice to remit payment of Tenant's share to Landlord. The foregoing notwithstanding, upon notice from Landlord, Tenant shall pay as additional rent Tenant's share to landlord in advance monthly installments equal to one twelfth (1/12) of Landlord's reasonable estimate of Tenant's share of the Real Estate Taxes payable under this Lease, together with monthly installments of base rent, and Landlord shall hold such payments in a non-interest bearing account. Landlord shall determine and notify Tenant of any deficiency in the impound account Tenant shall pay any deficiency of funds in the impound account not less than thirty (30) days in advance of the date such taxes or installment of taxes is due and payable. In the event Landlord fails to deliver such timely deficiency determination and notice to Tenant, then Tenant shall have thirty (30) days from receipt of such notice to remit payment of such deficiency to Landlord. If Landlord determines that Tenant's impound account has accrued an amount in excess of Tenant's share, then such excess shall be credited to Tenant within said notice from Landlord.

## 12. UTILITIES.

Tenant shall pay directly to the utility companies providing such services, the cost of all water, gas, heat, light, power, sewer, electricity, telephone or other service metered, chargeable or provided to the Premises. Landlord shall not be liable in damages or otherwise for any failure or interruption of any utility or other service furnished to the Premises. No such failure or interruption shall entitle Tenant to terminate this Lease or abate rent in any manner.

## 13. MAINTENANCE.

(a) PERFORMANCE BY TENANT. Except as provided below, Tenant shall maintain and repair the premises in good condition, including, without limitation, maintaining and repairing all walls; floors; ceilings; telephone equipment and wiring; doors exterior and interior windows and fixtures as well as damage caused by Tenant, its agents, contractors, employees or invites. Upon expiration or termination of this Lease, Tenant shall surrender the Premises to Landlord in the same condition as existed at the commencement of the Term, except for reasonable wear and tear or damage caused by fire or other casualty for which Landlord has received all funds necessary for restoration of the Premises from insurance proceeds.

If Tenant refuses or neglects to repair and maintain the Premises as required hereunder and to the reasonable satisfaction of Landlord. Landlord may at any time following ten (10) days from the date on which Landlord shall make a written demand on Tenant to effect such repair and maintenance, enter upon the Premises and make such repairs and/or maintenance without liability to tenant for any loss or damage which might occur to Tenant's merchandise, fixtures or other property or to Tenant's business by reason thereof, and upon completion thereof, Tenant shall pay to Landlord, Landlord's costs for making such repairs FIFTEEN PERCENT (15%) overhead, upon presentation of a bill therefor. Said bill shall include interest at the maximum rate permitted by law on said costs from the date of completion of the maintenance and repairs by Landlord.

Tenant shall, at its own expense, provide, install and maintain in good condition all of its Personal Property required in the conduct of its business on the Premises.

(b) PERFORMED BY LANDLORD. (i) Landlord shall be responsible at its own cost and expense to maintain in good condition the structural part of the Premises, which shall include only the structural beams which support the roof deck and membrane, exterior walls, building foundations and floors. (ii) In the event that the roof system or existing HVAC equipment suffers major failure during the term hereof, Landlord shall replace or repair same, and the cost thereof shall be amortized on monthly basis over the expected useful life or the repair or replacement, and Lessee, as an item of Addition Rent, shall pay to Landlord on a monthly basis for the portion of such amortized cost which shall accrue during the remaining term hereof. Subject to reimbursement by Tenant as hereinafter provided, Landlord shall be responsible to maintain, in good condition the roof system and skylights; the paved and hardscaped parking and driveway areas (including resurfacing and restriping); gutters and downspouts on the Building; the heating, ventilating and air condition system servicing the Premises; landscaping (including replacement thereof), sprinkler system, walkways, parking areas AND EXTERIOR PAINTING (PERFORMED NOT MORE THAN ONCE DURING ANY FIVE YEAR INTERVAL).

(c) REIMBURSEMENT BY TENANT. Prior to the commencement of each calendar year, Landlord shall give Tenant a written estimate of the expenses Landlord anticipates will be incurred for the ensuing calendar year with respect to the maintenance and repair to be performed by Landlord as herein described (the "Maintenance Expenses"). Tenant shall pay, as additional rent, such estimated expenses in equal monthly installments in advance on or before the first day of each month concurrent with its payment of Monthly Rent. Within ninety (90) days after the end of each calendar year, Landlord shall furnish Tenant a statement showing in reasonable detail the actual expenses incurred for the period in question and the parties shall within thirty (30) days thereafter make payment or allowance as necessary to adjust Tenant's estimated payments to the actual expenses as shown by applicable periodic statements submitted by Landlord. If Landlord shall determine at any time that the estimate of expenses for the current calendar year is or will become inadequate to meet all such expenses for any reason, Landlord shall immediately determine the appropriate amount of such inadequacy and issue a supplemental estimate as to such expenses, and Tenant shall pay

and increase in the estimated expenses as reflected by such supplemental estimate.

Tenant's failure to timely pay any of the charges in connection with the performance of its maintenance and repair obligations to be paid under this Paragraph 13 shall constitute a material default under this Lease.

Landlord shall keep or cause to be kept separate and complete books of account covering costs and expenses incurred in connection with its maintenance and repair of the Building and outside areas, which costs and expenses shall include, without limitation, the actual costs and expenses incurred in connection with labor and material utilized in performance of the maintenance and repair obligations hereinafter described, public liability, property damage and other forms of insurance which Landlord may or is required to maintain, reasonable reserves for replacements and/or repairs of improvements to the outside areas, equipment and supplies, employment of such personnel as Landlord may deem reasonably necessary, payment or provision for unemployment insurance, worker's compensation insurance and other employee costs, depreciation of machinery and equipment used in connection with the maintenance of the outside areas, the cost of bookkeeping and accounting services, a management fee to cover Landlord's management, overhead and administrative expenses, assessments which may be levied against the Premises under any recorded covenants, conditions and restrictions, and any other items reasonable necessary from time to time to properly repair, replace and maintain the outside areas and any interest paid in connection therewith. Landlord may elect to delegate its duties hereunder to a professional property manager in which event all costs and expenses of such property management shall be included as expenses to be reimbursed by Tenant hereunder.

Except as provided in PARAGRAPH 17, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repair, alterations or improvements in or to any portion of the Project or the Premises. Tenant hereby waives any and all rights to make repairs at the expense of Landlord under the provisions of Sections 1941 and 1942 of the California Civil Code or any similar statute now or hereafter enacted. LANDLORD SHALL USE ALL REASONABLE EFFORTS TO MINIMIZE ANY DISRUPTION TO THE OPERATION OF TENANT'S BUSINESS WHILE MAKING SUCH REPAIRS, ALTERATIONS OR IMPROVEMENTS AND, UNLESS IN AN EMERGENCY, SHALL SCHEDULE SAME OUTSIDE OF NORMAL BUSINESS HOURS (ONLY IF STANDARD BILLING RATES APPLY FOR THE SERVICE OR TRADE PERFORMING SUCH WORK) AND UPON TWENTY-FOUR (24) HOURS' WRITTEN NOTICE TO TENANT.

#### 14. ALTERATIONS.

Tenant shall not make any alterations to the Premises, or to the Project, including any changes to the existing landscaping, without Landlord's prior written consent WHICH CONSENT SHALL NOT BE UNREASONABLY WITHHELD. NOTWITHSTANDING THE FOREGOING, TENANT SHALL HAVE THE RIGHT TO (I) PAINT AND CARPET THE PREMISES, AND (II) UNDERTAKE OTHER NON-STRUCTURAL ALTERATIONS COSTING LESS THAN \$50,000, WITHOUT LANDLORD'S PRIOR WRITTEN CONSENT, BUT WITH NOT LESS THAN THIRTY (30) DAYS PRIOR WRITTEN NOTICE TO LANDLORD. If Landlord gives its consent to such alterations, Landlord may post notices in accordance with the laws of the state in which the Premises are located. Any alterations made shall remain on and be surrendered with the Premises upon expiration of the Term, except that Landlord may, within 30 days before or 30 days after expiration of the Term UNLESS TENANT, AT ITS SOLE AND EXPENSE, REMOVES SAME, AND RESTORES THE PREMISES TO ITS CONDITION AS OF THE COMMENCEMENT DATE, REASONABLE WEAR AND TEAR EXCEPTED, OR UNLESS LANDLORD NOTIFIES TENANT AS A CONDITION OF ITS CONSENT TO REMOVE ANY PARTICULAR IMPROVEMENT, OR PORTION THEREOF, AND RESTORE THE PREMISES TO THE CONDITION IMMEDIATELY PRIOR TO THE INSTALLATION OF THE PARTICULAR IMPROVEMENT.

Should Landlord consent in writing to Tenant's alteration of the Premise, Tenant shall contract with a contractor approved by Landlord for the construction of such alterations, shall secure all appropriate governmental approvals and permits, and shall complete such alterations with due diligence in compliance with plans and specifications approved by Landlord, and in compliance with all applicable laws, statutes and regulations. All such construction shall be performed in a manner which will not interfere with the quiet enjoyment of other tenants of the Project. Tenant shall pay all costs for such construction and shall keep the Premises and the Project free and clear of all mechanics' liens which may result from construction by Tenant.

