

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

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### FILER

#### **INNOTRAC CORP**

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the fiscal year ended December 31, 1998

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-23741

INNOTRAC CORPORATION  
(Exact name of Registrant as specified in its charter)

GEORGIA

58-1592285

-----  
(State or other jurisdiction of incorporation  
incorporation or organization)

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

6655 Sugarloaf Parkway, Duluth, Georgia 30097

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

Registrant's telephone number, including area code: (678) 584-4000

Securities registered pursuant to Section 12(b) of the Act: None.  
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Name of each exchange on which registered: The Nasdaq National Market.  
-----

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par  
-----

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

The aggregate market value of the voting stock held by nonaffiliates (which for purposes hereof are all holders other than executive officers and directors) of the Registrant as of March 18, 1999 was \$26,825,569, based on the closing sale price of the Common Stock as reported by the Nasdaq National Market on such date. See Item 12.

At March 22, 1999, there were 8,999,995 shares of Common Stock, par value \$0.10 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 1998 Annual Report to Shareholders, filed as an exhibit hereto, are incorporated by reference into Part II of this Annual Report on Form 10-K for the year ended December 31, 1998 (the "Report"). Portions of the Registrant's definitive Proxy Statement for the 1999 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission (the "Commission" or the "SEC"), are incorporated by reference into Part III of this Report.

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PART I

ITEM 1. BUSINESS

GENERAL

Innotrac Corporation ("Innotrac" or the "Company") is a full-service provider of customized, technology-based marketing support services to enterprises, primarily telecommunications companies. The Company's marketing support services provide its clients with an efficient means of delivering products or information to their customers, and include product and literature distribution, computerized inventory and database management and customer-initiated ("inbound") teleservices. Innotrac works with its clients on a consultative basis to create customized turnkey solutions to meet client needs, which range from small, specialty projects to larger integrated fulfillment, teleservicing and database tracking programs. The majority of Innotrac's growth over the past five years has come from telecommunications companies and, specifically, from services related to Caller ID equipment. Although 97% of its 1998 revenues came from BellSouth Telecommunications, Inc. ("BellSouth"), Pacific Bell ("Pacific Bell"), Southwestern Bell Telephone Co. ("Southwestern Bell") and US West Communications Services, Inc. ("US West"), the Company has a broad range of clients, including Home Depot U.S.A., Inc. ("Home Depot"), National Automotive Parts Association ("NAPA") and Siemens Energy & Automation Inc. ("Siemens E&A").

Since its formation in 1984, the Company has expanded its capabilities in response to the needs of clients in a variety of industries and to capitalize on market opportunities. In 1987, the Company began providing marketing support services to BellSouth. In 1991, these services were expanded to include fulfillment services related to Caller ID telecommunications equipment. Under this program Innotrac (i) sells or rents to BellSouth customers Caller ID hardware, phone sets and other equipment (branded with BellSouth's logo), (ii) ships ("fulfill") customers' orders, (iii) tracks inventory levels and sales and marketing data regarding such items and (iv) maintains teleservicing operations to handle customer service and technical support for Caller ID units and other products. The fulfillment services for BellSouth have been the primary force behind the Company's rapid sales growth. Innotrac has continued to capitalize on its fulfillment expertise in the telecommunications sector, as evidenced by its additional arrangements with Pacific Bell, Southwestern Bell and US West. Recently, Innotrac began providing limited fulfillment services to Ameritech Corp., Cincinnati Bell Inc. and Bell Atlantic Corporation.

The Company has positioned itself to capitalize on the trend towards outsourcing of marketing support services by investing in the technology and infrastructure necessary to offer additional and more advanced services to its clients. The Company believes that large corporations are increasingly focusing on their primary businesses and turning to outside service companies to perform marketing support functions. By outsourcing these functions, companies seek to (i) replace fixed warehouse, information technology and labor costs with variable costs, (ii) improve their reaction to business cycles, (iii) improve customer service and technical support, (iv) manage capacity to meet fluctuations in demand for products and customer service, (v) create economies of scale by sharing the costs of advanced telecommunications and fulfillment systems, and (vi) reduce working capital needs. As the trend toward outsourcing continues, the Company believes that businesses will increasingly seek to reduce the number of vendors they utilize and may prefer single-source providers of integrated, customized marketing support services. The Company believes that its "one-stop" approach, combined with its use of advanced technology, provides a competitive advantage in attracting and retaining clients on a long-term basis.

The flexibility of its services allows the Company to attract clients in a broad range of industries. Innotrac targets companies that have developed a large customer base, numerous and/or geographically

diverse subsidiary or affiliate operations, extensive marketing needs, or complex point-of-distribution requirements. Companies with these characteristics tend to need customer support, product or literature distribution, inventory

warehousing and management, or tracking and reporting capabilities. Although a company may elect to perform these functions in-house, it will require the development of expensive, labor intensive infrastructures, which may divert a company's focus from its core competencies. Outsourcing these functions to a company such as Innotrac may result in a lower cost and higher quality level than such companies can achieve on an in-house basis.

## BUSINESS STRATEGY

The Company's strategy is to take advantage of market trends towards outsourcing by leveraging its core expertise, reputation for quality and timely service and strong client relationships. The following are the key elements of this strategy:

**MAXIMIZE CALLER ID BUSINESS.** The Company currently distributes Caller ID units for four of the regional bell operating companies ("RBOCs"): BellSouth, Pacific Bell, Southwestern Bell and US West. Recently, Innotrac began providing limited fulfillment services to Ameritech Corp., Cincinnati Bell Inc. and Bell Atlantic Corporation. Management believes that significant growth opportunities exist with these clients as the market penetration of Caller ID services increases and as consumer demand for additional and/or more advanced Caller ID units grows. Additionally, the Company believes it is well positioned to obtain similar contracts with other RBOCs and independent local exchange carriers.

**LEVERAGE TELECOMMUNICATIONS INDUSTRY PLATFORM.** The Company intends to expand its customer base in the telecommunications industry by leveraging the expertise it has developed and the results it has achieved through long-standing relationships with several clients in the industry. The Company is also seeking to expand the level of marketing support services provided to existing telecommunications clients by cross-selling its other services to such clients.

**DEVELOP E-COMMERCE SERVICES.** The Company intends on pursuing the sale of product distribution and related services in the electronic commerce ("e-commerce") industry by (i) becoming a one-stop source for e-commerce and (ii) functioning as an e-commerce distributor for manufacturers and large market driven corporations. The Company believes that it can leverage its current core competencies into the growing e-commerce industry. Innotrac will offer a turnkey solution to product distribution via the Internet which will encompass web design, web hosting, product ownership, product distribution, returns processing and complete backend customer service.

**EXPAND OUTSIDE OF TELECOMMUNICATIONS.** Innotrac's full service capabilities provide it with the flexibility to manage small specialty projects or large integrated projects whereby the Company becomes a new and distinct channel of distribution for clients. The Company believes that its infrastructure will allow it to develop clients in a variety of industries that have numerous and/or geographically diverse subsidiary or affiliate operations, extensive marketing needs or complex point-of-distribution requirements. Management believes that these capabilities will make its services attractive to companies in the manufacturing and retailing industries, in which it currently has clients, as well as companies engaged in e-commerce.

**CONTINUE INVESTMENT IN TECHNOLOGY.** The Company has historically maintained a commitment to the use of advanced technology and intends to continue to upgrade and enhance its computer hardware and software applications to enable it to continue to provide flexible and powerful services to its clients. The Company believes that the use of advanced technology provides a competitive advantage and results in greater capacity and reduced labor costs. The Company also believes that continued technological

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advances, particularly those utilizing the Internet, will provide new opportunities for the Company to tailor its services to meet each client's needs.

**EMPHASIZE CONSULTATIVE RELATIONSHIPS.** The Company seeks to develop value-added solutions that achieve each client's intended marketing results. The Company devotes considerable resources to assessing and understanding a client's industry, products, services, processes and culture, then works with the client to design programs to reduce the costs and investment required to deliver the client's marketing support programs. The Company believes that this consultative partnership approach encourages long-term client relationships. For example, the Company has provided services to NAPA since 1994, Home Depot

since 1993 and Siemens E&A since 1987. Innotrac has serviced its largest client, BellSouth, since 1991. The Company believes that this approach also creates substantial opportunities to expand relationships with existing clients by cross-selling the full range of its services.

**SELECTIVELY PURSUE COMPLEMENTARY ACQUISITIONS.** The Company may take advantage of the fragmented nature of the marketing support services industry by selectively acquiring complementary companies that extend its presence into new geographic markets or industries, expand its client base, add new products, technologies or services or provide substantial operating synergies. While the Company has made no acquisitions to date, management believes that there are a variety of such potential acquisition opportunities.

#### CALLER ID FULFILLMENT SERVICES

The Company has experienced significant growth in revenue in recent years primarily due to the growth in its Caller ID fulfillment services. The Company's Caller ID services began in 1991 with BellSouth, when the Company initiated a fulfillment program to sell or rent to BellSouth customers Caller ID hardware, phone sets and other equipment. In 1993, Innotrac began billing the charges on customers' telephone bills. The Company now provides such services to US West, Pacific Bell, Southwestern Bell and Nevada Bell. Recently, Innotrac began providing limited fulfillment services to Ameritech Corp., Cincinnati Bell Inc. and Bell Atlantic Corporation.

A transaction generally begins when a customer calls one of the Company's RBOC clients and speaks with a service representative to obtain Caller ID service. The representative may offer to sell or rent to the customer one of several models of Caller ID and telephone products that can be paid for through the customer's phone bill, on an interest free installment basis. If the representative makes the sale, the order is sent via electronic data interchange ("EDI") to Innotrac. Occasionally, if more detailed information is required, the customer's call is transferred directly to Innotrac. Innotrac generally ships the order the next day and on a monthly basis electronically submits to the RBOC client the appropriate charges to be included on the customer's telephone bill. Innotrac also provides the customer with order status, billing information and technical product support through its call center by interactive voice response ("IVR") or representative. Since November 1998, the Company has established with all its RBOC clients a billing system whereby the Company bills the RBOC directly for Caller ID units sold. The RBOCs now assume the credit risk of Caller ID purchasers and provide any financing. Prior to then, Innotrac derived its fees for sales of Caller ID equipment for its most significant telecommunications client, BellSouth, from the difference in the price of the Caller ID display unit charged to the customer and the wholesale cost of the product.

#### E-COMMERCE SERVICES

The Company intends to leverage its core competencies of product distribution, marketing, technology, and after-sale support services to business enterprises to become their one-stop source for

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product distribution via the Internet. As acceptance of e-commerce grows, Innotrac will offer a turnkey solution to companies seeking to outsource e-commerce distribution. The Company has an on-staff web design team capable of developing web pages to facilitate e-commerce. Innotrac offers web hosting for its smaller e-commerce clients. As smaller clients grow, and for larger clients, the Company may outsource this function to one of several approved web hosting partners. Innotrac uses state-of-the-art shopping cart software along with universal payment processing software to manage the e-commerce distribution process. The Company may purchase for sale the offered product, presenting a unique value-added service to e-commerce clients.

#### MARKETING SUPPORT SERVICES

Innotrac designs flexible marketing support solutions that range from small, specialty projects to large integrated fulfillment, teleservicing and database tracking project from among the following service options. Some of the services described below are provided to the Company's RBOC clients, and may be offered to potential e-commerce clients.

#### DISTRIBUTION SERVICES

TRADITIONAL PRODUCT AND LITERATURE FULFILLMENT. Innotrac is committed to making its clients' products and services available to its customers on a timely and accurate basis. Innotrac personnel process, pack and ship from the Company's warehouses product orders and requests for promotional, technical and educational literature, signage and point of sale materials for clients. Clients may order such inventory by e-mail, through customized Internet applications, EDI, telephone or facsimile. The Company ships orders so that the product or literature reaches the client or its customer as it is needed ("just-in-time"). Additional fulfillment services offered by the Company include (i) customized product assembly, (ii) kit assembly, (iii) binder collation, (iv) manifest delivery service systems, (v) shrink wrapping, (vi) weight verification of materials and (vii) preparing, addressing, coordinating, sorting and mailing materials. The Company streamlines and customizes the fulfillment procedures for each client based upon the product and literature request, and the tracking, reporting and inventory controls necessary to implement the marketing support program.

VIRTUAL DISTRIBUTION. Innotrac can provide literature and publishing fulfillment services through advanced delivery systems, such as fax-on-demand, print-on-demand and virtual warehousing, which management believes will be the industry norm in the near future. Management believes these services will speed the delivery of important documents to a client or a client's customer at a much lower cost than traditional literature fulfillment, and that increasing advances in facsimile and printer technology will enable the quality of documents provided through these services to equal or surpass current quality.

With fax-on-demand, a client or a client's customer calls a toll-free number to reach the Company's IVR system, and instructs the system to deliver a selected publication. The desired literature or marketing materials are then quickly faxed to the customer. Print-on-demand solutions enable a client or the client's customer to use its own computer system or telephone to place a print order, including production amount and distribution method and location. The Company then completes the print and distribution process using an electronic file previously supplied or converted from a hard copy by the Company. Virtual warehousing enables the client to print technical, educational or marketing materials directly from Innotrac's computer system to its printers or its customer's printers. Clients can reduce their shipping, labor, and warehousing costs utilizing these virtual distribution services.