#### 15. RELEASE AND INDEMNITY.

As material consideration to Landlord, Tenant agrees that Landlord, its agents, and its employees shall not be liable to Tenant, its agents, employees, sublessee, invitees, licensees and other persons claiming under Tenant for; (i) any damage to any property entrusted to employees of the Project, (ii) loss or damage to any property by theft or otherwise, (iii) consequential damages arising out of any loss of the use of the Premises or any equipment or facilities therein; or (iv) any injury or damage to person or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak from any part of the PREMISES from pipes, appliances or plumbing work therein or from the roof, street, sub-surface or from any other place or resulting from dampness or any other cause whatsoever. Landlord or its agents shall not be liable for interference with light or other incorporeal hereditaments, nor shall Landlord be liable for any latent defects in the Premises or the Project. Tenant shall give prompt notice to Landlord in case of fire or accidents in the Premises or in the Project, and of defects therein or in the fixtures or equipment located therein.

To the fullest extent permitted by law, Tenant agrees to indemnify, defend (with counsel reasonably satisfactory to Landlord) and hold harmless Landlord, its agents, successors in interest with respect to the Building and their directors, officers, partners, employees, shareholders, agents and representatives and the directors, officers, partners, employees, shareholders, agents and representatives of the partners of Landlord from (i) all claims, actions, liabilities, and proceedings arising from Tenant's use of the Premises or the conduct of its business or from any activity,

work or thing done, permitted or suffered by Tenant, its agents, contractors, sublessees, employees or invitees, in or about the Premises, the Building, or the Project and any breach or default in the performance of any obligation to be performed by Tenant under the terms of this Lease, or arising from any at, neglect, fault or omission of Tenant, or of its agents, contractors, sublessees, employees or invitees, and (ii) any and all costs, attorneys' fees, expenses and liabilities incurred with respect to any such claims, actions, liabilities, or proceedings, and in the event any actions or proceedings shall be brought against Landlord by reason of any such claims. Tenant, upon notice from Landlord, shall defend the same at Tenant's expense by counsel approved in writing by Landlord. Tenant hereby assumes all risk of damage to property or injury to person in, upon or about the Premises from any cause whatsoever except that which is caused by the failure of Landlord to observe any of the terms and conditions of this Lease where such failure has persisted for an unreasonable period of time after Landlord receives written notice of such, and Tenant hereby waives all its claims in respect thereof against Landlord.

As used herein, the term "liabilities" shall include all suits, actions, claims and demands and all expenses (including attorneys' fees and costs of defense) incurred in or about any such liability and any action or proceeding brought thereon. If any claim shall be made or any action or proceeding brought against Landlord on the basis of any liability described in this Paragraph. Tenant shall, upon notice from Landlord defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. It is understood that payment shall not be a condition precedent to recovery upon the foregoing indemnity. See Addendum (#1)

## 16. INSURANCE.

Tenant, at its cost, shall pay for and keep in full force and effect throughout the Term of this Lease:

(a) COMPREHENSIVE GENERAL LIABILITY OR COMMERCIAL GENERAL LIABILITY insurance with respect to the Premises and the operations of or on behalf of Tenant, in, of or about the Premises, including, but not limited to, personal injury, product liability (if applicable), blanket contractual, owner's protective, broad form property damage liability, liquor liability (if applicable) and owned and non-owned automobile liability in amounts not less than \$3,000,00 per occurrence on the commencement date of this Lease. The insurance policy or policies shall contain the following provisions: (1) severability of interest, (2) cross liability, (3) an endorsement naming Landlord, Landlord's Mortgagees and any other parties in interest designated by Landlord as additional insured, (4) an endorsement stating "such insurance as is afforded by this policy for the benefit of the Landlord and any other additional insured shall be primary as respects any liability or claims arising out of the occupancy of the Premises by the Tenant, or Tenant's operations and any insurance carried by Landlord, or any other additional insured shall be non-contributory,"

(5) with respect to improvements or alterations permitted under this Lease, contingent liability and builder's risk insurance, (6) an endorsement allocating to the Premises the full amount of liability limits required by this Lease, and (7) coverage must be on an "occurrence basis". "Claims-Made" forms are not acceptable.

(b) WORKERS COMPENSATION COVERAGE as required by law, together with Employers Liability coverage with a limit of not less than \$1,000,000.

(c) TENANT'S PROPERTY INSURANCE: Tenant shall at all times during the term hereof and at its cost and expense, maintain in effect policies of insurance covering (1) all Tenant Improvements on the Premises installed by Tenant, (2) all personal property of Tenant located in or at the Premises including, but not limited to, fixtures, furnishings, equipment and furniture, in an amount not less than their full replacement value, and (3) loss of income or business interruption covering a period of not less than one (1) year. These policies shall provide protection against any peril included within the classification "All Risk" including, but not limited to, insurance against sprinkler leakage, vandalism and malicious mischief. The proceeds of such insurance shall be used to repair or replace the Tenant Improvements and personal property so insured.

All policies of insurance required to be kept or maintained by Tenant AND LANDLORD hereunder shall include a clause or endorsement denying the insurer any rights of subrogation against the other party to the extent rights have been waived by the insured before the occurrence of injury or loss, if same are obtainable without unreasonable cost. Landlord and Tenant each hereby waive any rights of recovery against the other for injury or loss to such waiving party or to its property or the property of others under its control, arising from any cause required to be insured against under any policy of insurance required to be carried to be carried by such waiving party under this Lease. The foregoing waiver shall be effective whether or not the waiving party shall actually obtain and maintain the insurance which such waiving party is obligated to obtain and maintain under this Lease.

All insurance required to be provided by Tenant under this Lease: (a) shall be issued by insurance companies authorized to do business in the state in which the Premises are located and holding a General Policyholders Rating of "A" and a Financial Rating of "X" or better, as set forth in the most recent edition of Best's Insurance Reports; (b) shall contain an endorsement requiring at least 30 days prior written notice to Landlord and Landlord's lender, before cancellation or change in coverage scope or amount of any policy. Tenant shall deliver a certificate or copy of such policy together with evidence of payment of all current premiums to Landlord within 30 days of execution of this Lease and within fifteen (15) days of expiration of each policy. Tenant's failure to provide evidence of such coverage to Landlord shall constitute a default under this Lease.

Subject to being reimbursed by Tenant, Landlord shall insure the Building (excluding all property which Tenant is obligated to insure) against damage with "All Risk" insurance and public liability insurance (See Addendum #2) including rental abatement insurance, all in such amounts and with such deductibles as Landlord considers appropriate, BUT IN NO EVENT LESS THAN THE REPLACEMENT COST THEREOF. Tenant shall pay, as additional rent, the cost of any insurance maintained by Landlord hereunder and any other insurance Landlord may elect to obtain for the PREMISES from time to time during the Term (including, without limitation, earthquake and/or flood insurance). Tenant shall

pay insurance cost within fifteen days (15) days after Tenant's receipt of statement from Landlord determining Tenant's share of the insurance cost. The foregoing notwithstanding, upon notice from Landlord, Tenant shall pay as additional rent Tenant's share to Landlord in advance monthly installments equal to one twelfth (1/12) of Landlord's reasonable estimate of Tenant's share of the insurance premiums payable under this Lease, together with monthly installments of base rent, and Landlord shall hold such payments in a non-interest bearing account. Landlord shall determine and notify Tenant of any deficiency in the impound account and Tenant shall pay any deficiency of funds in the impound account within fifteen days (15) days after Tenant's receipt of statement from Landlord determining Tenant's share of the actual insurance cost. If Landlord determines that Tenant's impound account has accrued an amount in excess of Tenant's share, then such excess shall be credited to Tenant within said notice from landlord. Notwithstanding any contribution by Tenant to the cost of insurance premiums as provided herein, Tenant acknowledges that it has no right to receive any proceeds from any insurance policies carried by Landlord.

#### 17. DESTRUCTION.

If during the Term of this Lease, any portion of the Premises, access to the Premises or any part of the PROJECT which is essential to the use of the Premises is damaged or destroyed and such damage or destruction can, in Landlord's reasonable estimation, be repaired within 180 days following such damage or destruction, this Lease shall remain in full force and effect and Landlord shall promptly commence to repair and restore the damage or destruction to substantially the same condition as existed prior to such damage and shall complete such repair and restoration with due diligence in compliance with all then existing laws. If (1) such damage or destruction cannot, in landlord's reasonable estimation, be repaired within 180 days following such damage or destruction; or (2) more than forty percent (40%) of the Building is damaged or destroyed (regardless of its impact on the Premises); or (3) any mortgage of the Building will not allow the application of insurance proceeds to be applied to repair and restoration; or (5) the damage or destruction occurs within the last twelve (12) months of the Term of this Lease or any extension hereof, then Landlord may, in its sole discretion, terminate this Lease by delivery of notice to Tenant within 30 days of the date Landlord learns of the damage.