Other components of the Company's virtual distribution services include broadcast fax and broadcast e-mail, which enable an Innotrac client to send literature to a database of fax numbers or e-mail addresses. These services allow a client to communicate with customers or sales personnel quickly, efficiently and cost effectively.

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#### MANAGEMENT SERVICES

INVENTORY MANAGEMENT. An integral part of Innotrac's marketing support services is the on-line tracking and control of a client's inventory. The Company provides automated inventory management to assure real-time stock counts of a client's products, sales, educational and technical literature, signage and other items. These inventory management systems allow Innotrac and the client to maintain consistent and timely reorder levels and supply capabilities and also allow the client to assess quickly (i) current stock balances, (ii) year-to-date receipts, (iii) monthly and yearly usage, (iv) reorder levels, (v) pricing information and (vi) dollar value of inventory. The Company offers this information to the client on a real-time basis via direct dial-up, through its Internet gateway, or through EDI. Inventory management data is also utilized in the Company's reporting services. See "--Management Services--Reporting." Innotrac also utilizes bar coding equipment in its inventory management systems, which improves the efficiency of stock management and selection.

DATABASE MANAGEMENT. Innotrac can manage a client's databases independently or in conjunction with other marketing support programs. Independent database management begins with the client providing Innotrac with the information to establish the database, which the Company then customizes, manages, uses to provide reports to the client, and updates based upon information supplied by the client. In addition, Innotrac's integrated marketing support programs generate information about customers, demographics, recurring technical problems and other matters. Innotrac compiles this information into customized databases that evolve in conjunction with its on-

going marketing support and customer service programs. This data is a source of valuable information to Innotrac and its clients in evaluating ongoing programs and planning and designing future programs.

**REPORTING.** Innotrac provides reporting to support most of its services, such as inventory analysis, program results and detailed order processing information. Innotrac has developed flexible technologies and reporting procedures that effectively convert raw data gathered during the course of a marketing support program into useful, customized reports upon which clients and Innotrac can base strategic decisions and more effectively respond to customer needs and inquiries. For example, information obtained during a customer telephone call is captured by the Company's database marketing and management systems and is then incorporated into broader reports. These reports also are used by Innotrac to ensure high quality performance. On-line functions allow clients to monitor their programs in real-time to obtain comprehensive trend analyses and modify program parameters as necessary. Innotrac provides clients with customized reports in printed form, via the Internet, electronic mail, computer-to-computer transmission, disk and magnetic tape. Innotrac also provides cost-center based accounting reports for clients who utilize Innotrac's services for subsidiary and intra-company fulfillment transactions.

**LEAD MANAGEMENT.** The Company offers lead management services as a means for clients to identify, communicate with and sell their products to new customers. For example, clients often place advertisements in magazines and newspapers with toll-free numbers for prospective customers to call to receive more information. Innotrac can answer these requests for information, establish a database of prospective customers, send information, questionnaires or surveys to the prospective customers (which helps to further screen the prospective customer for a possible sales contact by Innotrac's client), and, once properly screened, Innotrac can issue a sales lead to the appropriate sales representative of the client. During this process, the Company tracks, analyzes and provides full reporting to the client so that modifications or alterations in the program can be made at any time.

**PAYMENT PROCESSING.** Innotrac manages client programs in which the Company distributes invoices on behalf of its clients and collects, tracks and reports for its clients amounts due to them. In

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addition, the Company provides services for clients in connection with credit card, coupon and rebate processing.

#### INBOUND TELESERVICES

**PRODUCT ORDERS.** The Company's representatives in its call center process orders with respect to items such as Caller ID display units and phone sets, literature, signage, point-of-purchase materials, promotional items (caps, shirts, pens, etc.) and video and audio tapes. Inbound teleservices are generally commenced by a toll-free call from a client's customer that is received by the Company, identified and routed to an Innotrac service representative, who generally answers using the client's name. Orders for Caller ID and other telecommunication products also occur as a result of an Innotrac service representative offering products in connection with a customer service or technical support call. To properly handle the call, Innotrac's automated call distributors and digital switches identify each inbound call by the toll-free number dialed and immediately route the call to an Innotrac representative trained for that client's program and possessing the language capabilities to deal with the customer. In some cases teleservices are offered by IVR systems, which allow customers to route their calls by selecting from a menu of offerings, and text to speech systems, which allow the IVR system to "read" specific, real-time data from the client's databases and convert it into speech based on cues from a caller. Such systems, which the Company expects increasingly to utilize in the future, generally reduce personnel and physical plant expenses associated with a call center and expand the operating capabilities of the center.

Whether a customer's call is answered by a representative or one of the Company's automated systems, the customer's needs are generally resolved with a single call. The information and results of the call are then communicated to appropriate personnel for order or additional processing and fulfillment or, if Innotrac does not manage the client's inventory, the Company transmits the customer's request directly to the client. Once an order is received, Innotrac's automated systems allow representatives to track and update the

disposition of the order at any time through receipt by the customer.

TECHNICAL SUPPORT; CUSTOMER SERVICE. Innotrac service representatives resolve complaints, diagnose and resolve product or service problems, and answer technical questions for its client's customers. Technical support inquiries are generally driven by a customer's purchase of a product or by a customer's need for ongoing assistance. Customers of Innotrac's clients dial a support number and are either connected with a trained Innotrac representative or an IVR system. Innotrac's service representatives receiving a call can enter customer information into the Company's call-tracking system, listen to a question, and quickly access a proprietary network database via computer to answer a customer's question. The IVR system attempts to resolve support issues by guiding the customer through a series of interactive questions. If automatic resolution by IVR cannot solve the problem, the call can be routed to one of Innotrac's service representatives who is specially trained in the applicable product. A senior representative is available to provide additional assistance for complex or unique customer questions. As additional product information becomes available over the course of the program, the Company promptly integrates such information into its database, thereby ensuring that IVR and representatives' answers are based upon the latest product information. Frequently asked questions can also be integrated into IVR systems to bypass representatives.

DEALER LOCATOR. Dealer locator services are offered both by IVR and customer service representatives. Customers of Innotrac's clients, such as NAPA, call a toll-free number to locate the closest dealer, store or distributor office. By using the customer's zip code, Innotrac's software will search the client database and offer the customer the address, phone number and directions to the nearest location.

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#### TECHNOLOGY

Innotrac's use of advanced technology enables it to design and efficiently deliver services for each client's marketing support needs. The Company's information technology group ("IT Group") has developed the Company's database marketing support and management systems, which utilize a UNIX-based open architecture comprised of multiple networked computers and anchored by two Hewlett-Packard HP9000 K460 multiprocessing systems. The Company is in the process of deploying an Oracle-based supply chain software system, which features a 4GL (4th Generation Language) technology that will allow for quick and efficient changes to programs, systems and reports. This system will standardize the Company's computer services and allow for even greater flexibility and capacity.

The open architecture of the Company's computer system permits the Company to seamlessly interact with many different types of client systems. The IT Group uses this platform to design and implement application software for each client's program, allowing clients to review their programs' progress on-line to obtain real-time comprehensive trend analysis, inventory levels and order status and to instantly alter certain program parameters. As the needs of a client evolve, the IT Group works with the client to modify the program on an ongoing basis. Information can also be exchanged via EDI, Internet access and direct-dial applications. The Company believes that its technology platform is and will be among the most advanced in the industry and provides the Company with the resources to continue to offer leading edge services to current and new clients. The Company believes that the integrity of client information is adequately protected by its data security system and its off-site disaster back-up storage facilities.

The Company's call center utilizes a sophisticated Rockwell Spectrum Automatic Call Distributor ("ACD") switch to handle the Company's call management functions. This ACD system has the capacity to handle 2,400 teleservice representatives simultaneously, and is currently supporting over 400 representatives simultaneously. Additionally, the ACD system is integrated with software designed to enable management to automatically schedule teleservices representatives based on call length and call volume data compiled by the ACD system.

#### PERSONNEL AND TRAINING

Innotrac's success in recruiting, hiring and training large numbers of skilled employees and obtaining large numbers of hourly employees during peak

periods for distribution and teleservice operations is critical to the Company's ability to provide high quality marketing support services. Teleservice representatives and fulfillment personnel receive feedback on their performance on a regular basis and, as appropriate, are recognized for superior performance or given additional training. To maintain good employee relations and to minimize employee turnover, the Company offers competitive pay, hires primarily full-time employees who are eligible to receive a full range of employee benefits, and provides employees with clear, visible career paths.

As of January 31, 1999, the Company had 821 employees, of which approximately 88% were full-time and 12% were part-time. Management believes that the demographics surrounding its facilities, and its reputation, stability, compensation and benefit plans should allow the Company to continue to attract and retain qualified employees. The Company considers its employee relations to be good.

#### COMPETITION

Innotrac competes on the basis of quality, reliability of service, efficiency, technical superiority, speed, flexibility and price in tailoring services to client needs. Management believes its comprehensive and integrated services differentiate it from many of its competitors who may only be able to provide one

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or a few of the services that Innotrac provides. The Company continuously explores new outsourcing service opportunities, typically in circumstances where clients are experiencing inefficiencies in non-core areas of their businesses and management believes it can develop a superior outsourced solution to such inefficiency on a cost-effective basis. The Company primarily competes with the in-house operations of its current and potential clients and also competes with certain companies that provide similar services on an outsourced basis, many of whom have greater resources than the Company.

#### GOVERNMENT REGULATION

The Caller ID services offered by the Company's telecommunications clients are subject to various federal and state regulations. The legality of Caller ID has been challenged in cases decided under the Electronic Communications Privacy Act (the "ECPA") and several state statutes. In March 1994, a Federal Communications Commission ("FCC") report preempted certain state regulation of interstate calling party number parameter ("CPN") based services, the technology underlying Caller ID. This report requires certain common carriers to transmit CPN and its associated privacy indicator (which allows telephone callers to block the display of their phone numbers on Caller ID display units) on an interstate call to connecting carriers without charge (the "Free Passage" rule). In connection with this report, the Department of Justice issued a memorandum which concluded that the installation or use of interstate Caller ID service is not prohibited by any federal wiretap statute and that, in general, the FCC has authority to preempt state laws that the FCC finds would hinder federal communications policy on Caller ID services. Court decisions since the FCC issued its March 1994 report have consistently held that Caller ID does not violate any state or federal wiretap statute.

In May 1995, the FCC narrowed its March 1994 preemption of state public utilities blocking regulations by permitting subscribers to choose per-line blocking or per-call blocking on interstate calls, provided that all carriers were required to adopt a uniform method of overriding blocking on any particular call. At the same time, the FCC specifically preempted a California Public Utilities Commission ("CPUC") per-line blocking default policy, which required that all emergency service organizations and subscribers with nonpublished numbers, who failed to communicate their choice between per-call blocking and per-line blocking, be served with a per-line blocking.

The FCC's revised rules and regulations also require carriers to explain to their subscribers that their telephone numbers may be transmitted to the called party and that there is a privacy mechanism (i.e., the "blocking" feature) available on interstate calls, and explain how the mechanism can be activated. The CPUC, seeking to protect the caller's privacy, has ruled that a carrier can offer Caller ID or transmit CPN to interconnecting carriers only upon CPUC approval of its customer notification and education plan. The CPUC has approved the education plan of Pacific Bell, whose Caller ID market includes California.

The Telecommunications Act of 1996 introduced restrictions on telecommunications carriers' usage of CPNI. CPNI includes information that is personal to customers, such as to whom, to where and when a customer places a call, as well as the types of telecommunications services to which the customer subscribes and the extent such services are used. The FCC interprets the CPNI restrictions to permit telecommunications carriers, such as BellSouth, Pacific Bell and US West, to use CPNI without customer approval to market services that are related to the customer's existing service relationship with his or her carrier. Before carriers may use CPNI to market services outside such customer's existing service relationships, the carrier must obtain express customer permission. Because the Company is dependent upon the efforts of its clients to promote and market their equipment and services, laws and regulations inhibiting those clients' ability to market such equipment and services to their existing customers could have a material adverse effect on the Company's business, results of operations and financial condition.

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Telephone sales practices are regulated at both the federal and state level and primarily relate to outbound teleservices, which Innotrac generally does not provide. To the extent that Innotrac offers outbound teleservices, such operations are regulated by the rules of the FCC under the Federal Telephone Consumer Protection Act of 1991 (the "TCPA"), the Federal Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994 (the "TCFAPA") and various state regulations regarding telephone solicitations. The Company believes that it is in compliance with the TCPA, the TCFAPA and the FCC rules thereunder and the various state regulations and that it would operate in compliance with those rules and regulations if it were to engage in more substantial outbound teleservice operations in the future.