**IN THE EVENT ANY MORTGAGE OF THE BUILDING DOES NOT ALLOW THE APPLICATION OF INSURANCE PROCEEDS TO BE APPLIED TO REPAIR AND RESTORE THE BUILDING, LANDLORD SHALL REFUND TO TENANT ANY SPECIFIC PREMIUMS COLLECTED FROM TENANT FOR THE PARTICULAR COVERAGE INVOLVED.**

In the event of repair, reconstruction and restoration by Landlord as herein provided, the rent payable under this Lease shall be abated proportionately BY AN AMOUNT IN THE SAME RATIO AS THE NUMBER OF SQUARE FEET IN THE DAMAGED PORTION OF THE PREMISES BEARS TO THE TOTAL NUMBER OF SQUARE FEET OF THE PREMISES; provided that there shall be no abatement of rent if such damage is the result of Tenant's negligence or intentional wrongdoing. Tenant shall not be entitled to any compensation or damages for loss of the use of the whole or any part of the Premises, damage to Tenant's Personal Property and/or any inconvenience or annoyance occasioned by such damage, repair, reconstruction or restoration.

If Landlord is obligated to or elects to repair or restore at herein provided, Landlord shall be obligated to make repair or restoration only to those portions of the Building and the Premises which were originally provided at landlord's expense, and the repair and restoration of items not provided at Landlord's expense shall be the obligation of Tenant. Tenant agrees to coordinate the restoration and repair of those items it is required to restore or repair with Landlord's repair and restoration work and in coordination with a work schedule prepared by Landlord, or Landlord's contractor. Further, Tenant's work shall be performed in accordance with the terms, standards and conditions contained in Paragraph 14 above.

The provisions of California Civil Code Section 1932, Subsection 2, and Section 1933, Subsection 4, and any other similarly enacted statute or court decision relating to the abatement or termination of a lease upon destruction of the leased premises, are hereby waived by Tenant; and the provisions of this PARAGRAPH 17 shall govern in case of such destruction.

#### 18. CONDEMNATION.

(a) **DEFINITIONS.** The following definitions shall apply: (1) "Condemnation" means (a) the exercise of any governmental power of eminent domain, whether by legal proceedings or otherwise by condemnor and (b) the voluntary sale or transfer by Landlord to any condemnor either under threat of condemnation or while legal proceedings for condemnation are proceeding; (2) "Date of Taking" means the date the condemnor has the right to possession of the property being condemned; (3) "Award" means all compensation, sums or anything of value awarded, paid or received on a total or partial condemnation; and (4) "Condemnor" means any public or quasi-public authority, or private corporation or individual, having a power of condemnation.

(b) **OBLIGATIONS TO BE GOVERNED BY LEASE.** If during the Term of this Lease there is any taking of all or any part of the Premises or the Project, the rights and obligations of the parties shall be determined pursuant to this Lease.

(c) **TOTAL OR PARTIAL TAKING.** If the Premises are totally taken by condemnation, this Lease shall terminate on the date of taking. If any portion of the Premises is taken by condemnation, this Lease shall remain in effect, except that Tenant can elect to terminate this Lease if the remaining portion of the Premises is rendered unsuitable for Tenant's continued use of the Premises. If Tenant elects to terminate this Lease, Tenant must exercise its right to terminate by giving notice to Landlord within 30 days after the nature and extent of the taking have been finally determined. If Tenant elects to terminate this Lease, Tenant shall also notify Landlord of the date of termination, which date shall not be earlier than 30 days nor later than 90 days after Tenant has notified landlord of its election to terminate; except that this Lease shall terminate on the date of taking if the date of taking falls on a date before the date of termination as designated by Tenant. If any portion of the Premises is taken by condemnation and this Lease remains in full force and effect, on the date of taking the rent shall be reduced by an amount in the same

ratio as the total number of rentable square feet in the portion of the Premises taken bears to the total number of rentable square feet in the Premises immediately before the date of taking. In the case where a portion of the Premises is taken and the Lease remains in full force and effect. Landlord shall, at its own cost and expense, make all alterations or repairs to the Premises so as to make the portion of the Premises not taken a complete architectural unit. Such work shall not, however, exceed the scope of work done by Landlord in originally constructing the Premises. If any portion of the Building other than the Premises is taken and in Landlord's reasonable opinion the Building should be restored in a manner that materially alters the Premises, or if severance damages from the condemning authority are not available to Landlord in sufficient amounts to permit such restoration, Landlord may terminate this Lease upon written notice to Tenant. Basic Monthly Rent due and payable hereunder shall be temporarily abated during such restoration period in proportion to the degree to which there is substantial interference with Tenant's use of the Premises, as reasonably determined by Landlord or Landlord's architect. Each party hereby waives the provisions of Section 1265.130 of the California Code of Civil procedures and any present or future law allowing either party to petition the Superior Court to terminate this Lease in the event of a partial taking of the Building or Premises.

If the Premises are totally or partially taken by condemnation, Tenant shall not assert any claim against Landlord or the taking authority for any compensation because of such taking, and Landlord shall be entitled to receive the entire amount of the award without any deduction for any estate of interest of Tenant. NOTWITHSTANDING THE FOREGOING, TENANT MAY MAKE A SEPARATE CLAIM AGAINST THE CONDEMNING AUTHORITY FOR ITS MOVING EXPENSES AND OTHER CLAIMS TYPICALLY ALLOWED OF TENANTS IN SIMILAR SITUATIONS.

#### 19. ASSIGNMENT OR SUBLEASE.

Tenant shall not assign or encumber its interest in this Lease or the Premises or sublease all or any part of the Premises or allow any other person or entity (except Tenant's authorized representatives, employees, invitees, or guests) to occupy or use all or any part of the Premises without first obtaining Landlord's consent which Landlord shall not unreasonably withhold. Landlord shall be deemed reasonable in withholding its consent if it determines in its sole discretion that: (i) the financial net worth of the proposed assignee or sublessee is not equal to or greater than Tenant's financial net worth as of the date of this Lease as increased by the increase in the Consumer Price Index, if any, between the date of this Lease and the date of the assignment or sublease, (ii) (NOTE: PREVIOUSLY TYPED LANGUAGE DELETED); (iii) the intended use of the Premises by the proposed assignee or sublessee will require more than insignificant alteration of the Premises; (iv) the intended use of the Premises by the proposed assignee or sublessee will constitute a violation of this Lease or any governmental law, rule, ordinance or regulation governing the Premises or would involve the storage, use or keeping of Hazardous Materials (as defined in Exhibit H attached hereto) in, on or about the Premises, the Common Areas or any other portion of the Project; or if (v) the proposed rent for the proposed assignee is less than the Rent then in effect under the Lease; or (vi) the proposed assignee or sublessee is a tenant in the Project or has negotiated to be a tenant in the Project any time in the six (6) months just preceding Tenant's request for Landlord's consent AND LANDLORD IS THEN LEASING A SIMILAR AMOUNT OF SPACE IN THE PROJECT. Any assignment, encumbrance or sublease without Landlord's written consent shall be voidable and at Landlord's election, shall constitute a default. Landlord's waiver or consent to any assignment or subletting shall not relieve Tenant of any assignee or sublessee from any obligation under this Lease whether or not accrued.

If Tenant is a partnership, a withdrawal or change, voluntary, involuntary or by operation of law of any partner, or the dissolution of the partnership, shall be deemed a voluntary assignment. If Tenant is a corporation, any dissolution, merger, consolidation or other reorganization of Tenant, or sale or other transfer of a controlling percentage of the capital stock of Tenant, or the sale of at least 25% of the value of the assets of Tenant shall be deemed a voluntary assignment. The phrase "controlling percentage" means ownership of and right to vote stock possessing at least 25% of the total combined voting power of all classes of Tenant's capital stock issued, outstanding and entitled to vote for election of directors. The preceding two sentences of this paragraph shall not apply to corporations the stock of which is traded through a public exchange. If Landlord shall consent to any assignment or sublease of this Lease, three-quarters (3/4) of all sums and other consideration payable to or for the benefit of the Tenant from its assignee or subtenant in excess of the rent payable by Tenant to Landlord under this Lease, or in the case of a sublease, in excess of the rent fairly allocable to such subleased portion as reasonably determined by Landlord PLUS, IN EITHER CASE, THE LEGAL FEES, BROKERAGE COMMISSIONS AND TENANT-PAID ALTERATIONS REQUIRED TO CONSUMMATE SUCH ASSIGNMENT, shall be paid to Landlord, as and when such sums are due and payable. If Tenant requests Landlord to consent to a proposed assignment or subletting Tenant shall pay to Landlord, whether or not consent is ultimately given, \$100 or Landlord's reasonable attorneys' fees incurred in connection with such request, whichever is greater.

No interest of Tenant in this lease shall be assignable by involuntary assignment through operation of law (including, without limitation, the transfer of this Lease by testacy or intestacy). Each of the following acts shall be considered an involuntary assignment: (a) If Tenant is or becomes bankrupt or insolvent, makes an assignment for the benefit of creditors, or institutes proceedings under the Bankruptcy Act in which Tenant is the bankrupt; or it Tenant is a partnership or consists of more than one person or entity, if any partner of the partnership or other person or entity is or becomes bankrupt or insolvent, or makes an assignment for the benefit of creditors; or (b) If a writ of attachment or execution is levied on this Lease; or (c) If in any proceeding or action to which Tenant is a party, a receiver is appointed with authority to take possession of the Premises. An involuntary assignment shall constitute a default by Tenant and Landlord shall have the right to elect to terminate this Lease, in which case this Lease shall not be treated as an asset of Tenant.