The Company works closely with its clients and their advisors to ensure that the Company and the client are in compliance with such regulations. The Company cannot predict whether the status of the regulation of Caller ID services will change and what effect, if any, such change would have on the Company or its industry.

#### INTELLECTUAL PROPERTY

The Company has used the service mark "Innotrac" since 1985 and has filed applications for federal registration of this service mark in multiple classes. The "innotrac.com" domain name has been a registered domain name since 1995. Due to the possible use of identical or phonetically similar service marks by other companies in different businesses, there can be no assurance that the United States Patent and Trademark Office will grant the Company's registration of its service mark, or that such service mark will not be challenged by other users. The Company does not believe that it owns or utilizes any other service marks that are material to its business. The Company's operations, however, frequently incorporate proprietary and confidential information. In accordance with industry practice, the Company relies upon a combination of contract provisions and trade secret laws to protect the proprietary technology it uses and to deter misappropriation of its proprietary rights and trade secrets.

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#### CERTAIN FACTORS AFFECTING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). These statements concern the Company's operations, performance and financial condition, including, in particular, the likelihood that Innotrac will succeed in developing and expanding its business, among other things. They are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties. Many of these uncertainties are beyond Innotrac's control. Consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, those set forth below.

#### INNOTRAC RELIES ON A SMALL NUMBER OF CLIENTS.

Innotrac focuses on developing long-term relationships with large corporations. Therefore, a relatively small number of clients generate a significant portion of its revenues. The Company's four largest clients, BellSouth, Pacific Bell, Southwestern Bell and US West, accounted for an

aggregate of 90%, 95%, and 97% of net revenues for 1996, 1997 and 1998, respectively. BellSouth alone accounted for 82%, 85% and 59% for those same years. If the Company loses one or more of its largest clients, then Innotrac's business, results of operations and financial condition could be materially adversely affected. If such client is lost, the Company cannot assure that it will be able to replace such clients with others that generate comparable revenues or profits.

#### INNOTRAC'S TELECOMMUNICATIONS CLIENTS CAN TERMINATE THEIR AGREEMENTS WITH INNOTRAC.

Certain of Innotrac's written agreements with telecommunications companies have expired, including those with US West and Pacific Bell. Innotrac currently provides services to certain clients pursuant to oral agreements. These agreements can be terminated by either party at any time. If these agreements are terminated, the Company's financial condition and results of operations could be materially adversely affected. Innotrac is negotiating new written agreements with these clients. It cannot assure, however, that it will be able to obtain those agreements on favorable terms, or at all.

Innotrac has written agreements with other telecommunications clients, including BellSouth and certain other clients. Those agreements are generally terminable for cause. Some agreements provide for termination without cause on short notice. The Company's agreement with BellSouth, which does not expire until September 2003, may be terminated by BellSouth for any reason after March 15, 2000 upon 120 days notice. Most of the Company's agreements do not assure specific volume or revenue levels. In addition, Innotrac's contracts generally do not provide that Innotrac will be the client's exclusive service provider. See "Business--General" in this Item 1.

#### INNOTRAC FACES RISKS ASSOCIATED WITH BUYING AND WAREHOUSING PRODUCTS AND RENTING PRODUCTS TO CUSTOMERS.

Innotrac purchases Caller ID and other telecommunications equipment from third party vendors in connection with certain of its fulfillment services. Consequently, the Company assumes the risks of inventory obsolescence, damage to rented units and theft. Innotrac's business, results of operations and financial condition could be materially adversely affected if it cannot manage these risks. Innotrac took steps to reduce its credit risk in 1998 by terminating direct-to-consumer billing arrangements with certain large telecommunications clients. The Company now bills its clients for sales of telecommunications equipment to their customers. Those clients are then responsible for billing and collecting from the equipment end-user consumers. The clients assume the risks associated with installment financing, among others. Innotrac's allowance for bad debt was approximately \$4.9 million at December 31, 1998 compared with \$5.7 million at December 31, 1997. See "Business--General" in this Item 1.

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#### INNOTRAC'S E-COMMERCE BUSINESS AND NEW PRODUCT FULFILLMENT SERVICES MAY NOT BE SUCCESSFUL.

Innotrac is currently entering two new lines of business: (1) the provision of services and products via the internet (electronic, or "e-commerce") and (2) the sale and fulfillment of additional telecommunications products. The success of Innotrac's new businesses depends upon, among other things, the Company's ability to:

- . recruit, hire and retain qualified personnel to assist in the new businesses,
- . integrate the new businesses into its existing lines and
- . finance growth of these new businesses during their developmental stages.

Even if Innotrac successfully addresses these risks, the Company cannot assure that it will successfully operate the new businesses. Nor can Innotrac assure that the new businesses will be profitable. If these new businesses, or other future ones, fail, the Company's business, financial condition or results of operations could be materially adversely affected, particularly if significant financing costs are not recouped.

#### E-COMMERCE

Innotrac's new e-commerce initiative is in a developmental stage. The

Company therefore cannot assure that its e-commerce services, when fully developed, will be attractive to existing or new clients. It also cannot assure that if demand for them does arise, they will be quickly profitable, if at all.

The Company expects to combine its existing product distribution, marketing and after-sale-support services with front-end services such as order and payment processing via the Internet. At this time however the Company cannot predict the products or clients that may be involved in the e-commerce line, or the other services Innotrac may offer. Innotrac has not previously offered any services closely related to e-commerce. E-commerce is a relatively new and highly competitive industry. The Company's potential competitors could be located anywhere in the world. They range in size and sophistication from the smallest niche companies and even individuals, to large corporations.

#### NEW TELECOMMUNICATIONS PRODUCTS

Innotrac has begun or is seeking to fulfill orders for other telecommunications products such as cable modems and asymmetric digital subscriber line modems. Both products are relatively new technologies that facilitate high-speed data transmission. The Company cannot assure that these products or other new ones will achieve high acceptance or market penetration. Nor can Innotrac assure that competing technologies will not replace these products. Although the sale and fulfillment of these new products is closely related to its established Caller ID equipment sale and fulfillment services, the Company cannot assure that it will successfully integrate these new fulfillment programs with its existing business.

These products compete with each other and with other existing technologies and services. Many of these technologies and services are offered by the Company's large telecommunications clients. Potential competing services and technologies include telephone company-related wireline technologies such as traditional analog modems and integrated services digital network modems.

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#### THE MARKET FOR TELECOMMUNICATIONS PRODUCTS MAY CHANGE.

Caller ID is a relatively recent offering by telecommunications companies. Innotrac cannot assure that it will gain or sustain wide acceptance in the marketplace. The Company also depends on the level of resources (financial and otherwise) its clients expend to promote Caller ID service. Innotrac cannot assure that its telecommunications clients will sufficiently promote, or continue to promote, Caller ID service in their areas. The Company's business, results of operations and financial condition could be materially adversely affected if Caller ID does not gain or sustain marketplace acceptance or if the Company's RBOC clients fail to adequately promote Caller ID service.

Furthermore, the Company cannot assure that its telecommunications clients will achieve their estimated "market penetration" (the percentage of consumer telephone lines capable of receiving Caller ID services that actually receive such services) goals. Innotrac partly plans its operations based on these estimates. In addition, at some time in the future, the Company's clients may achieve peak market penetration for Caller ID service. Caller ID service or equipment may eventually be replaced by a different service or hardware. Innotrac's business, results of operations and financial condition could be materially adversely affected if penetration estimates prove optimistic, if peak penetration is achieved or if new technologies supplant Caller ID.

In addition, both federal and state governments regulate the provision of Caller ID services by telecommunications companies. Regulatory changes could increase Innotrac's compliance and other costs, detrimentally impacting its business, results of operations and financial condition. See the factor captioned "Innotrac's business is subject to government regulation" below and "Business--Government Regulation" in this Item 1.

#### INNOTRAC MAY NOT BE ABLE TO CONTINUE OR MANAGE GROWTH.

Innotrac's operations have grown significantly in recent years. The Company's business, results of operations and financial condition could be materially adversely affected if it cannot effectively manage its growth. The Company's continued success depends upon its ability to:

- . initiate, develop and maintain existing and new client relationships,
- . respond to competitive developments,

- . develop its sales infrastructure,
- . attract, train, motivate and retain management and other personnel and
- . maintain the high quality of its services.

In addition, Innotrac recently entered into a long-term lease for a new facility, which will increase lease expenses by approximately \$400,000 per year. The Company expects that its continued rapid growth will significantly strain its management, operations, employees and resources. Innotrac cannot assure that it will be able to:

- . maintain or accelerate its current growth,
- . effectively manage our expanding operations or
- . achieve planned growth on a timely or profitable basis.

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THE TREND TOWARD OUTSOURCING MAY STOP OR REVERSE ITSELF.

The Company believes that in the past several years there has been a significant increase in the number of businesses outsourcing services not directly related to their core competencies. The Company's business, results of operations and financial condition could be materially adversely affected if the outsourcing trend declines, reverses or suffers other adverse developments. Innotrac cannot assure that this trend will continue, that it will not reverse or that corporations will not bring previously outsourced functions back in-house. Particularly during general economic downturns, continued outsourcing of services could result in layoffs. Businesses may bring in-house previously outsourced functions to avoid or delay layoffs. See "Business--Strategy" in this Item 1.

INNOTRAC MAY NOT BE ABLE TO RECRUIT, HIRE, TRAIN OR RETAIN ENOUGH QUALIFIED EMPLOYEES, AND ITS EMPLOYMENT-RELATED COSTS MAY RISE.

Innotrac's success depends largely on its ability to recruit, hire, train and retain qualified employees. If the Company cannot recruit, hire, train and retain qualified employees, its business, results of operations or financial condition could be materially adversely affected. Innotrac's industry is very labor-intensive and has experienced high personnel turnover. If the Company's employee turnover rate increases significantly, its recruiting and training costs could rise and its operating effectiveness and productivity could correlatively decline. Also, adding significant new clients or implementing new large-scale marketing support programs may require accelerated recruiting, hiring and training of qualified personnel. Some of Innotrac's operations, particularly its technical support and customer service, require specially trained personnel. The Company cannot assure that it will be able to continue to hire, train and retain sufficient qualified personnel to adequately staff new marketing support programs. In addition, the unemployment rate in the area Innotrac's facilities are located is relatively low, potentially making it more difficult and costly to hire and train qualified personnel.

Currently, the Company is not a party to any collective bargaining agreements. None of the Company's employees are unionized. Although the Company considers its relationship with its employees to be good, there have been periodic unionization initiatives at the Company, particularly among its call center personnel. If some or a majority of Innotrac's employees were to join unions, the Company could incur increased wages, employee benefits and employment-related administrative costs. The Company could also experience an increased risk of work stoppages. A significant portion of Innotrac's operating expenses relate to labor costs. Therefore, an increase in wages, costs of employee benefits or employment taxes could materially adversely affect the Company's business, results of operations or financial condition.

INNOTRAC'S SOFTWARE CONVERSION MAY NOT BE SUCCESSFUL OR IT MAY BE DELAYED.

Innotrac's business depends highly on its computer and telecommunications equipment and software systems. The Company is upgrading certain computer hardware and software. As a result, Innotrac is converting certain existing programs to the new system. If Innotrac cannot successfully convert these programs, its business, results of operations and financial condition could be materially adversely affected. Innotrac has experienced delays and difficulties in converting its software. The Company cannot assure that it can effectively or efficiently convert its programs to the new system.

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INNOTRAC MAY NOT BE ABLE TO KEEP PACE WITH CHANGING TECHNOLOGY.

The Company's success depends highly upon its ability to:

- . enhance existing services and develop applications to focus on its clients' needs and
- . introduce new services and products to respond to changing technological developments.

If the Company fails to maintain its technological capabilities or respond effectively to technological changes, its business, results of operations and financial condition could be materially adversely affected. Innotrac cannot assure that it will select, invest in and develop new and enhanced technology on a timely basis in the future in order to meet its clients' needs and maintain competitiveness. See "Business--Technology" in this Item 1.

INNOTRAC FACES COMPETITION.

Innotrac competes in highly competitive markets, and expects competition to persist and intensify in the future. Innotrac's competitors include:

- . in-house operations of its current and potential clients,
- . small firms offering specific services and
- . large marketing support services firms.

A number of Innotrac's competitors have or may develop financial and other resources greater than the Company's. The Company cannot assure that additional competitors with greater name recognition and resources will not enter its markets. Innotrac's existing or potential clients' in-house operations are also significant competitors. If (1) existing clients decide to provide, in-house, services that currently are outsourced or (2) potential clients retain or increase their in-house capabilities, then the Company's performance and growth could be negatively impacted.

Some products Innotrac sells and fulfills for some clients, such as cable modems, may compete with products and services offered by other clients. If a large client discontinues its relationship with Innotrac because it provides services to one of the client's competitors, the Company's business, financial condition or results of operations could suffer material adverse effects.

Further, Innotrac's business will be materially adversely affected if a large client decides to consolidate its outsourced services with a company other than Innotrac. In addition, competitive pressures from current or future competitors could result in significant price erosion, which could in turn materially adversely affect the Company's business, financial condition and results of operations. See "Business--Competition" in this Item 1.

INNOTRAC'S OPERATING RESULTS AND QUARTERLY RESULTS MAY FLUCTUATE.

The Company's operating results have fluctuated in the past and will fluctuate in the future based on many factors. These factors include, among other things:

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- . fluctuations in the general economy
- . changes in operating expenses
- . changes in the timing and level of client-specific marketing programs
- . increased competition
- . expenses related to acquisitions
- . the potential adverse effect of acquisitions

Due to these and any unforeseen factors, it is likely that in some future quarter Innotrac's operating results will be below the expectations of public market analysts and investors. If that occurs, the Company's common stock price would likely decline materially. In view of the its recent significant growth, the Company believes that period-to-period comparisons of its financial results are not necessarily meaningful, and you should not rely on them as an indication of future performance.

INNOTRAC DEPENDS ON A FEW KEY PERSONNEL.

Innotrac depends in large part on the abilities and continuing efforts of its executive officers and senior management. The Company's business and prospects could be materially adversely affected if (1) current officers and

managers do not continue in their key roles and Innotrac cannot attract and retain qualified replacements or (2) Innotrac cannot attract and retain additional qualified personnel to sustain growth. The Company does not have employment agreements with its executive officers and cannot assure that it will be able to retain them. The Company maintains key man life insurance on only one of its executive officers--Scott D. Dorfman, in the amount of \$3.5 million. In order to support growth, Innotrac must effectively recruit, develop and retain additional qualified management personnel. The Company cannot assure that in the future it will be able to recruit and retain additional qualified managers.

INNOTRAC MAY LOSE REVENUE OR INCUR ADDITIONAL COSTS BECAUSE OF THE YEAR 2000 ISSUE.

INNOTRAC MAY NOT ADEQUATELY ADDRESS THE YEAR 2000 ISSUE.

The efficient operation of Innotrac's business depends in part on its computer software programs and operating systems. If these programs and systems suffer failures from their inability to recognize dates after December 31, 1999 (that is, if they are not "Year 2000 compliant"), the Company's business, financial condition or results of operations could be materially adversely affected. These programs and systems are used in:

- . inventory management
- . sales
- . financial reporting
- . pricing
- . shipping
- . administrative functions

Innotrac believes that the Company's information technology ("IT") systems, including the existing systems and programs that will be replaced as a part of an upgrade of the Company's system architecture, and other non-IT systems are either Year 2000 compliant or will be compliant by June 30, 1999 after applying vendor-supplied patches or upgrades to these systems. Innotrac could experience business interruptions and systems failures that could materially adversely affect its business if (1) any of these remedial efforts fail to eliminate Year 2000 problems in Innotrac's IT and non-IT systems or if (2) Innotrac fails to identify all systems that require attention. If unforeseen failures do occur, emergency remediation expenses could also have a materially adverse effect on the Company's business, results of

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operations or financial condition. The Company anticipates completing an evaluation of its Year 2000 efforts in September 1999. Innotrac cannot assure, however, that its Year 2000 efforts will be completed before December 31, 1999. It also cannot assure that these efforts, if completed, will successfully remediate all Year 2000 problems.

INNOTRAC'S SUPPLIERS, CLIENTS, FINANCIAL INSTITUTIONS AND OTHERS MAY NOT ADEQUATELY ADDRESS THE YEAR 2000 ISSUE.

Innotrac also depends on the efficient operation of the computer systems of suppliers, clients, financial institutions and others which interface with its own systems. Because such third-party systems or software may not be Year 2000 compliant, Innotrac may incur unanticipated expenses to remedy any problems caused by such failures. These problems could in turn materially adversely affect Innotrac's business, results of operations and financial condition. The Company is obtaining documentation from third parties concerning their Year 2000 compliance programs and the possibility of any Year 2000-related interface difficulties that may affect Innotrac. To date, no significant concerns have been identified. Innotrac is developing contingency plans to address Year 2000 failures of these entities. However, Year 2000-related operating problems or expenses may arise in connection with Innotrac's systems' interface with the computer systems and software of its suppliers, clients, financial institutions and others.

INNOTRAC'S BUSINESS IS SUBJECT TO GOVERNMENT REGULATION.

Because its current teleservicing business consists primarily of responding to inbound telephone calls, as opposed to outbound calls, the Company is not highly regulated. However, in connection with the limited amount of outbound telemarketing services that it provides, the Company must comply with the Federal Communications Commission's rules under the Federal Telephone Consumer Protection Act of 1991 and the Federal Trade Commission's regulations under the Federal Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994, both

of which govern telephone solicitation. If the Company expands its outbound telemarketing services, such rules and regulations would apply to a larger percentage of its business. Furthermore, there may be additional federal and state legislation or changes in regulatory implementation, including interpretations under the Telecommunications Act of 1996 restricting the ability of telecommunications companies to use consumer proprietary network information ("CPNI"), that may limit the Company's activity or its clients' in the future or significantly increase compliance costs. Additionally, Innotrac could be responsible for failing to comply with regulations applicable to its clients. If unfavorable federal or state legislation or regulations affecting Caller ID service are adopted, the Company's business, financial condition and results of operations could be materially adversely affected. See "--Risks Associated with Product-Based Marketing Support Services" and "Business--Government Regulation" in this Item 1.

COMPLETING AND INTEGRATING ACQUISITIONS MAY BE DIFFICULT.

As part of its strategy, the Company plans to pursue strategic acquisitions. For acquisition candidates, Innotrac seeks companies offering services, products, technologies, industry specializations or geographic coverage that extend or complement its existing business. The Company cannot assure however that it will be able to successfully identify, acquire on favorable terms or integrate such companies. If Innotrac completes an acquisition, it cannot assure that such acquisition will enhance its business, results of operations or financial condition. In the future, the Company may face increased competition for acquisition candidates, which may inhibit the consummation of suitable acquisitions on favorable terms. Innotrac could use a portion of its capital resources and proceeds from its initial public

offering for acquisitions. Innotrac may require additional debt or equity financing for future acquisitions. Additional financing however may not be available on favorable terms, or at all.

EXECUTIVE OFFICERS OF REGISTRANT

The executive officers of the Company are as follows:

<TABLE>  
<CAPTION>

NAME	AGE	POSITION
----	---	-----
<S> Scott D. Dorfman.....	<C> 41	<C> President, Chief Executive Officer and Chairman of the Board
David L. Ellin.....	40	Senior Vice President and Chief Operating Officer
Donald L. Colter, Jr.....	38	Vice President--Operations
Larry C. Hanger.....	44	Vice President--Business Development
John H. Nichols, III.....	44	Vice President, Chief Financial Officer and Secretary
Stephen J. Walden.....	55	Vice President--Electronic Commerce

</TABLE>

Mr. Dorfman is the founder of Innotrac and has served as President, Chief Executive Officer and Chairman of the Board of the Company since its inception in 1984. Prior to founding the Company, Mr. Dorfman was employed by Paymaster Checkwriter Company, Inc. ("Paymaster"), an equipment distributor. At Paymaster, Mr. Dorfman gained experience in distribution, tracking and inventory control by developing and managing Paymaster's mail order catalog.

Mr. Ellin joined Innotrac in 1986 and has served as Senior Vice President and Chief Operating Officer of the Company since November 1997. He served as the Company's Vice President from 1988 to November 1997. From 1984 to 1986, Mr. Ellin was employed by the Atlanta branch of WHERE Magazine, where he managed the sales and production departments. From 1980 to 1984, Mr. Ellin was employed by Paymaster, where he was responsible for Paymaster's sales and collections.

Mr. Colter joined Innotrac in 1995 and has served as Vice President-Operations since November 1997. He served as the Company's Chief Financial Officer from 1995 to November 1997. Prior to joining Innotrac, Mr. Colter was from 1993 to 1995 the corporate controller of Gay & Taylor/Thomas Howell Group, an international insurance adjusting company. From 1991 to 1993, Mr. Colter was corporate controller of Outdoor West, Inc., an outdoor advertising company. Mr. Colter is a certified public accountant and has over 15 years of experience in the financial and accounting industry.

Mr. Hanger joined Innotrac in 1994, and has served as Vice President-Business Development since November 1997. He served as the Company's Department Manager of Business Development from 1994 to November 1997, and was responsible for the management of the telecommunication equipment marketing and service business. From 1979 to 1994, Mr. Hanger served as Project Manager-Third Party Marketing at BellSouth, where he managed the marketing program for BellSouth's network services and was involved in implementing the billing options program for BellSouth with Innotrac.

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Mr. Nichols joined Innotrac in November 1997 as Vice President and Chief Financial Officer and was appointed Secretary of the Company in July 1998. From 1993 until November 1997 he served as Vice President and Chief Financial Officer for Storehouse, Inc., a furniture retailer. From 1982 until 1993, Mr. Nichols was employed by Contel Corporation and GTE Corporation in various senior financial management positions in both the telephone and cellular telephone business units. Mr. Nichols is a certified public accountant.

Mr. Walden joined Innotrac in January 1999 as Vice President-Electronic Commerce. He had previously served as Senior Vice President for Internet Strategy at Premiere Technologies, responsible for managing a new, Internet-based product line integrating telephony services with Internet technology. Prior to that, he was Vice President of Content and Commerce for BellSouth.net, a BellSouth subsidiary. Mr. Walden has been President of Walden Associates, a media and technology consulting group. Earlier in his career, he held positions in Prodigy Services Company, Grey Advertising, Warner Amex Cable Communications, Time Inc.'s Manhattan Cable TV, and Home Box Office.

#### ITEM 2. PROPERTIES

Innotrac's headquarters and distribution facilities are located in 250,000 square feet of leased space in Duluth, Georgia. The Company's corporate offices occupy 50,000 square feet of this facility and the remaining 200,000 square feet is distribution space. This site also includes approximately 3.5 acres that will be available for the Company's expansion requirements. The Company's lease for its Duluth facility has a term of 10 years and two five year renewal options. The lease provides for an option to purchase the facility at the end of the first five years of the term or at the end of the first 10 years of the term. The Company has not yet determined whether to exercise such purchase option. Innotrac provides teleservices through its call center located in Duluth, Georgia, which opened in June 1996. The call center is currently configured with 446 workstations and has room to expand to approximately 700 workstations. It also contains approximately 18,000 square feet of expansion space. It currently operates from 8:00 a.m. until midnight Monday through Friday and from 9:00 a.m. to 8:00 p.m. on Saturday.

The Company believes that its facilities are adequate for its needs for the foreseeable future.

#### ITEM 3. LEGAL PROCEEDINGS

The Company may be involved from time to time in litigation arising in the normal course of business. The Company is not a party to any material legal proceeding. The Company is, from time to time, a party to litigation arising in the normal course of its business. Management believes that none of these actions, individually or in the aggregate, will have a material adverse effect on the financial position or results of operations of the Company.

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

No matters were submitted to a vote of security holders of the Company during the fourth quarter of the fiscal year covered by this Report.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's Common Stock began trading on the Nasdaq National Market ("NASDAQ") under the symbol "INOC" on May 7, 1998. Prior to that time, there was no trading market for the Common Stock. The following table sets forth for the periods indicated the high and low sales prices of the Common Stock on the NASDAQ.

<TABLE>  
<CAPTION>

	HIGH	LOW
	----	---
<S>	<C>	<C>
1998		
Second Quarter (beginning May 7, 1998).....	\$13.250	\$ 8.875
Third Quarter.....	\$13.500	\$ 6.750
Fourth Quarter.....	\$24.375	\$ 5.750
Fiscal Year Ended December 1999.....	\$24.375	\$ 5.750
1999		
First Quarter (through March 18).....	\$19.000	\$10.000

</TABLE>

The approximate number of holders of record of Common Stock as of March 4, 1999 was 22.

The Company has never declared cash dividends on the Common Stock. The Company intends to retain its earnings to finance the expansion of its business and does not anticipate paying cash dividends in the foreseeable future. Any future determination as to the payment of cash dividends will depend upon such factors as earnings, capital requirements, the Company's financial condition, restrictions in financing agreements and other factors deemed relevant by the Board of Directors. The payment of dividends by the Company is restricted by its revolving credit facility.

ITEM 6. SELECTED FINANCIAL DATA

The information contained under the heading "Selected Financial Data" in the Company's 1998 Annual Report to Shareholders, filed as an exhibit hereto, is incorporated herein by reference.

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

The information contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 1998 Annual Report to Shareholders, filed as an exhibit hereto, is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations--Quantitative and Qualitative Disclosures About Market Risk" in the Company's 1998 Annual Report to Shareholders, filed as an exhibit hereto, is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information contained under the headings "Report of Independent Public Accountants" and "Consolidated Financial Statements and Notes to the Consolidated Financial Statements" in the Company's 1998 Annual Report to Shareholders, filed as an exhibit hereto, is incorporated herein by reference.

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 contained under the heading "Election of Directors" in the definitive Proxy Statement used in connection with the solicitation of proxies for the Company's 1999 Annual Meeting of Shareholders, filed with the Commission, is hereby incorporated herein by reference. Pursuant to Instruction 3 to Paragraph (b) of Item 401 of Regulation S-K, information relating to the executive officers of the Company is included in Item 1 of this Report.