#### 20. DEFAULT.

The occurrence of any of the following shall constitute a default by Tenant: (a) A failure to pay rent or any other charge WITHIN FIVE (5) DAYS OF THE DATE when due; (b) Abandonment of the premises (failure to occupy and operate Premises for thirty (30) consecutive days shall be deemed an abandonment); (c) The making by Tenant or any guarantor of this Lease ("Guarantor") of any general assignment for the benefit of creditors; the filing by or against Tenant or any Guarantor of a petition to have Tenant or such Guarantor adjudged a bankrupt or a

petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant or a Guarantor, the same is dismissed within sixty (60) days); the appointment of a trustee or receiver to Tenant's assets located at the Premises or of Tenant's interest in this Lease, of substantially all of Guarantor's assets, where possession is not restored to Tenant or such Guarantor, as the case may be, within sixty (60) days; the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease where such seizure is not discharged within sixty (60) days; or if this Lease shall, by operation of law or otherwise, pass to any person or persons other than Tenant except as provided in PARAGRAPH 19 herein; (d) The failure of Tenant to timely comply with the provisions of PARAGRAPH 24 or PARAGRAPH 31 of this Lease regarding, respectively, Subordination and Estoppel Certificates; or (e) The failure to perform any other provision of this Lease WITHIN THIRTY (30) DAYS OF LANDLORD'S NOTICE OF SUCH FAILURE, UNLESS SAME CANNOT BE CURED WITHIN SUCH THIRTY (30) DAY PERIOD, AND IF TENANT SHALL HAVE PROMPTLY COMMENCED AND BE DILIGENTLY PURSUING SUCH CURE, THE CURE PERIOD SHALL BE EXTENDED UNTIL TENANT CURES SAME, BUT IN NO EVENT LONGER THAN NINETY (90) DAYS.

## 21. LANDLORD'S REMEDIES.

Landlord shall have the remedies described in this PARAGRAPH 21 if Tenant is in default. These remedies are not exclusive; they are cumulative and in addition to any remedies now or later allowed by law.

Upon any such default, Landlord may terminate Tenant's right to possession of the Premises at any time AFTER TEN (10) DAYS NOTICE. No act by Landlord other than giving notice to Tenant shall terminate this Lease. Act of maintenance, efforts to relet the Premises, or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession. Upon termination of Tenant's right to possession, Landlord has the right to recover from Tenant; (1) The worth at the time of award of any unpaid rent which had been earned at the time of termination of Tenant's right to possession; (2) The worth at the time of award of the amount by which the unpaid rent which would have been earned after the date of termination of Tenant's right to possession until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; (3) The worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; (4) Any other amount, including court attorney and collection costs, necessary to compensate Landlord for all detriment proximately caused by Tenant's default. "The worth" as used for Items (1) and (2) in this PARAGRAPH 21 is to be computed by allowing interest at the lesser of 12%, whichever is greater. "The worth" as used for Item (3) in this PARAGRAPH 21 is to be computed by discounting the amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of termination plus one percent(1%).

In the event of any default by Tenant, Landlord shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant or disposed of in a reasonable manner by Landlord. No re-entry or taking possession of the Premises by Landlord pursuant to this PARAGRAPH 21 shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction.

## 22. DEFAULT BY LANDLORD.

Landlord shall not be in default hereunder unless Landlord fails to perform the obligations required of Landlord within a reasonable time, but in no event later than forty-five (45) days after written notice by Tenant to Landlord and to the holder of any first mortgage or deed of trust covering the Premises, or the lessor of any underlying or ground lease affecting the Project, in writing specifying wherein Landlord has failed to perform such obligation, OR IF LANDLORD FAILS TO MAINTAIN THE INSURANCE REQUIRED UNDER PARAGRAPH 16 HEREOF; provided, however, that if the nature of Landlord's obligation is such that more than forty-five (45) days is required for performance, then Landlord shall not be in default if Landlord commences performance within such forty-five (45) day period and thereafter diligently prosecutes the same to completion. In no event shall Tenant have the right to terminate this Lease as a result of Landlord's default; Tenant's remedies shall be limited to any other remedy available at law or in equity. Nothing herein contained shall be interpreted to mean that Tenant is excused from paying rent due hereunder as a result of any default by landlord. IN THE EVENT OF DAMAGE TO THE PORTIONS OF THE PREMISES WHICH LANDLORD IS OBLIGATED TO REPAIR AND MAINTAIN UNDER THIS LEASE AND WHICH AFFECT THE PREMISES TO SUCH AN EXTENT (A) AS TO CAUSE AN IMMINENT THREAT OF INJURY TO PERSONS OR DAMAGE TO PERSONAL PROPERTY WITHIN THE PREMISES, OR (B) AS TO PREVENT TENANT'S OCCUPANCY OR USE OF ALL OR ANY MATERIAL PORTION OF THE PREMISES FOR ITS EXISTING PERMITTED USES, IF LANDLORD FAILS TO RESPOND WITHIN SEVENTY-TWO (72) HOURS AFTER NOTICE FROM TENANT THEN TENANT SHALL HAVE THE RIGHT (SO LONG AS TENANT IS NOT IN DEFAULT UNDER THIS LEASE) TO UNDERTAKE REPAIRS, TO THE EXTENT NECESSARY ONLY TO SECURE THE PREMISES FROM THE IMMINENT THREAT OF INJURY TO PERSONS OR DAMAGE TO PERSONAL PROPERTY OR TO ALLOW TENANT TO OPERATE ITS BUSINESS FROM THE PREMISES. THE COST OF SUCH REPAIRS SHALL BE BORNE BY TENANT, BUT SHALL BE SUBJECT TO REIMBURSEMENT FROM LANDLORD THROUGH WRITTEN REQUEST FOR PAYMENT ACCOMPANIED BY COPIES OF ITEMIZED, PAID INVOICES AND LIEN RELEASE WAIVERS EXECUTED BY ALL CONTRACTORS WHO PROVIDED SUCH REPAIR SERVICES, AND LANDLORD SHALL HAVE FORTY-FIVE (45) DAYS FROM RECEIPT OF SUCH REQUEST AND ALL SUPPORTING DOCUMENTATION TO PAY SUCH COSTS TO TENANT.

## 23. ENTRY OF PREMISES AND PERFORMANCE BY TENANT.

Landlord and its authorized representatives shall have the right to enter the Premises at all reasonable times DURING NORMAL BUSINESS HOURS AND UPON TWENTY-FOUR (24) HOURS NOTICE for any of the following purposes: (a) To determine whether the Premises are

in good condition and whether Tenant is complying with its obligations under this Lease; (b) To do any necessary maintenance and to make any restoration to the Premises or the Project that Landlord has the right or obligation to perform under this Lease; (c) To post "for sale" signs at any time during the Term, to post "for rent" or "for lease" signs during the last 90 days of the Term, or during any period while Tenant is in default; (d) To show the Premises to prospective brokers, agents, buyers, tenants or persons interested in an exchange, at any time during the Term; (e) To repair, maintain or improve the Project and to erect scaffolding and protective barricades around and about the Premises or the Project; or (f) To discharge Tenant's obligations hereunder when Tenant has failed to do so in accordance with the terms of this Lease. Landlord shall not be liable in any manner for any inconvenience, disturbance, loss of business, nuisance or other damage arising out of Landlord's entry onto the Premises as provided in this PARAGRAPH 23. Tenant shall not be entitled to an abatement or reduction of rent if Landlord exercises any rights reserved in this PARAGRAPH 23. Landlord shall reasonably attempt to conduct his activities on the Premises as provided herein in a manner that will cause the least inconvenience, annoyance or disturbance to Tenant. For each of these purposes, Landlord shall at all times have and retain a key with which to unlock all the doors in, upon and about the Premises, excluding Tenant's vaults and safes. Tenant shall not alter any lock or install a new or additional lock or bolt on any door of the Premises, without the prior written consent of Landlord. If Landlord gives its consent, Tenant shall furnish Landlord with a key for any such lock.

All covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be performed by Tenant at Tenant's sole cost and expense without any abatement of rent. If Tenant shall fail to pay any sum of money, other than Monthly Basic Rent, required to be paid by it hereunder or shall fail to perform any other act on its part to be performed hereunder, and such failure shall continue for ten (10) days after notice thereof by Landlord (or such other period as specifically provided herein), Landlord may, without waiving or releasing Tenant from any obligations of Tenant, but shall not be obligated to, make any such payment or perform any such other act on Tenant's part to be made or performed in this Lease; provided, however, all sums so paid by Landlord and all necessary incidental costs together with interest thereon at the lesser of 12% or the maximum rate an individual is permitted to charge by law from the date of such payment by Landlord, shall be payable to Landlord on demand. Tenant covenants to pay any such sums, and Landlord shall have (in addition to all other rights or remedies of Landlord) the same rights and remedies in the event of the nonpayment thereof by Tenant as in the case of default by Tenant in the payment of the rent. FOLLOWING FOUR (4) LATE PAYMENTS OF RENT DURING ANY TWELVE MONTH PERIOD, LANDLORD SHALL HAVE THE OPTION TO REQUIRE THAT TENANT INCREASE THE AMOUNT OF SECURITY DEPOSIT REQUIRED UNDER PARAGRAPH 8 BY FIFTY PERCENT (50%), WHICH ADDITIONAL SECURITY DEPOSIT SHALL BE RETAINED BY LANDLORD AND MAY BE APPLIED BY LANDLORD IN THE MANNER PROVIDED IN PARAGRAPH 7.