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the heading "Executive Compensation" in the definitive Proxy Statement used in connection with the solicitation of proxies for the Company's 1999 Annual Meeting of Shareholders, filed with the Commission, is hereby incorporated herein by reference. The information contained in the Proxy Statement under the headings "Compensation Committee Report on Executive Compensation" and "Stock Performance Graph" shall not be deemed incorporated herein by such reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained under the heading "Voting Securities and Principal Shareholders" in the definitive Proxy Statement used in connection with the solicitation of proxies for the Company's 1999 Annual Meeting of Shareholders, filed with the Commission, is hereby incorporated herein by reference.

For purposes of determining the aggregate market value of the Company's voting stock held by nonaffiliates, shares held by all current directors and executive officers of the Company have been excluded. The exclusion of such shares is not intended to, and shall not, constitute a determination as to which persons or entities may be "affiliates" of the Company as defined by the Commission.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained under the heading "Certain Transactions" in the definitive Proxy Statement used in connection with the solicitation of proxies for the Company's 1999 Annual Meeting of Shareholders, filed with the Commission, is hereby incorporated herein by reference.

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PART IV

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

(A) FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

1. FINANCIAL STATEMENTS

The following financial statements and notes thereto are incorporated herein by reference in Item 8 of this Report.

Report of Independent Public Accountants  
Consolidated Balance Sheets as of December 31, 1998 and 1997  
Consolidated Statements of Operations for the years ended December 31,  
1998, 1997, and 1996  
Consolidated Statements of Partners', Members' and Shareholders' Equity for  
the years ended December 31, 1998, 1997, and 1996  
Consolidated Statements of Cash Flows for the years ended December 31,  
1998, 1997, and 1996

2. FINANCIAL STATEMENT SCHEDULES

Report of Independent Public Accountants as to Schedules  
Schedule II - Valuation and Qualifying Accounts

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3. EXHIBITS

The following exhibits are required to be filed with this Report by Item 601 of Regulation S-K:

<TABLE> <CAPTION> EXHIBIT NO. -----	DESCRIPTION OF EXHIBITS -----
<C>	<S>
3.1	Amended and Restated Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 11, 1998)
3.2	Amended and Restated By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on December 16, 1997)
4.1	Form of Common Stock Certificate of the Company (incorporated by reference to Exhibit 4.1 to the Company's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 11, 1998)
4.2	Rights Agreement between Company and Reliance Trust Company as Rights Agent, dated as of December 31, 1997 (incorporated by reference to Exhibit 4.2 to the Company's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 11, 1998)
10.1	Acquisition Agreement by and among the Company, SellTel #1, Inc., RenTel #1, Inc., IELC, Inc., HomeTel Systems, Inc., HomeTel Providers Inc., Rentel #2, L.L.C., SellTel #2, L.L.C., HomeTel Providers Partners, L.P., ITC Service Company, Scott D. Dorfman, Susan Mary Trotochaud, as Custodian For Bradley H. Dorfman, Brent M. Dorfman and Jesse E. Dorfman, and Susan Mary Trotochaud, dated December 15, 1997 (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on December 16, 1997)
10.2(a)	Stock Option and Incentive Award Plan (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on December 16, 1997)+
(b)	Amendment No. 1 to Stock Option and Incentive Award Plan (incorporated by reference to Exhibit 10.2(b) to the Company's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 11, 1998)+
10.3	Amended and Restated Loan and Security Agreement by and among the Company, HomeTel Systems Inc., IELC, Inc., RenTel #1, Inc., RenTel #2, L.L.C., SellTel #1, Inc., SellTel #2, L.L.C., HomeTel Providers Partners, L.P. and SouthTrust Bank, N.A., dated December 5, 1997 (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on December 16, 1997)
10.4	Purchase Agreement for Services between BellSouth Telecommunications, Inc. and the Company, effective November 1, 1998*

</TABLE>

<TABLE>	<C>
<S>	10.5 Form of Indemnification Agreements entered into as of December 11, 1997, by and between the Company and each of Messrs. Scott D. Dorfman, David L. Ellin, Donald L. Colter, Jr., John H. Nichols

III, Bruce V. Benator, Martin J. Blank, Campbell B. Lanier, III and William H. Scott, III (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on December 16, 1997)+

- 10.7 Lease, dated April 1, 1996, by and between Weeks Realty, L.P. and the Company (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on December 16, 1997)
- 10.8(a) Lease, dated December 8, 1997, by and between Weeks Development Partnership and the Company (incorporated by reference to Exhibit 10.8 to the Company's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 11, 1998)
- 10.9 Split Dollar Life Insurance Agreement, dated July 10, 1997, by and between the Company, Bruce V. Benator, as Trustee of The Scott David Dorfman Family Trust #2, and Scott David Dorfman (incorporated by reference to Exhibit 10.9 to the Company's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 11, 1998)+
- 10.10 Innotrac Corporation Deferred Compensation Plan, effective as of October 16, 1997 (incorporated by reference to Exhibit 10.10 to the Company's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 11, 1998)+
- 10.11 Grantor Trust Agreement dated October 16, 1997, by and between the Company and Wachovia Bank, N.A. (incorporated by reference to Exhibit 10.11 to the Company's Amendment No. 1 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 11, 1998)+
- 10.12 Shareholders' Agreement by and among SellTel #1, Inc., Arnold Dorfman, Scott Dorfman and the Company, dated February 13, 1998 (incorporated by reference to Exhibit 10.12 to the Company's Amendment No. 2 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 23, 1998)
- 10.13 Stock Redemption Agreement by and among RenTel #1, Inc., Scott Dorfman and Arnold Dorfman, dated December 15, 1997 (incorporated by reference to Exhibit 10.13 to the Company's Amendment No. 2 to Registration Statement on Form S-1 (Commission File No. 333-42373), filed with the Commission on February 23, 1998)
- 10.14 Amended and Restated Loan and Security Agreement between the Company and SouthTrust Bank, N.A., dated January 25, 1999

</TABLE>

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- 10.15 1999 Senior Executive Incentive Compensation Plan+
- 10.16 Aircraft Lease by and between SD Holdings, Inc. and the Company, dated February 19, 1998
- 13.1 Portions of the 1998 Annual Report to Shareholders that are incorporated by reference in this Report
- 23.1 Consent of Arthur Andersen LLP
- 24.1 Power of Attorney (included on signature page)
- 27.1 Financial Data Schedule (for Commission use only)
- 99.1 Proxy Statement for the 1999 Annual Meeting of Shareholders

</TABLE>

+ - Management contract or compensatory plan or arrangement required to be filed as an exhibit.

\* - Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934. In accordance with Rule 24b-2, these confidential portions have been omitted from this exhibit and filed separately with the Commission.

(B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the Registrant during the fourth quarter of the Registrant's 1998 fiscal year.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS AS TO SCHEDULES

We have audited in accordance with generally accepted auditing standards, the financial statements of INNOTRAC, CORPORATION included in this Form 10-K and have issued our report thereon dated January 31, 1999. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/Arthur Andersen LLP  
ARTHUR ANDERSEN LLP

Atlanta, Georgia  
January 31, 1999

INNOTRAC CORPORATION  
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
-----	-----	-----	-----	-----	-----
			(in thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
Provision for uncollectible accounts					
Year ended December 31,					
1998.....	\$5,058	\$ 8,245	--	\$ (8,797)	\$4,506
1997.....	4,141	7,750	--	(6,833)	5,058
1996.....	2,552	5,841	--	(4,252)	4,141
1995.....	575	3,043	--	(1,066)	2,552
Provisions for returns and allowances					
Year ended December 31,					
1998.....	649	11,104	--	(10,722)	1,031
1997.....	101	6,327	--	(5,779)	649
1996.....	--	3,536	--	(3,435)	101
1995.....	--	--	--	--	--

</TABLE>

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, on the 23rd day of

March, 1999.

INNOTRAC CORPORATION

By: /s/ Scott D. Dorfman

-----  
Scott D. Dorfman  
Chairman and  
Chief Executive Officer

POWER OF ATTORNEY

Know all men by these presents, that each person whose signature appears below constitutes and appoints Scott D. Dorfman and John H. Nichols, III and either of them, as attorneys-in-fact, with power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact may do or cause to be done by virtue hereof.

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 in the capacities indicated on the 23rd day of March, 1999.

<TABLE> <CAPTION> Signature -----	Title -----
<S> /s/Scott D. Dorfman ----- Scott Dorfman	<C> President, Chief Executive Officer and Chairman of the Board (principal executive officer)
/s/David L. Ellin ----- David L. Ellin	Senior Vice President, Chief Operating Officer and Director
/s/Larry C. Hanger ----- Larry C. Hanger	Vice President--Business Development and Director
/s/John H. Nichols, III ----- John H. Nichols, III	Vice President, Chief Financial Officer and Secretary (principal financial and accounting officer)
/s/Bruce V. Benator ----- Bruce V. Benator	Director
/s/Martin J. Blank ----- Martin J. Blank	Director
/s/Campbell B. Lanier, III ----- Campbell B. Lanier, III	Director
/s/William H. Scott, III ----- William H. Scott, III	Director

</TABLE>

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION OF EXHIBITS -----
10.4	Purchase Agreement for Services between BellSouth Telecommunications, Inc. and the Company, effective November 1, 1998*

- 10.14 Amended and Restated Loan and Security Agreement between the Company and SouthTrust Bank, N.A., dated January 25, 1999
- 10.15 1999 Senior Executive Incentive Compensation Plan+
- 10.16 Aircraft Lease by and between SD Holdings, Inc. and the Company, dated February 19, 1998
- 13.1 Portions of the 1998 Annual Report to Shareholders that are incorporated by reference in this Report
- 23.1 Consent of Arthur Andersen LLP
- 27.1 Financial Data Schedule (for Commission use only)
- 99.1 Proxy Statement for the 1999 Annual Meeting of Shareholders

+ - Management contract or compensatory plan or arrangement required to be filed as an exhibit.

\* - Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934. In accordance with Rule 24b-2, these confidential portions have been omitted from this exhibit and filed separately with the Commission.

CONFIDENTIAL TREATMENT

Portions of this Exhibit (Exhibit 10.4) have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission (the "Commission"). The omitted portions, which are designated by asterisks (\* \* \*), were filed separately with the Commission.

Agreement No. R-11268M  
Effective Date: November 01, 1998

Agreement No. R11268M  
between  
BELLSOUTH TELECOMMUNICATIONS, INC.  
and  
INNOTRAC CORPORATION

BELLSOUTH TELECOMMUNICATIONS, INC., a(n) Georgia corporation ("Company"), and INNOTRAC CORPORATION, a(n) GA corporation ("Supplier"), enter into this Agreement No. R-11268M ("Agreement") effective November 01, 1998.

The parties hereby agree that all the terms and conditions attached hereto are fully incorporated herein by this reference.

IN WITNESS WHEREOF, the parties have, manually or by electronic signature, executed this Agreement by their duly authorized representatives in one or more counterparts, each of which shall constitute an original, on the effective date specified above.

INNOTRAC CORPORATION

BELLSOUTH  
TELECOMMUNICATIONS, INC.

By: /s/S Dorfman

By: \* \* \*

-----

-----

(Authorized Signature)

(Authorized Signature)

Name: Scott Dorfman

Name: \* \* \*

-----

-----

(Print or Type)

(Print or Type)

Title: President

Title: \* \* \*

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Purchase Agreement For Services  
BellSouth Telecommunications, Inc.

This Purchase Agreement for Services (hereafter "Agreement") is made by and between BellSouth Telecommunications, Inc., a Georgia corporation, (hereafter "Company") located at 675 W. Peachtree Street NE, Atlanta, GA 30375, and Innotrac Corporation, a Georgia corporation, (hereafter "Supplier") located at 6655 Sugarloaf Parkway, Duluth, GA 30097, and shall supersede and replace the "Equipment Negotiation and Referral" agreement dated May 1, 1995.

1. TERM OF AGREEMENT

The initial term of this Agreement shall commence and be effective on October 1, 1998. It shall continue in effect thereafter through September 30, 2003, inclusive, except as otherwise provided herein. This Agreement shall continue in effect as specified herein unless: Company terminates, with or without cause, at any time upon at least One hundred and twenty (120) days prior written notice to Supplier, as provided herein; or either party cancels pursuant to the terms hereof, upon the other's breach.

2. SCOPE OF AGREEMENT

This Agreement contemplates Supplier's procurement, sale or rental, and the fulfillment of sales or rentals of telecommunications related customer premises equipment (CPE) and other Services, as defined herein or in subsequent Letter Purchase Orders (LPO's), as ordered by Company and Company's customers. All transactions between Company and Supplier during the term of this Agreement shall be covered by this Agreement and any applicable Letter Purchase Order, as defined herein, unless the parties agree otherwise in writing.