#### 24. SUBORDINATION.

Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, and unless otherwise elected by Landlord or any mortgagee or any beneficiary of a Deed of Trust with a lien on the Project or any ground lessor with respect to the Project (or any part thereof), this Lease shall be subject and subordinate at all times to

(a) all ground leases or underlying leases which may now exist or hereafter be executed affecting the Project, or the land upon which the Project is situated, or both, and (b) the lien of any mortgage or deed of trust which may now exist or hereafter be executed in any amount for which the Project, ground leases or underlying leases, or Landlord's interest or estate in any of said items is specified as security. Notwithstanding the foregoing, Tenant acknowledges that Landlord shall have the right to subordinate or cause to be subordinated this Lease to any such ground leases or underlying lease or any such liens to this Lease. In the event that any ground leases or underlying leases or any such liens to this Lease. In the event that any ground lease or underlying lease terminates for any reason or any mortgage or Deed of Trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, Tenant shall, notwithstanding any subordination, attorn to and become the tenant of the successor in interest to Landlord, and TENANT'S OCCUPANCY OF THE PREMISES SHALL NOT BE DISTURBED FOR SO LONG AS TENANT IS IN COMPLIANCE WITH THE PROVISIONS OF THIS LEASE. Tenant covenants and agrees to execute and deliver, upon demand by landlord and in the form requested by landlord any additional documents evidencing the priority or subordination of this Lease with respect to any such ground lease or underlying leases or the lien of any such mortgage or Deed of Trust. Tenant hereby irrevocably appoints Landlord as attorney-in-fact of Tenant to execute, deliver and record any such document in the name and on behalf of Tenant.

Notwithstanding the foregoing, Tenant acknowledges that the Project is encumbered by a deed of trust including an assignment of rents (the "Mortgage") in favor of Connecticut General Life Insurance Company ("Mortgagee"), and that this Lease is and shall be subordinate to the lien of the Mortgage. If Mortgagee succeeds to the interest of Landlord under this Lease, Tenant acknowledges and agrees that Mortgagee shall not be (i) liable for any act or omission of any prior landlord (including Landlord), (ii) liable for the return of any security deposit unless such deposit has been delivered to Mortgagee by Landlord or is in an escrow fund available to Mortgagee, (iii) subject to any offsets or defenses that Tenant might have against prior landlord (including Landlord), (iv) bound by any rent or additional rent that Tenant might have paid for more than the current month to any prior landlord (including Landlord), (v) bound by any amendment, modification or termination of this Lease made without Mortgagee's consent, (vi) personally liable under this Lease, Mortgagee's liability hereunder being limited to its interest in the Project, or (vii) bound by any notice of termination given by Landlord to Tenant without Mortgagee's prior written consent thereto.

#### 25. NOTICE.

Any notice, demand, request, consent, approval or communication desired by either party or required to be given, shall be in writing and served either personally or sent by prepaid certified first class mail, return receipt requested, addressed as set forth in SUBPARAGRAPH 1(B) AND 1 (C). Either party may change its address by notification to the other party. NOTICES TO TENANT SHALL ALSO BE SENT TO GENERAL COUNSEL, 22 HARBOR PARK DRIVE, PORT WASHINGTON, NEW YORK 11050. Notice shall be deemed to be communicated 48 hours from the time of mailing, or at the time of service as provided in this PARAGRAPH 25.

## 26. WAIVER.

No delay or omission in the exercise of any right or remedy by Landlord shall impair such right or remedy or be construed as a waiver. No act or conduct of Landlord, including, without limitation, acceptance of the keys to the Premises, shall constitute acceptance of the surrender of the Premises by Tenant before the expiration of the Term. Only written notice from Landlord to Tenant shall constitute acceptance of the surrender of the Premises and accomplish termination of this Lease. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any subsequent act by Tenant. Any waiver by Landlord of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provision of this Lease.

## 27. LIMITATION OF LIABILITY.

In consideration of the benefits accruing hereunder, Tenant and all successors and assigns of Tenant covenant and agree that, in the event of any actual or alleged failure, breach or default hereunder by Landlord or otherwise pertaining to any obligation of Landlord in respect of the Premises:

- (a) The sole and exclusive remedy against Landlord shall be against the Landlord's or otherwise pertaining to any obligation of Landlord in respect of the PROJECT:
- (b) No partner, officer, director, owner, shareholder or advisor of Landlord shall be sued or named as a party in any suit or action (except as may be necessary to secure jurisdiction of the partnership);
- (c) No service of process shall be made against any partner, officer, director, owner, shareholder or advisor of Landlord (except as may be necessary to secure jurisdiction of the partnership);
- (d) No partner, officer, director, owner, shareholder or advisor of Landlord shall be required to answer or otherwise plead to any service of process;
- (e) No judgment taken against any partner, officer, director, owner, shareholder or advisor of Landlord may be vacated and set aside at any time after the fact;
- (f) Any judgment taken against any partner, officer, director, owner, shareholder or advisor of Landlord may be vacated and set aside at any time after the fact;
- (g) No writ of execution will ever be levied against the assets of any partner, officer, director, owner, shareholder or advisor of Landlord;
- (h) The obligations under this Lease do not constitute personal obligations of the individual partner, officer, director, owner, shareholder or advisor of Landlord, and Tenant shall not seek recourse against any such persons or entities of Landlord or any of their personal assets for satisfaction of a liability in respect to this Lease; and
- (i) These covenants and agreements are enforceable both by Landlord and also by any partner, officer, director, owner, shareholder or advisor of Landlord.

Tenant agrees that each of the foregoing provisions shall be applicable to any covenant or agreement either expressly contained in this Lease or imposed by statute or at common law.

## 28. FORCE MAJEURE.

Landlord shall have no liability whatsoever to Tenant on account of (a) the inability or delay of Landlord in fulfilling any of Landlord's obligations under this Lease by reason of strike, other labor trouble, governmental restrictions, controls or inaction, or shortages of fuel, supplies or labor resulting therefrom or any other cause, whether similar or dissimilar to the above, beyond Landlord's reasonable control; or (b) any failure or defect in the supply, quantity or character of electricity or water furnished to the Premises, by reason of any requirement, act or omission of the public utility or others furnishing the Project with electricity or water, or for any other reason, whether similar or dissimilar to the above, beyond Landlord's reasonable control. If this Lease specifies a time period for performance of an obligation of Landlord, that time period shall be extended by the period of any delay in Landlord's performance caused by any of the events of force majeure described above.

## 29. PROFESSIONAL FEES.

(a) If Landlord should engage any professional including, without limitation, attorneys, appraisers, accountants, environmental or other consultants for the purpose of bringing suit for possession of the Premises, for the recovery of any sum due under this Lease, or because of the breach of any provisions of this Lease, or for any other relief against Tenant hereunder, or in the event of any other litigation between the parties with respect to this Lease, then all REASONABLE costs and expenses including, without limitation, actual professional fees such as appraisers', accountants', attorneys' and other consultants' fees, incurred by the prevailing party therein shall be paid by the other party, which

obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment. If Landlord employs a collection agency to recover delinquent charges, Tenant agrees to pay all collection agency fees charged to Landlord in addition to rent, late charges, interest and other sums payable under this Lease.

(b) If Landlord is named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy hereunder, Tenant shall pay to Landlord its costs and expenses incurred in such suit including, without limitation, its actual professional fees such as appraisers', accountants' and attorneys' fees.

### 30. EXAMINATION OF LEASE.

Submission of this instrument for examination or signature by Tenant shall not create a binding agreement between Landlord and Tenant nor shall it constitute a reservation or option to lease on the part of Tenant and this instrument shall not be effective as a lease and shall not create any obligations on the part of Landlord or Tenant until this Lease has been validly executed by, and delivered to, both Landlord and Tenant.

### 31. ESTOPPEL CERTIFICATE.

(a) Within ten (10) BUSINESS days following any written request which Landlord may make from time to time, Tenant shall execute and deliver to Landlord a statement, ("Estoppel Certificate") in a form substantially similar to the form of EXHIBIT E attached hereto or in such other form as Landlord's lender or purchaser may require, certifying: (i) the date of commencement of this Lease; (ii) the fact that this Lease is unmodified and in full force and effect (or, if there have been modifications, stating the nature and date of such modification), (iii) the date to which the rent and other sums payable under this Lease have been paid; (iv) that there are no current defaults under this Lease by either Landlord or Tenant except as specified in Tenant's statement; and (v) such other matters requested by Landlord. Landlord and Tenant intend that any statement delivered pursuant to this Paragraph 31 may be relied upon by any mortgagee, beneficiary, purchaser or prospective purchaser of the Project or any interest therein.

(b) Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant (i) that this Lease is in full force and effect, without modification except as may be represented by landlord, (ii) that there are no uncured defaults in Landlord's performance, and (iii) that not more than one (1) month's rent has been paid in advance. Tenant's failure to deliver said statement to Landlord within ten (10) days of receipt shall constitute a default under this Lease.