3. TERMS AND CONDITIONS

The terms and conditions applicable to this Agreement shall be those stated within this Agreement and shall include those terms and conditions contained in Appendices A, B, C, D, and E.

4. SERVICES AND PRICE

"Services" as used herein shall mean the Sales and Fulfillment Services listed in Appendix B, which may be ordered hereunder. Prices for Services and/or equipment ordered, including any applicable discount schedules, shall be as shown in Appendix C and/or in subsequent LPO's.

5. MATERIAL

"Material" as used herein shall mean telecommunications related customer premise equipment (CPE).

## 6. TERMS OF PAYMENT

Terms of Payment shall be as described in Appendix C.

Company may withhold payment for non-conforming and/or non-complying Services or Material.

## 7. NOTICES

Except as otherwise provided herein, any notices or demands that are required by law or under the terms of this Agreement shall be given or made by Supplier or Company in writing and shall be given by hand delivery, facsimile, telegram or similar communication, or by certified or registered mail, and addressed to the respective parties set forth in Appendix A, Paragraph 27 NOTICES. In the case of facsimile, telegram or similar communication, the receiving party shall consider such notices given when sent, and in the case of certified or registered mail, when deposited in the United States mail with postage prepaid.

## 8. INCORPORATION BY REFERENCE

The terms and conditions contained in Appendices A through E, referred to in this Agreement and attached hereto, are integral parts of this Agreement and are fully incorporated herein by this reference.

### TERMS AND CONDITIONS APPENDIX A

## 1. AFFILIATED COMPANIES

BellSouth Corporation or any company which BellSouth Corporation owns, directly or indirectly, in whole or in part, shall constitute an affiliated company ("Affiliated Company(ies)"). Any Affiliated Company may place Orders under this Agreement. All references to "Company" in this Agreement apply to the Affiliated Company placing an Order. The terms and conditions of this Agreement apply to such Orders. The Affiliated Company placing the Order becomes "Company" for any Order it places. Each Order constitutes a separate, distinct and independent contract between Supplier and the Company placing the Order. Each Company bears sole responsibility and liability for meeting the obligations of any Order such Company may place.

## 2. ASSIGNMENT BY COMPANY

Company may assign this Agreement and its rights and may delegate its duties under this Agreement either in whole or in part, at any time and without Supplier's consent, to any present or future Affiliated Company or successor company of Company; provided, however, Company must assure that its assignee has the ability to perform Company's responsibilities under this Agreement. Company shall give Supplier written notice of such assignment or delegation. The assignment shall not affect nor diminish any rights or duties that Supplier or Company may then or thereafter have as to

Services, material, or software ordered by Company before the effective date of the assignment. Written notice to the Supplier releases and discharges Company, to the extent of the assignment, from all further duties under this Agreement, except with respect to Services, material, or software that Company ordered before the effective date of the assignment.

### 3. ASSIGNMENT BY SUPPLIER

Supplier must have Company's written consent before Supplier assigns or otherwise delegates any work it is to perform under this Agreement, in whole or in part, or assigns any of its rights, interests or obligations hereunder. Supplier shall deliver to Company written notice of Supplier's intent to assign, at least thirty (30) days before assignment. Company shall consider void any assignment to which it has not consented, except where Supplier assigns its rights to receive monies pursuant to this Agreement. In such case, Supplier only needs to notify Company in writing. However, Supplier cannot assign monies due if Supplier tries to transfer to the assignee any of Supplier's other rights or obligations hereunder. Supplier shall not make an assignment that prevents Company from dealing solely and directly with

Supplier on all matters pertaining to this Agreement. Such matters include amending this Agreement and/or settling amounts due either party by the other hereunder.

### 4. BANKRUPTCY

In addition to all other rights or remedies provided for in this Agreement or by law, Company may immediately cancel this Agreement if:

- a) Supplier becomes insolvent or makes a general assignment for the benefit of creditors;
- b) Supplier admits in writing the inability to pay debts as they mature;
- c) Any court appoints a trustee or receiver with respect to Supplier or any substantial part of Supplier's assets; or
- d) An action is taken by or against Supplier under any bankruptcy or insolvency laws or laws relating to the relief of debtors, including the Federal Bankruptcy Act.

### 5. COMPANY'S INFORMATION

#### Scope of Company's Information

Supplier acknowledges that Supplier may acquire information and material that is the Company's confidential, proprietary or trade secret information. As used herein, "Company's Information" includes, but is not limited to, all information and documents disclosed by the Company, whether

written or oral, in the course of this Agreement or in contemplation hereof including, without limitation, all Specifications, drawings, sketches, schematics, models, samples, tools, algorithms, technical or business information, research and development, production and engineering processes, costs, profit and margin information, Company lists, marketing, production and future business plans.

#### Use of Company's Information

Supplier agrees to take all steps reasonably necessary to hold in trust and confidence the Company's Information. Supplier hereby agrees to hold Company's Information in strict confidence, not to disclose it to third parties or to use it, in any way, commercially or otherwise, other than as permitted under this Agreement. Supplier will limit the disclosure of the Company's Information to employees with a need to know who: (i) have been advised of the proprietary nature thereof; and (ii) have acknowledged the express obligation to maintain such confidentiality. Supplier's obligations set forth herein shall remain in effect for two (2) years from the receipt of Company's Information considered or deemed to be confidential information, but such obligation of confidentiality will not expire for Company's Information considered or deemed to be a trade secret under applicable law.

#### Exceptions

Notwithstanding the other provisions of this Agreement, nothing received by Supplier from Company will be considered to be Company's Information if: (i) it has been

published or is otherwise available to the public other than by a breach of this Agreement; (ii) it has been rightfully and lawfully received by Supplier from a third party without confidential limitations; (iii) it has been independently developed by Supplier by personnel having no access to Company's Information; (iv) it was known by Supplier prior to its first receipt from Company; (v) it is hereafter disclosed by Company without restriction on further disclosure; or (vi) it is disclosed pursuant to a court order, subpoena or by operation of law, provided Supplier has given Company prior advance written notice in order that Company may attempt to obtain a protective order limiting disclosure and use of the information disclosed.

Supplier hereby agrees that every individual person including but not limited to employees, sub-contractors, agents, representatives and other third parties who perform under this Agreement shall execute the appropriate documents to undertake obligations of confidentiality consistent with the terms set forth herein. Supplier hereby agrees to provide evidence of such duly executed documents to Company upon request.

#### 6. CHOICE OF LAW/VENUE

The laws of the State of Georgia shall govern the validity, construction, interpretation, and performance of this Agreement. The jurisdictional venue for any legal proceedings involving this Agreement shall be held in any applicable local, state or federal court located within the State of Georgia.

#### 7. COMPLIANCE WITH LAWS

Supplier shall comply with all applicable federal, state, county and local laws, orders, rules, ordinances, regulations and codes, applicable to Suppliers provision of Services hereunder, including, but not limited to, Supplier's obligations as an employer regarding the health, safety and payment of its employees. Supplier's compliance shall also include identifying and procuring the required permits, certificates, approvals, and inspections in Supplier's performance under this Agreement.

Notwithstanding whether a specification is furnished under this Agreement, Supplier shall comply with all FCC rules pertaining to Customer Proprietary Network Information ("CPNI") as well as all applicable laws regarding the construction, packaging, labeling, and registration of Services, material, software or containers. Supplier shall indemnify, defend and hold Company harmless against any claim, loss, liability, cost or damage sustained because of Supplier's noncompliance. Notwithstanding any of the foregoing, Supplier shall not be required to obtain registrations, permits, approvals, inspections or otherwise comply with laws, orders, rules, ordinances, regulations and/or codes applicable to processes handled by persons or entities other than Supplier.

#### 8. CONFLICT OF INTEREST

Supplier acknowledges it has received Company's "Position Statement," as contained in the attached applicable appendix. Supplier further stipulates that it has not employed, retained, induced, or directed any of Company's officers or employees to solicit or secure this Agreement by means of an agreement, offer, understanding, or implication involving any form of remuneration. Supplier agrees that if Company alleges that a violation exists hereof, Supplier will cooperate in every reasonable manner with Company in establishing whether the allegation is true. If such a violation has occurred and Company considers it material, Company may cancel this Agreement.

#### 9. DEFAULT

If Supplier breaches or defaults on any of the terms, conditions, or covenants of this Agreement or any Order(s), Company shall give Supplier written notice of such breach or default ("Breach Notice"). If, by the 10th working day following receipt of a Breach Notice, Supplier does not demonstrate, to Company's reasonable satisfaction, that Supplier has implemented efforts to cure such breach or default, then in addition to all other rights and remedies of law or equity or otherwise, Company may cancel this Agreement or any such Order(s) without any charge, obligation, or

liability whatsoever, except for payment of Services, material and/or software already ordered and being processed; provided, however, if Supplier has implemented efforts to cure such breach or default within the said 10 working days and such breach or default cannot be completely cured within said period, then the cure period may be extended, at the Company's discretion, day-to-day for a period of up to thirty (30) additional calendar days.

## 10. ENVIRONMENTAL COMPLIANCE

Supplier hereby warrants and certifies that Supplier's performance under this Agreement, the Services rendered and/or material supplied by Supplier, its agents, or Sub-contractors hereunder shall conform and comply with all applicable laws regarding the packaging, handling, use, storage, processing, transportation, treatment and/or disposal of material or other items which are, or contain, hazardous or toxic wastes, substances or materials (collectively called "Hazardous Material"). Supplier shall advise Company how to use and dispose of Hazardous Material bought under this Agreement.

Supplier shall obtain all required licenses, permits, and authorizations from all applicable government agencies that have, or may assert, jurisdiction over any aspects of Supplier's performance hereunder, including the performance of its employees, agents, or sub-contractors. Supplier shall notify Company at least thirty (30) days before shipping Hazardous Material. Supplier shall mark each self-contained unit and

carrier identifying the existence of a Hazardous Material or substance and its name. Notwithstanding the section entitled "TERMINATION FOR

-----  
CONVENIENCE", if applicable, Company may terminate an Order for Hazardous

-----  
Material within thirty (30) days after such notification from Supplier without any liability to Company whatsoever.

Supplier must include a Material Safety Data Sheet ("MSDS"), Occupational Safety and Health Act ("OSHA") Form 174 as revised, with all shipments that contain Hazardous Material as specified in Department of Transportation Title 49 and OSHA Standards.

Supplier shall indemnify, defend and hold Company harmless from any violation or breach of the terms of this section. Such indemnity obligation shall survive the termination of this Agreement.

The provisions of this section shall apply only to the extent that manufacturing, packaging, handling, use, storage, processing, transportation, treatment, disposal and/or other such activities are processes generated or handled by Supplier. Nothing in this section shall require Supplier to conform or comply with laws, or to obtain licenses,

permits or other approvals, with respect to manufacturing, packaging, handling, use, storage processing, transportation, treatment, disposal and/or other such processes and activities not generated or handled by Supplier.

#### 11. FACILITY RULES AND GOVERNMENT CLEARANCE

Both parties' employees and representatives shall comply with all internal rules and regulations while on each other's premises. If required by Government regulations, such compliance shall include submission of a satisfactory clearance from the U. S. Department of Defense and other concerned federal authorities.

#### 12. FORCE MAJEURE

Neither party shall be responsible for any delay or failure in performing any part of this Agreement when it is caused by fire, flood, explosion, war, strike, embargo, government requirement, civil or military authority, act of God, act or omission of carriers or other similar causes beyond its control (collectively called "Condition"). If any such Condition occurs, the party delayed or unable to perform shall give immediate notice to the other party. The party affected by the other's delay or inability to perform may elect to:

- a) Terminate this Agreement or part thereof as to Services, material and/or software not already received; or
- b) Suspend this Agreement for the duration of the Condition, buy or sell elsewhere Services, material and/or software comparable to those to be obtained under this

Agreement, and deduct from any Supplier commitment the quantity bought or committed to with other suppliers; or

- c) Resume performance of this Agreement once the Condition ceases, with an option in the affected party to extend the period of this Agreement up to the length of time the Condition endured; or
- d) If the affected party does not notify the other in writing within thirty (30) days after the affected party receives notice of the Condition from the party unable to perform, then Option 2. shall apply.

#### 13. INDEMNITY

Supplier agrees to indemnify and hold Company harmless from any and all liabilities, causes of action, lawsuits, penalties, claims or demands (including the costs, expenses and reasonable attorneys' fees on account thereof) that may be made by:

- a) Anyone for injuries of any kind, including but not limited to personal

injury, death, property damage and theft, resulting from Supplier's negligent or willful acts or omissions or those of persons furnished by Supplier, its agents or sub-contractors or resulting from the use of Supplier's Services, material, or software furnished hereunder or resulting from Supplier's failure to perform its obligations hereunder;

- b) Any of either Supplier's, its agent's or sub-contractor's employees or former employees for which the Supplier's, its agents' or sub-contractors' liability to such employee or former employee would otherwise be subject to payments under the state Worker's Compensation laws or an Employer's Liability policy, premises liability principles or any other law or form of legal duty or obligation; and
- c) Either Supplier's, its agent's or sub-contractor's employees or former employees, including applicants at Company's job site, for any and all claims arising out of the employment relationship with respect to performing under this Agreement. This includes, but is not limited to, employment discrimination charges and actions arising under Title VII of The Civil Rights Act of 1964, as amended; The Equal Pay Act; The Age Discrimination in Employment Act, as amended; The Rehabilitation Act; The Americans with Disabilities Act; The Fair Labor Standards Act; The National Labor Relations Act; and any other applicable law.

Supplier, at its own expense, shall defend Company, at Company's request, against any such liability, cause of action, penalty, claim, demand, administrative proceeding or lawsuit, including any in which Company is named as an "employer" or "joint employer" with Supplier. Company shall notify Supplier promptly of any written claims or demands against Company for which Supplier is responsible hereunder.

The foregoing indemnity shall be in addition to any other indemnity obligations of Supplier set forth in this Agreement.

#### 14. INDEPENDENT CONTRACTOR

Supplier shall perform all work in connection with the Services, material or software described in the Agreement as an independent contractor and not as the agent or employee of Company. All persons furnished by Supplier shall be for all purposes solely the Supplier's employees or agents and shall not be deemed to be employees of Company for any purpose whatsoever. Supplier shall furnish, employ, and have exclusive control of all persons to be engaged in performing Services under this Agreement and shall prescribe and control the means and methods of performing such Services by providing adequate and proper supervision. Supplier shall be solely responsible for compliance with all rules, laws, and regulations relating to employment of labor, hours of labor, working conditions, payment of wages, and payment of taxes, such as employment, social security, and other payroll taxes, including applicable contributions from such person when required by law. Supplier shall not subcontract work to be performed without Company's prior written permission.

## 15. INSPECTION

At its option, Company may inspect Services. If Company so chooses, then Company, Company's authorized agents and/or representatives shall inspect the Services (including material and software) according to Company's quality assurance specifications. This reference hereby incorporates those specifications into this Agreement. Company's inspection or failure to inspect on any occasion shall not affect Company's rights or Supplier's obligations under warranty or other provisions of this Agreement. Company's inspection shall not constitute acceptance of Services.

Company or Company's authorized agents or representatives may perform on-site audits of Supplier's or Supplier's authorized agents' or representatives' quality systems. These audits will follow the appropriate Bellcore Technical Reference TR-NWT-001252, "Quality System Generic Requirements For Hardware" or TR-TSY-000179, "Software Quality Program Generic Requirements." Company, at its option, may determine, arrange and conduct other ways to ensure quality compliance.

## 16. INSURANCE

During the term of this Agreement, Supplier shall maintain all insurance and/or bonds required by law or this Agreement, including but not limited to the following:

- a) Adequate Worker's Compensation and related insurance required by Company and prescribed by the law of any state in which the work is to be performed;
- b) Employer's liability insurance with limits of at least \$1,000,000 for each occurrence; and
- c) Commercial general liability insurance, including contractual liability, products liability and completed operations coverage, and if applicable, comprehensive

motor vehicle liability insurance. Each shall have limits of at least \$1,000,000 for bodily injury, including death, to any one person, \$1,000,000 as a result of any one occurrence, and \$1,000,000 for each occurrence of property damage.

Supplier shall also require its agents or sub-contractors, if any, who may enter upon Company's premises to maintain the same insurance coverage required herein. All required insurance policies shall contain a provision stating Company's name and address and shall require insurer to notify Company in writing at least thirty (30) days prior to cancellation of, or any material change in, the policy. All commercial general liability policies required herein shall name the Company as an additional insured with respect to work performed under this Agreement. Before starting work

and upon renewing each coverage required herein, Supplier shall furnish Company with all certificates and/or adequate proof of the foregoing insurance.

In addition, Supplier shall maintain all policies required herein with insurers acceptable to the Company. Company may disallow coverage from any insurer that does not maintain a rating from A.M. Best Company of B+ X or higher.

## 17. LETTER PURCHASE ORDERS

This Agreement contemplates the future execution by Company and Supplier of one or more written Letter Purchase Order(s) ("LPO[s]"). Both parties shall execute each LPO. This Agreement and any applicable LPO(s) shall cover all transactions between Company and Supplier during the term of this Agreement unless the parties agree otherwise in writing.

Upon its execution, the parties shall deem each properly executed LPO to be incorporated into this Agreement. If the LPO conflicts with the terms and conditions of this Agreement, the terms and conditions of this Agreement shall control unless the parties otherwise agree via a "Special Considerations" section of the LPO.

Supplier will furnish consultant, professional or other Services to Company as specified in LPOs. Each LPO, at a minimum, shall specify the information outlined below:

- a) A reference to this Agreement and a unique identifying number assigned by Company's Contact;
- b) A detailed description of the Services Supplier shall perform;
- c) A statement defining all deliverables and their associated due dates;
- d) Company and Supplier's contact names, addresses and telephone numbers;
- e) A list of expenses authorized for reimbursement by Company, and an explanation for each item;
- f) The maximum total expenditure authorized, meaning either (a) the total dollar amount authorized under the LPO, or (b) the total time limit for completing the project under the LPO;
- g) A statement defining the beginning and ending dates for the work to be performed;
- h) Invoicing instructions;
- i) Signatures of representatives authorized by Company and Supplier to execute the LPO; and

j) Special Considerations, if appropriate.

Company, without prejudice to any right or remedy on account of any failure of Supplier to perform its obligations under this Agreement, may at any time terminate the performance of the work under any LPO, in whole or in part, by written notice to Supplier specifying the extent to which the performance of the work is terminated and the date upon which such termination becomes effective. If Company terminates an LPO for other than the Supplier's failure to perform its obligations under the LPO, Company shall then pay Supplier for Services rendered prior to the effective date of termination and for expenses properly reimbursable under the LPO, provided, however, that the payment of any such amounts shall be subject to any provision for the limit of expenditures set forth in the LPO. Company's payment of such amounts shall be in full settlement of any and all claims of Supplier of every description, including profit.

If Company terminates an LPO issued hereunder, affected Company property and work in Supplier's possession shall be forwarded promptly to Company.

#### 18. LICENSES

Except as otherwise provided in this Agreement, Company grants no licenses to Supplier under any patents, copyrights, trademarks, trade secrets or any other intellectual property, expressed or implied.

#### 19. NONDISCRIMINATION COMPLIANCE

Supplier agrees to comply with the applicable provisions of the "NONDISCRIMINATION COMPLIANCE AGREEMENT" set forth in the attached Appendix D.

#### 20. NON-EXCLUSIVE RIGHTS

This Agreement does not grant Supplier an exclusive privilege to sell to Company any or all Services or Material that Company may require, specifically including fulfillment services. Company, at its option, may purchase comparable products and services from other manufacturers or suppliers. In addition, Company, at its sole discretion, shall determine the extent of Company's efforts to market, advertise, promote, or support the Services or Material.

#### 21. NON-WAIVER

No waiver or failure to exercise any option, right or privilege under the terms of this Agreement on any occasion or occasions shall be construed to be a waiver of the same or any other option, right, or privilege on any other occasion.

#### 22. PATENT AND OTHER PROPRIETARY RIGHTS INFRINGEMENT

Supplier shall indemnify, defend and hold Company harmless, at Supplier's expense, against any claim, suit or proceeding brought against Company resulting from, relating to or arising out of a claim that any use of the Services, material and/or software constitutes an infringement of a patent, copyright, trademark, trade secret or other proprietary right of a third party. Supplier will also pay any costs including, without limitation, reasonable attorneys' fees, expenses or damages awarded to third parties or incurred by Company. Supplier may settle, at Supplier's sole expense, any claim, suit or other action against Company for which Supplier is responsible under this section provided that such settlement shall not limit, unduly interfere or otherwise adversely affect the rights granted to Company or Supplier's obligations under this Agreement. Company shall notify Supplier of any claim of infringement for which Supplier is responsible and shall provide Supplier with reasonable assistance in the defense of any such claim. Company reserves the right to employ counsel at its own expense and participate in the defense of any claim.

Upon notice of an alleged infringement or if in Supplier's opinion such a claim is likely, or if Company's rights hereunder are restricted by a valid court order, then Supplier shall at its option and sole expense: (i) procure the right to continue using the alleged infringing material; (ii) replace the material with non-infringing material which is equivalent in features, functionality and quality; or (iii) modify the material to make it non-infringing while retaining all features, functionality and quality.

## 23. PUBLICITY

Supplier agrees to submit to Company all advertisements, sales promotions, press releases, and other publicity matters relating to this Agreement or mentioning or implying the trade names, logos, trademarks or service marks (collectively called "Marks") of BellSouth Corporation and/or any of its Affiliated Companies or language from which the connection of said Marks therewith may be inferred or implied, or mentioning or implying the names of any personnel of BellSouth Corporation and/or any of its Affiliated Companies. Supplier further agrees not to publish or use such advertisements, sales promotions, press releases, or publicity matters without Company's prior written consent. Notwithstanding the foregoing, Company hereby consents to Supplier's appropriate use of the Marks in connection with legally required reporting disclosures.

## 24. RECORDS AND AUDITS

Supplier shall maintain complete and accurate records of all amounts billable to and payments Company makes under this Agreement following generally accepted commercial accounting practices. Whenever applicable, Supplier shall also maintain records, including but not limited to, the following:

- a) Costs Company pays for Services, material and/or software provided

hereunder;

- b) Direct labor employee hours for which Supplier computes payment under this Agreement on the basis of actual hours worked at a fixed rate per hour;
- c) Costs incurred which may affect re-determination or revision of prices or ultimate termination costs;
- d) Costs incurred which may affect the termination charges Company is expected to pay;
- e) Costs Supplier incurs for any required tooling which may affect re-determination of price; and
- f) Records concerning any physical inventories.

Supplier shall keep such records for at least three (3) years after Company's final payment for Services, material and/or software covered by this Agreement. Supplier shall provide to Company reasonable supporting documentation concerning any disputed invoice amount within thirty (30) days after Company notifies Supplier of the dispute in writing.

Company and its authorized agents and representatives may audit such records during the respective periods in which Supplier is required to maintain such records. Company may access such records on Supplier's premises, inspect and photocopy same, and retain copies of such records away from Supplier's premises with appropriate safeguards as Company in its sole discretion may deem necessary. Company shall also have such above-described auditing rights with respect to Supplier's agents, Suppliers, or sub-contractors.

Supplier shall keep and make such records readily available for such audit to determine the correctness of Supplier's billing. All payments, if any, Company makes shall be subject to final adjustments as determined by such audit(s). Audit(s) to determine costs and the payment of such costs shall occur no later than three (3) years after Company presents such claim. Supplier shall adjust its billing according to the audit results.

## 25. RELEASES VOID

Neither party shall require waivers or releases of any personal rights from representatives of the other when visiting Supplier's and Company's respective premises. Neither party shall require any representative of the other party to sign a

personal nondisclosure agreement. Supplier, Company, or any third party shall not plead any such releases or waivers in any action or proceeding.

## 26. REPRESENTATIVES

All Services that Supplier performs and material and/or software that Supplier furnishes under this Agreement are subject to contract administration activities by Company's Representative(s). Such activities include, but are not limited to, monitoring supplier performance, Agreement interpretation and amendment, maintenance of Agreement information in Company's database, inspecting and accepting work performed, verifying work completion, and validating charges rendered on Supplier's invoices. In addition to or instead of Company's Representative, contract administration activities may be performed by the individual(s) designated as Company's Delegate, or others as may be delegated by Company in writing.

Company's Representative shall be the Director - Consumer Services.  
Company's Delegate shall be the Manager - Consumer Services.

## 27. NOTICES

All notices from either party to the other shall be delivered either personally or by first-class, pre-paid U.S. mail or overnight mail. Notice to either party shall be sent to the respective address as set forth in the Agreement, unless written notice of a change of address shall have been previously given by either party. In addition, a copy of any changes in address for notices and any notices of termination or any claimed default by BellSouth shall be contemporaneously given to counsel for BellSouth at the following address:

BellSouth Telecommunications, Inc.  
4300 BellSouth Center  
675 W. Peachtree St., N. E.  
Atlanta, GA 30375  
Attn: \* \* \*

BellSouth Telecommunications, Inc.  
32A - BellSouth Center  
675 W. Peachtree Street NE  
Atlanta, GA 30375  
Attn. \* \* \*

Innotrac Corporation  
6655 Sugarloaf Parkway  
Duluth, GA 30097  
Attn. Mr. Scott Dorfman - President

## 28. SECTION HEADINGS

The section headings used in this Agreement are for convenience only and do not affect the meaning or interpretation of this Agreement.

## 29. SUPPLIER'S INFORMATION

## Scope of Supplier's Information

Company acknowledges that Supplier may need to provide Company with certain information and material that is the Supplier's confidential, proprietary or trade secret information. As used herein, "Supplier's Information" may include information and documents disclosed by the Supplier in the course of this Agreement such as by way of example, drawings, sketches, schematics, models, samples, tools, algorithms, technical or business information. Supplier shall provide a detailed description of Supplier's Information in the applicable LPO. All Supplier's Information shall be in writing or other tangible form and clearly marked with a confidential, private or proprietary legend. Supplier's Information conveyed orally shall be designated as proprietary at the time of disclosure and shall be reduced to writing within ten (10) business days.