(c) Tenant hereby irrevocably appoints Landlord as Tenant's attorney-in-fact, which appointment is coupled with an interest, to act in Tenant's name, place and stead to execute such Estoppel Certificate on Tenant's behalf.

### 32. RULES AND REGULATIONS.

Tenant shall faithfully observe and comply with the "Rules and Regulations", a copy of which is attached hereto and marked Exhibit F, and all reasonable and nondiscriminatory modifications thereof and additions thereto from time to time put into effect by landlord. Landlord shall not be responsible to Tenant for the violation or non-performance by any other tenant or occupant of the Project of any of said Rules and Regulations.

### 33. LIENS.

Tenant shall, within FIFTEEN (15) days after receiving notice of the filing of any mechanic's lien for material or work claimed to have been furnished to the Premises on Tenant's behalf or at Tenant's request, discharge the lien or post a bond equal to the amount of the disputed claim with a bonding company reasonably satisfactory to Landlord. If Tenant posts a bond, it shall contest the validity of the lien with all due diligence. Tenant shall indemnify, defend and hold Landlord harmless from any and all losses and costs incurred by Landlord as a result of any such liens attributable to Tenant. If Tenant does not discharge any lien or post a bond for such lien within FIFTEEN (15) day period, Landlord may discharge such lien at Tenant's expense and Tenant shall promptly reimburse Landlord for all costs incurred by Landlord in discharging such lien including, without limitation, attorney's fees and costs and interest on all sums expended at the maximum interest rate permitted by law. Tenant shall provide Landlord with not less than FIFTEEN (15) days prior written notice of its intention to have work performed at or materials furnished to the Premises so that Landlord may post appropriate notices of non-responsibility.

### 34. MISCELLANEOUS PROVISIONS.

(a) TIME OF ESSENCE. Time is of the essence of each provision of this Lease.

(b) SUCCESSOR. This Lease shall be binding on and inure to the benefit of the parties and their successors, except as provided in PARAGRAPH 19 herein.

(c) LANDLORD'S CONSENT. Any consent required by Landlord under this Lease must be granted in writing and may be withheld by Landlord in its sole and absolute discretion, unless otherwise expressly provided herein.

(d) COMMISSION. Each party represents that it has not had dealings with any real estate broker, finder or other person with respect to this Lease in any manner, except for the broker identified in SUBPARAGRAPH 1(M). If EITHER PARTY has dealt with any other person or real estate broker with respect to leasing or renting space in the Project, such party shall be solely responsible for the payment of any fees due said person or firm and shall hold the other party free and harmless and indemnify and defend Landlord from any liabilities, damages or claims with respect thereto, including attorneys fees and costs.

(e) LANDLORD'S SUCCESSORS. In the event of a sale or conveyance by Landlord of the Project, the same shall operate to release Landlord from any liability under this Lease, and in such event Landlord's successor in interest shall be solely responsible for all obligations of Landlord under this Lease.

(f) PRIOR AGREEMENT OR AMENDMENTS. This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease, and no prior agreement or understanding pertaining to any such matter shall be effective for any purpose. No provisions of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors-in-interest.

(g) RECORDING. Tenant shall not record this Lease nor a short form memorandum thereof without the consent of Landlord. Landlord may record a short form memorandum of this Lease and Tenant shall execute and acknowledge such form if requested to do so by Landlord.

(h) SEPARABILITY. Any provision of this Lease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and all other provisions of this Lease shall remain in full force and effect.

(i) NO PARTNERSHIP OR JOINT VENTURE. Nothing in this Lease shall be deemed to constitute Landlord and Tenant as partners or joint venturers. It is the express intent of the parties hereto that their relationship with regard to this Lease and the Premises be and remain that of lessor and lessee.

(j) INTERPRETATION. This Lease shall be construed and interpreted in accordance with the laws of the state in which the Premises are located. This Lease constitutes the entire agreement between the parties with respect to the Premises and the Project, except for such guarantees or modifications as may be executed in writing by the parties from time to time. When required by the context of this Lease, the singular shall include the plural, and the masculine shall include the feminine and/or neuter. "Party" shall mean Landlord or Tenant. If more than one person or entity constitutes Tenant, the obligations imposed upon Tenant shall be joint and several as to all persons or entities constituting Tenant. The enforceability, invalidity or illegality of any provision shall not render the other provisions unenforceable, invalid or illegal.

(k) MORTGAGEE PROTECTION. In the event of any default on the part of Landlord, Tenant will give notice by registered or certified mail to any beneficiary of a deed of trust, mortgagee, or ground lessor covering the Premises, and shall offer such beneficiary, mortgagee, or ground lessor, a reasonable opportunity to cure the default, including time to obtain possession of the Premises by power of sale or a judicial foreclosure, or in the event of a ground lessor, by appropriate judicial action, if such should prove necessary to effect a cure.

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

LANDLORD: South Bay Industrials Company, L.L.C.

a Delaware limited liability company

By: /S/ JAMES M. WALSH Date: 9/4/97  
James M. Walsh  
Its: Vice President

TENANT: Systemax, Inc., a New York corporation dba: Global Computer Supplies

By: /S/ BRUCE LEEDS Date: 9/3/97  
Bruce Leeds  
Its: Vice President

**ADDENDUM TO SINGLE TENANT INDUSTRIAL LEASE**

(NET) BETWEEN SOUTH BAY INDUSTRIALS COMPANY, L.L.C.

**AND  
SYSTEMAX, INC.  
DATED SEPTEMBER 3, 1997**

1. To the fullest extent permitted by law, Landlord agrees to indemnify, defend (with counsel satisfactory to Tenant) and hold harmless Tenant, its agents, successors in interest, directors, officers, partners, employees, shareholders, agents and representatives from (i) all claims, actions, liabilities, and proceedings arising from any breach or default in the performance of any obligation to be performed by Landlord under the terms of this Lease, and (ii) any and all costs, attorney's fees, expenses and liabilities incurred with respect to any such claims, actions, liabilities, and proceedings.
2. including a comprehensive boiler and machinery policy,

## EMPLOYMENT AGREEMENT

AGREEMENT, made as of the 19th day of December, 1997, by and among Global DirectMail Corp (the "Company" or "Global") and Steven M. Goldschein (the "Employee").

### RECITALS

The Company wishes to employ the Employee upon the terms and conditions set forth in this Agreement.

The Employee is willing to make his services available to the Company on the terms and conditions hereinafter set forth.

NOW, THEREFORE, it is mutually agreed as follows:

#### 1. EMPLOYMENT.

(a) **TITLE.** The Company hereby agrees to employ the Employee, as Senior Vice President and Chief Financial Officer of the Company, and the Employee hereby accepts such employment, effective on the date hereof, on the terms and conditions set forth herein. In addition to such other duties as may be determined by the Board of Directors of the Company, consistent with the duties stated herein, the Employee shall have general responsibility for managing the financial affairs of the Company, subject to the authority and direction of the Chief Executive Officer and the Board of Directors. The Employee shall perform his duties primarily at the Company's offices located in Port Washington, New York subject to travel and other duties outside of such location consistent with the Company's business as the Board of Directors shall reasonably determine.

(b) **TERM.** The term of employment of the Employee by the Company under this Agreement shall commence on January 5, 1998 and shall continue for a period of two (2) years (the initial "Employment Period"), unless earlier terminated as provided in Section 4 hereof. This agreement shall thereafter continue from year to year unless terminated by either party by written notice to the other party at least ninety days prior to the end of the then current year Employment Period.

(c) **DUTIES.** In performing his duties, the Employee shall report to the Chief Executive Officer and Board of Directors and shall be subject to the direction of the Chief Executive Officer and Board of Directors of the Company. The Employee shall devote his full working time, attention and skill to the business and affairs of the Company and shall use his best efforts to advance the best interests of the Company.

#### 2. COMPENSATION.

(a) **BASE SALARY.** For the performance of all duties, responsibilities and services by the Employee hereunder during the Employment Period, the Company shall pay to the Employee, and the Employee agrees to accept, a base salary (the "Base Salary") at an annual rate of Three Hundred and Ten Thousand Dollars (\$310,000), payable in accordance with the Company's normal payroll practices. In addition, Employee shall be entitled to receive a bonus during the first year of the Employment Period in an amount up to Seventy Five Thousand Dollars (\$75,000) (the "Bonus") contingent upon the Company achieving certain performance targets for each year, as mutually agreed upon by the Employee and the Board of Directors. The Bonus, if earned shall be paid by the Company to Employee within 75 days following the end of each calendar year during the Employment Period. The Bonus for the second year of the Employment Period shall be in an amount and subject to such terms as agreed between the Company and the Employee.

(b) **PARTICIPATION IN BENEFIT PLANS.** The Employee shall be entitled to participate in and receive benefits under all medical plans or other employee insurance or benefit plans and arrangements that are made available to executive employees of the Company and on the terms that such plans, insurance and arrangements are made available to executive employees of the Company, to the extent Employee is eligible to participate in such plans. To the extent that any such plan or arrangement generally permits the participation or coverage of dependents of the employees of the Company, the Employee's dependents may participate in or be covered under such plan or program. Notwithstanding the foregoing, the Employee's coverage under the Company's medical and dental plans shall become effective immediately upon the date hereof.

(c) **EXPENSES.** During the Employment Period, the Employee shall be entitled to receive reimbursement for all ordinary and necessary business expenses reasonably incurred by him in accordance with industry custom in performing services hereunder, provided that the Employee provides the Company with written documentation, satisfactory to the Company, evidencing such expenses.

(d) **VACATIONS AND HOLIDAYS.** The Employee shall be entitled to four (4) weeks of paid vacation in each twelve (12) month period. At no time, however, shall Employee take more than two (2) weeks of vacation consecutively. The Employee shall have the holidays and sick days as determined by the Company's policies in effect on the date hereof and as amended.

(e) **OPTIONS.** As soon as practicable after the date hereof, the Company shall grant to the Employee an option to purchase 75,000 shares of the Company's common stock exercisable at an exercise price per share equal to the market value on the date of grant in accordance with the Company's standard stock option agreement for executive employees as set forth in the Company's 1995 Long Term Stock Incentive Plan provided, however, that such option shall vest over a period of five years beginning one year from the date of grant at the rate of 20% per year.

### 3. TERMINATION

(a) DEATH. The Employee's employment hereunder shall terminate upon his death.

(b) TERMINATION RESULTING FROM DISABILITY. If the Employee becomes disabled during his employment hereunder so that he is unable substantially to perform his services by regularly attending on a daily basis to his duties hereunder (i) for a period of three (3) consecutive months, or (ii) for an aggregate of ninety (90) days within any period of six consecutive months, then this Agreement may be terminated by the Board of Directors within ten (10) days after the expiration of the applicable time period, by providing Employee with written notice thereof.

(c) CAUSE. The Company may terminate the Employee's employment hereunder for "Cause." For the purposes of this Agreement, the Company shall have "Cause" to terminate the Employee's employment hereunder upon (i) the continued failure by the Employee, for a period of three days after receipt of notice to comply with any policies of the Company or any directions of the Board of Directors consistent with the Employee's duties hereunder (including the Employee's responsibility to devote his full working time and attention to the business of the Company), other than any such failure resulting from the Employee's incapacity due to disability, or (ii) the conviction of the Employee of a felony (or a plea of nolo contendere with respect thereto) or other conviction or judgment against the Employee involving the Employee's dishonest or illegal actions, (iii) the Employee's gross negligence or willful misconduct or breach of any of the material terms or conditions of this Agreement coupled, in the case of such breach, with the failure to cure the same within three days after the receipt of notice thereof, (iv) Employee engaging in an act of theft, fraud or dishonesty, involving the Company, or (v) the Employee making any false, disparaging or malicious statement, oral or written, about the Company or its subsidiaries (collectively the "Global Companies") or any director, officer or employee of the of the Global Companies which is injurious to the business or operations of any of the Global Companies, or which may in any material respect interfere with the goodwill of any of the Global Companies or its relations with customers or suppliers.

(d) VOLUNTARY RESIGNATION. The Employee may terminate his employment by providing the Company with ninety (90) days prior written notice.

(e) WITHOUT CAUSE. The Company may terminate the Employee without "Cause" at any time prior to the expiration of the Employment Period upon three months prior written notice.

(f) NOTICE OF TERMINATION. If the Employee's employment hereunder is terminated pursuant to Section 3(b), 3(c) or 3(e) hereof, the Company shall give the Employee written notice of termination (the "Notice of Termination"). Any Notice of Termination delivered by the Company pursuant to Section 3(b) or 3(c) hereof shall indicate the applicable termination provision in this Agreement relied upon to provide a basis for termination of the Employee's employment. In the case of any termination pursuant to Section 3(c), the Notice of Termination shall also set forth the factual basis for the termination.

(g) DATE OF TERMINATION. "Date of Termination" shall mean (i) if the Employee's employment is terminated by his death, the date of his death, (ii) if the Employee's employment is terminated pursuant to Section 3(b) hereof, ten (10) days after the date the Notice of Termination is given, (iii) if the Employee's employment is terminated pursuant to Section 3(c) hereof, immediately following the giving of the Notice of Termination; (iv) if the Employee voluntarily resigns pursuant to Section 3(d) hereof, on the day following the ninety (90) day period set forth therein or such earlier day following the Company's receipt of the notice set forth therein as the Company shall determine in its sole discretion, and (v) if the Employee's employment is terminated pursuant to Section 3(e) hereof, three (3) months following the giving of the Notice of Termination

### 4. COMPENSATION UPON TERMINATION

(a) DISABILITY. If the Employee's employment is terminated pursuant to Section 3(b) as a result of the Employee's Disability, the Company shall pay to the Employee the applicable portion of his Base Salary due through the Date of Termination at the Rate in effect at the time Notice of Termination is given, and following such payment have no further obligation (relating to the Employee's status as an employee) to the Employee under this Agreement: provided, however, that the foregoing shall have no effect upon any benefits due the Employee under any disability or medical plan or other employee benefit plan or arrangement of the Company then in effect and provided further that any stock option held by the Employee shall continue to be exercisable in accordance with its terms. In addition, the Company shall pay to the Employee that portion of the Bonus. on the date set forth herein, that is equal to the number of days the Employee was employed by the Company, in the year that such Date of Termination occurred, divided by 365 and multiplying the result thereof by the Bonus otherwise payable through the end of the year in which such Date of Termination occurred, as if such termination had not occurred.

(b) DEATH. If the Employee's employment shall be terminated by reason of his death, the Company shall pay to such person as the Employee shall have previously designated, in a notice filed with the Company, or, if no such person shall have been designated, to his estate, the applicable portion of his Base Salary due through the applicable Date of Termination at the rate in effect on the date of death and, following such payments, the Company shall have no further obligations (relating to the Employee's status as an employee) to such designated person or the Employee's estate, as the case may be, under this Agreement provided, however, that the foregoing shall have no effect upon any benefits due the Employee under any disability or medical plan or other employee benefit plan or arrangement of the Company then in effect and provided further that any stock option held by the Employee shall continue to be exercisable in accordance with its terms. In addition, the Company shall pay to such designated person or the estate that portion of the Bonus. on the date set forth herein, that is equal to the number of days the Employee was employed by the Company, in the year that such Date of Termination occurred, divided by 365 and multiplying the

result thereof by the Bonus otherwise payable through the end of the year in which such Date of Termination occurred, as if such termination had not occurred.

(c) CAUSE. If the Employee's employment shall be terminated pursuant to Section 3(c), the Company shall pay the Employee the applicable portion of his Base Salary due through the applicable Date of Termination at the rate in effect at the time Notice of Termination is given and, following such payments, the Company shall have no further obligation (relating to the Employee's status as an employee) to the Employee under this Agreement provided, however, that the foregoing shall have no effect upon any benefits due the Employee under any disability or medical plan or other employee benefit plan or arrangement of the Company then in effect and provided further that any stock option held by the Employee shall continue to be exercisable in accordance with its terms.

(d) VOLUNTARY RESIGNATION. If the Employee voluntarily resigns pursuant to Section 3(d), the Company shall pay Employee the applicable portion of his Base Salary due through the applicable Date of Termination at the rate in effect at the time notice is given to the Company and, following such payments, the Company shall have no further obligation relating to the Employee's status as an employee to the Employee under this Agreement provided, however, that the foregoing shall have no effect upon any benefits due the Employee under any disability or medical plan or other employee benefit plan or arrangement of the Company then in effect and provided further that any stock option held by the Employee shall continue to be exercisable in accordance with its terms.

(e) WITHOUT CAUSE. If the Employee's employment shall be terminated without "Cause" pursuant to Section 3(e), the Company shall pay the Employee, as severance pay, the applicable portion of his Base Salary due through six (6) months (the "Severance Period") following the applicable Date of Termination at the rate in effect at the time Notice of Termination is given and, following such payments, the Company shall have no further obligation (relating to the Employee's status as an employee) to the Employee under this Agreement provided, however, that the foregoing shall have no effect upon any benefits due the Employee under any disabilities or medical plan or other employee benefit plan or arrangement of the Company then in effect and provided further that any stock option held by the Employee shall continue to be exercisable in accordance with its terms. In addition, the Company shall pay to the Employee that portion of the Bonus, on the date set forth herein, that is equal to the sum of the number of days the Employee was employed by the Company and the number of days constituting the Severance Period, in the year that such Date of Termination occurred, divided by 365 and multiplying the result thereof by the Bonus otherwise payable through the end of the year in which such Date of Termination occurred, as if such termination had not occurred.

(f) ACCRUED VACATION UPON TERMINATION. Upon termination the Employee shall be paid for all accrued vacation up to a maximum of four (4) weeks based on the Base Salary then in effect provided that the Employee shall have been afforded the opportunity to take the available vacation days during each twelve month period.

5. SUCCESSORS. This Agreement and all rights of the Employee hereunder shall inure to the benefit of and be enforceable by the Employee's personal or legal representatives, executors administrators, successors, heirs, distributees and legatees. This Agreement and all rights and obligations of the Company hereunder shall inure and be binding on any person, firm or corporation which shall become the owner of substantially all of the assets or capital stock of the Company or which shall succeed to the business of the Company or with which the Company may be consolidated or merged; provided, however that in the absence of the express written agreement of the Employee, the Company shall not be released from its obligations to Employee in the event of any such transaction. and the Company shall be deemed to guaranty the obligations of such person, firm or corporation to the Employee under this Agreement in the event of such transaction.

## 6. CONFIDENTIAL INFORMATION; NON-COMPETITION; INVENTIONS.

(a) CONFIDENTIAL INFORMATION. From and after the date hereof, except for the carrying out of Employee's duties under this Agreement and except as may be required by law, the Employee shall not, directly or indirectly, communicate or make available to anyone other than the Global Companies and their respective directors, officers, authorized agents or advisors, any trade secret or other proprietary or confidential information with respect to the Global Companies, including, but not limited to, any of the products, services, designs or styles, inventions improvements, know-how, processes, customers, suppliers, methods of operation, marketing or distribution, systems, procedures, policies or methods of the Global Companies that constitute trade secrets or other proprietary or confidential information; provided, however, that "confidential information" shall not include any information: (I) known generally to the public (other than as a result of unauthorized disclosure by the Employee), or (II) that is readily ascertainable by lawful means. Upon request by the Company, the Employee agrees to deliver promptly to the Company upon termination of his services for the Company, or at any time thereafter as the Company may request, all Company memoranda, notes, records, reports, manuals, drawings, designs, computer files in any media and other documents (and all copies thereof) containing such confidential information and all property of the Company or any other of the Global Companies, which he may then possess or have under his control.

(b) COVENANT NOT TO COMPETE. During the period that the Employee is employed by the Company pursuant to this Agreement and for a period of one ( 1 ) year after the termination of this Agreement pursuant to Section 3(c), 3(d) or 3(e) (the Non-Compete Period"), the Employee hereby covenants and agrees with the Company that, unless acting as an officer, employee, consultant or stockholder of the Company, the Employee will not, directly or indirectly, anywhere in the United States (the "Territory"), (i) compete, directly or indirectly, as an officer, director, shareholder, partner, investor, agent, employee or otherwise, with the Company in the business or activities in which the Company is now engaged; (ii) directly or indirectly, on his own behalf or on behalf of or as an officer, director, shareholder, partner, investor, agent, employee or otherwise, of any other person or entity, contact or approach any person or business, wherever located, for the purpose of competing with the Company's business, in the Territory; (iii) participate as an officer, director, shareholder, partner, investor, agent, employee or otherwise, or have any other direct or indirect financial interest in, any enterprise which engages in the Company's business in the Territory; provided, however, that the Employee may own up to two (2%) percent of the capital stock

of any corporation (other than the capital stock of the Company as to which this clause (iii) shall not apply), required to file reports pursuant to the Securities Exchange Act of 1934; or

(iv) directly or indirectly, hire, solicit or encourage to leave the employment of the Company, any employee or agent of the Company.

(c) **INVENTIONS.** The Employee agrees that all processes, technologies and inventions including new contributions, improvements, formats, packages, programs, systems, machines, compositions of matter manufactured, developments, applications and discoveries which are related in any manner to the business (commercial or experimental) of the Company during the term hereof (collectively, "New Developments"), whether patentable or not, conceived, developed, invented or made by him or jointly with others during the period of his employment with the Company, shall belong to the Company and the Company shall be the sole owner of all the products and proceeds of the Employee's services, including intellectual or literary property in any form. The Employee shall further: (a) promptly disclose such New Developments to the Company; (b) assign to the Company, without additional compensation, all patent or other rights to such New Developments for the United States and foreign countries; (c) sign all papers necessary to carry out the foregoing; and (d) give testimony in support of his inventorship, all at the sole cost and expense of the Company.

(d) **REMEDIES.** The Employee expressly agrees that upon any breach or violation of the provisions of this Section 6, the Company shall be entitled, as a matter of right, in addition to any other rights or remedies it may have, to temporary and/or permanent injunctive relief in any court of competent jurisdiction and such damages as are provided at law or in equity. The Employee hereby acknowledges and agrees that the covenants contained in this Section 7 are reasonable and fully necessary for the protection of the legitimate interests of the Company and, at the same time are neither harsh nor oppressive to the rights or interests of the Employee nor will such restrictions prevent the Employee from earning a livelihood. In the event that any court of competent jurisdiction determines that the restrictions provided for in this Section 6 are unreasonable or otherwise unenforceable, the invalidity or unenforceability of any of such restrictions shall not affect any of the remaining provisions of this Agreement (including, without limitation, the remaining provisions of this Section 6 not found to be unreasonable or otherwise unenforceable) and a court or other trier of fact may make modifications necessary to correct any unreasonable or unenforceable term and enforce the Companies' intent to the maximum extent. The existence of any claim or cause of action against the Company or its affiliates, whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement of the restrictions contained in this Section 6.

7. **WITHHOLDING.** Anything in this Agreement to the contrary notwithstanding, all payments required to be made by the Company hereunder to the Employee or his estate or beneficiaries shall be subject to the withholding of such amounts relating to taxes as the Company may reasonably determine it should withhold pursuant to any applicable law or regulation. In lieu of withholding such amounts, in whole or in part, the Company may, in its sole discretion, accept other provisions for payment of taxes and withholding as required by law, provided it is satisfied that all requirements of law affecting its responsibilities to withhold have been satisfied.

8. **NOTICES.** Any notice, request, instruction or other document to be given hereunder by any party hereto to any other party shall be in writing and delivered personally, sent by registered or certified mail, postage prepaid.

**If to the Employee:**

Steven M. Goldschein  
2075 Blanche Lane  
Merrick, NY 11566

**If to the Company:**

Richard Leeds, CEO

Global DirectMail Corp 22 Harbor Park Drive  
Port Washington, N.Y. 11050

or at such other address for a party as shall be specified by like notice. Any notice which is delivered personally in the manner provided herein shall be deemed to have been duly given to the party to whom it is directed upon actual receipt by such party. Any notice which is addressed and mailed in the manner herein provided shall be conclusively presumed to have been given to the party to whom it is addressed at the close of business, local time of the recipient forty-eight hours after the day it is so placed in the mail.

9. **ENTIRE AGREEMENT.** This Agreement sets forth the entire understanding of the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, written or oral, between them as to such subject matter. This Agreement may not be amended, nor may any provision hereof be modified or waived, except by an instrument in writing duly signed by the party to be charged.

10. **GOVERNING LAW.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York, without regard to the conflicts of law rules thereof.

11. **VALIDITY.** The invalidity or unenforceability of any provision or provisions to this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

12. COUNTERPARTS. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same agreement.

13. WAIVERS. No waiver by either party of any breach or non-performance of any provision or obligation of this Agreement shall be deemed to be a waiver of any preceding or succeeding breach of the same or any other provision of this Agreement.

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

**Global DirectMail Corp**

By: /S/ RICHARD LEEDS  
Richard Leeds, Chairman  
and CEO

/S/STEVEN M. GOLDSCHHEIN  
Steven M. Goldschein

## **SUBSIDIARIES OF GLOBAL DIRECTMAIL CORP**

### **A. DOMESTIC SUBSIDIARIES**

1. Systemax Inc. (a New York corporation) d/b/a Global Computer Supplies (GA, CA, IL) d/b/a Global Occupational Safety (NY, GA)
2. Continental Dynamics Corp. (a New York corporation) d/b/a Global Computer Supplies (NY) d/b/a Global Industrial Equipment (NY, GA) d/b/a Global Business Furniture (NY, GA)
3. Arrow Star Inc. (a New York corporation)
4. Dartek Corp. (a Delaware corporation)
5. Nexel Industries (a New York corporation)
6. Misco America Inc. (a Delaware corporation)
7. Tiger Direct Inc. (a Delaware corporation)
8. Midwest Micro Corp. (a Delaware corporation)

### **B. FOREIGN SUBSIDIARIES**

1. Misco German Inc. (a New York corporation)
2. Misco Italy Computer Supplies S.P.A. (an Italian corporation)
3. H C S Global SA (a French corporation)
4. Global DirectMail Ltd. (a U.K. corporation)

## **CONSENT OF INDEPENDENT ACCOUNTS**

We hereby consent to the incorporation by reference in Registration Nos. 333-21489 and 333-2149 on Forms S-8 of our report dated February 5, 1998, March 9 as to the second paragraph under Litigation of Note 9, appearing in this Annual Report on Form 10-K of Global DirectMail Corp for the year ended December 31, 1997.

## ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AUDITED CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1997 AND THE AUDITED CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1997 OF GLOBAL DIRECTMAIL CORP AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1997
PERIOD END	DEC 31 1997
CASH	43,432
SECURITIES	9,017
RECEIVABLES	132,741
ALLOWANCES	0
INVENTORY	102,599
CURRENT ASSETS	313,330
PP&E	29,401
DEPRECIATION	0
TOTAL ASSETS	399,745
CURRENT LIABILITIES	125,574
BONDS	1,972
COMMON	382
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	271,817
TOTAL LIABILITY AND EQUITY	399,745
SALES	1,145,388
TOTAL REVENUES	1,145,388
CGS	879,846
TOTAL COSTS	879,846
OTHER EXPENSES	206,280
LOSS PROVISION	0
INTEREST EXPENSE	(2,830)
INCOME PRETAX	62,098
INCOME TAX	23,286
INCOME CONTINUING	38,812
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	38,812
EPS PRIMARY	1.02
EPS DILUTED	1.02

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