## Use of Supplier's Information

Company agrees to take all steps reasonably necessary to hold in trust and confidence Supplier's Information. Company hereby agrees to hold such Supplier's Information in strict confidence, not to disclose it to third parties or to use it, in any way, commercially or otherwise, other than as permitted under this Agreement. Company will limit the disclosure of Supplier's Information to employees, consultants, agents, contractors, Affiliated Companies and representatives with a need to know who will not be considered as "third parties" and who: (i) have been advised of the proprietary nature thereof; and (ii) have acknowledged the express obligation to maintain such confidentiality. Company's obligations set forth herein shall remain in effect for two (2) years from the receipt of Supplier's Information considered or deemed to be confidential information, but such obligation of confidentiality will not expire for Supplier's Information considered or deemed to be a trade secret under applicable law.

## Exceptions

Notwithstanding the other provisions of this Agreement, nothing received by Company from Supplier will be considered to be Supplier's Information if: (i) it has been published or is otherwise available to the public other than by a breach of this Agreement; (ii) it has been rightfully and lawfully received by Company from a third party without confidential limitations; (iii) it has been independently developed by Company by personnel having no access to such Supplier's Information; (iv) it was known by Company prior to its first receipt from Supplier; (v) it is hereafter disclosed by Supplier without restriction on further disclosure; or (vi) it is disclosed to any

governmental agency or court of competent jurisdiction by written order, subpoena or decree, or by operation of law, provided Company has given prior notice to Supplier in order that Supplier may attempt to obtain a protective order limiting disclosure and use of the information disclosed.

### 30. SUPPLIER OVERDEPENDENCE

Company has no way to know Supplier's dependence on revenues from sales to Company in proportion to Supplier's revenues from other customers. To protect Company from a situation in which Supplier is too dependent upon Company for said sales, Supplier hereby agrees to release and hold Company harmless from any and all claims and liabilities relating to Supplier's financial stability, which may result from Company's termination of this Agreement for any reason whatsoever.

### 31. SEVERABILITY

If any provision(s) of this Agreement are invalid or unenforceable under the laws applicable to the entire Agreement, such invalidity or unenforceability shall not invalidate or render unenforceable the entire Agreement. Instead, the entire Agreement shall be construed as if not containing the particular invalid or unenforceable provision(s), and the rights and obligations of Supplier and Company shall be construed and enforced accordingly.

### 32. SPECIFICATIONS

"Specifications" shall mean Supplier's technical data as well as technical data Company furnishes to Supplier concerning the Services, material and/or software including without limitation, drawings, sketches, models, manufacturing level schematics, computer or other apparatus programs, and descriptions of Services, material and/or software. If applicable, an attached appendix identifies the Specifications contained in this Agreement. Upon request, Supplier will provide Company a copy of all such Specifications at no charge.

### 33. SURVIVAL OF OBLIGATIONS

Company's and Supplier's respective obligations hereunder which by their nature would continue beyond the termination, cancellation or expiration of this Agreement or any Order, shall survive. This includes, by way of example but not limited to, the obligations provided in the sections "COMPANY'S INFORMATION"; "DAMAGES"; "INDEMNITY"; "PATENT AND OTHER PROPRIETARY RIGHTS INFRINGEMENT"; "PUBLICITY"; and "WARRANTY FOR SERVICES", if applicable, shall survive such termination, cancellation or expiration.

### 34. TAX

Supplier shall add to the invoice an amount equal to any applicable taxes, local, state or federal, however designated, that may be validly levied or based upon this Agreement or upon the Material and/or Services furnished hereunder. Taxes excluded and not applicable include:

1. Ad valorem personal property taxes;

2. State and local privilege and excise taxes based on gross revenue;
3. Taxes based on or measured by Supplier's net income; and
4. Any taxes or amounts in lieu thereof paid or payable by Supplier in respect of the foregoing excluded items.

Supplier shall bill applicable taxes as separate items on Supplier's invoices and shall not include them in the purchase price. Company may have Supplier contest with the imposing jurisdiction, at Company's expense, any such taxes that Company deems are improperly levied.

Supplier must collect all appropriate state and local sales and use taxes from Company on all sales of taxable tangible personal property and taxable services. The taxing situs for tangible personal property is the shipped-to address. Therefore, suppliers that do not have "nexus", the legal requirement to collect tax in a given state or local taxing jurisdiction, must, as a result of this Agreement, voluntarily register with all appropriate state and local taxing jurisdictions and collect and remit all applicable taxes.

Company shall not pay or otherwise be liable or responsible for any penalty, additional tax, costs or interest assessed or levied by any taxing authority resulting from Supplier's failure to file any return, form, or information statement such taxing authority requires. Supplier hereby indemnifies, defends and holds Company harmless against any such requirements.

### 35. TERMINATION FOR CONVENIENCE

After March 15, 2000, Company may, at any time for its own convenience and without cause, terminate this Agreement or any Order hereunder in whole or in part by giving Supplier at least One hundred and twenty (120) days prior written notice. Unless otherwise specified herein, Company's sole and exclusive liability to Supplier with respect to such termination shall be limited to:

1. Supplier's actual cost for all components ordered and accepted by Company that Supplier cannot use in Supplier's other operations or sell to Supplier's other customers;
2. Supplier's actual costs in procuring material ordered and accepted by Company that Supplier cannot use in Supplier's other operations or cannot sell to Supplier's other customers;
3. Supplier's actual costs and expenses incurred prior to the termination date, to the extent that Company would be liable for such costs and expenses had Company not terminated the Agreement or Order.

In no event, shall the sum of the above costs exceed the full price of the

Services and Material on hand should Company terminate hereunder. At Company's request, Supplier shall substantiate such costs with proof satisfactory to Company.

### 36. WARRANTY FOR SERVICES

Supplier warrants to Company that Supplier shall perform Services under this Agreement in a good and fully workmanlike manner to Company's satisfaction and according to the Specifications set forth herein. This warranty shall survive inspection, test, acceptance, use and payment.

#### APPENDIX B DESCRIPTION OF SERVICES

##### COMPANY AGREES:

1. To negotiate the installment sale or rental of the appropriate complementary equipment, when communicating with existing or prospective Network Services subscribers and refer sales to Supplier for fulfillment of the subscriber's order. Where such direct negotiation is not feasible, Company's representatives may offer the subscriber referral to Supplier for the sale or rental of the appropriate equipment. If the subscribers indicate an interest in such referral, the Company's representative may on-line transfer the subscriber or refer the subscriber or prospective subscriber to a telephone number designated by Supplier.
2. To sell or rent of an average of \* \* \* units of CPE per month and refer those sales and rentals to Supplier, for fulfillment in a timely manner. The commitment of \* \* \* units per month shall be computed on a six month rolling average. There shall be no penalty to Company for not meeting the \* \* \* amount, provided all such sales and/or rentals for the non-complying month were referred to Supplier. In any event the penalty assessed to Company for non-compliance shall not exceed the lesser of; 1) the difference between the actual number of units sold and the number of units referred to Supplier or; 2) the difference between the number of units referred to Supplier and \* \* \* units.
3. To provide Supplier with minimum training standards, in writing, detailing function and capability of each piece of equipment to be handled by Supplier, materials and other assistance as is necessary to assist Supplier to adequately train its telemarketing specialists.
4. To designate and approve manufacturers and distributors of equipment, without any liability for the performance of said manufacturer or distributor, to be sold by Supplier. Company will assist Supplier in obtaining the equipment at a price per unit comparing favorably to the price being offered to other purchasers of like equipment, taking into consideration volume discounts. Company shall use its best efforts to assist Supplier in its efforts to obtain, in a timely manner, adequate quantities of equipment to fulfill its obligations to Company under this Agreement.

5. To have the selected equipment tested by an independent laboratory to ensure that it works properly and is reasonably suited for its intended purpose.
6. To authorize Supplier to use the BellSouth Telecommunications name, the BellSouth brand, trademark and/or logo (Marks) associated with the equipment, solely in conjunction with the marketing, sale and/or rental of said equipment. Supplier shall comply with all graphic standards for the Marks which may be furnished from time to time, and shall place appropriate trademark notices on the Marks as instructed. Any

use of the Marks which is not authorized herein or by an authorized representative of Company is strictly prohibited. During the term of this Agreement, Supplier's employees will be permitted to answer calls from referred subscribers with the phrase "BellSouth Phones". Supplier may not use, publish or advertise in any manner an alphabetic or alpha-numeric equivalent of an in-bound toll free phone number, including but not limited to 1-800-XXX-XXXX.

7. To purchase from Supplier and assume ownership/title of the equipment upon receipt of said equipment by customer and to bill customers within the Company's service area via USOC billing procedures as outlined in Appendix C. Company also assumes risk of "bad debt" upon receipt of equipment by customers within its service area.
8. To compensate Supplier for equipment ordered and received by customers who are billed via the USOC procedures, as provided for in Appendix C.
9. To assist Supplier in developing forecasts of sales, rentals and incoming calls to Supplier's call centers.

SUPPLIER AGREES:

1. To accept toll-free telephone calls between the hours of 8:00 a.m. and 12:00 a.m. Eastern time, Monday through Friday and from 9:00 a.m. and 6:00 p.m. on Saturdays, except on Company recognized holidays, from subscribers and prospective subscribers who are on-line transferred, or referred by the Company's service representative, as provided herein. The foregoing hours may be modified by mutual agreement of the parties.
2. To train, to the reasonable satisfaction of Company, all of its Call Center and Customer Service telemarketing specialists who will be handling all forms of inquiries from Company's subscribers and prospective subscribers. These inquiries include, but are not limited to, referrals and sales, product function, installation, billing delivery and return. Training shall be of sufficient duration and detail to enable the telemarketing specialist to accurately and fully understand the function of all equipment; to assist Company's subscriber in troubleshooting; to assist with billing; to assist with product delivery inquiries; and to assist with product returns. All costs of such training will be borne by Supplier. A maximum of two of

Company's employees shall be allowed to observe any and all training to ensure accuracy and completeness of training.

3. To make all reasonable efforts to ensure that all subscriber calls transferred or referred to Supplier, as well as all subsequent customer service calls associated with Company's subscribers are handled in a prompt, helpful and courteous manner. Company may, at its own discretion and without advance notice, place test calls, visit Supplier's premises, observe the handling of calls from subscribers, assess the courtesy, knowledge and promptness of Supplier's telemarketing specialists and discuss the results of such

activities with Supplier's management. Supplier agrees to remove from the work group that handles Company's subscriber calls any telemarketing specialist who does not perform to a level of courtesy, promptness and knowledge reasonably satisfactory to Company. Supplier shall place signs in conspicuous places in the workplace notifying its employees that calls taken by telemarketing specialists are subject to periodic monitoring for quality control purposes.

4. To use its best efforts to maintain a monthly average of answering \* \* \*% of customer calls in \* \* \* seconds or less and to maintain an abandon rate of \* \* \*% or less. Failure to maintain the preceding answer and abandon rate for a period of three consecutive months shall constitute a breach of this Agreement; provided, however, Supplier's inability to meet the monthly average due to unexpected causes beyond Supplier's control, shall not give rise to a claim of breach by Company.
5. To keep in service, solely at its own expense, sufficient telecommunication facilities dedicated to answering customer calls, including but not limited to toll-free lines and telephone sets, to ensure adequate access to Suppliers Sales and Call Centers as described herein. If, at any time, the incoming subscriber calls become too numerous to be handled, (on a recurring basis) by the available facilities and/or telemarketing specialists allocated by Supplier, Supplier agrees to increase the number of facilities or telemarketing specialists to handle the increased volume of calls. When all telecommunications facilities and/or telemarketing specialists become busy and incoming calls encounter a busy or hold condition, Supplier shall be permitted to make commitments to call subscribers back within four (4) working hours of the time the subscriber's call was originally received by Supplier.
6. To purchase and own the inventory of equipment that it sells and/or rents to subscribers and will maintain any inventory adequate to fill orders, placed by subscribers, within the time frames described in item 10, herein. All equipment supplied under this Agreement shall be BellSouth branded equipment, approved by Company and purchased only from distributors designated by Company and authorized by Company to use its trademarks, brands and/or logo. No equipment, material or product acquired in any manner from any other sources, supplier, distributor or manufacturer may be

advertised, marketed, promoted or sold in any way to Company's subscribers without the prior written consent of Company.

7. To not sell any equipment, material or product to a third party for resale, unless Supplier, at its own expense, removes or has removed the BellSouth trademark, brand or logo prior to the sale of said equipment, material or product.
8. To handle all necessary communications with subscribers, following the negotiation of sale or referral by Company, including but not limited to post sale calls in connection with the sale or rental of the equipment. Supplier shall provide the equipment to subscribers on an "as-ordered" basis only.
9. To collect payment for all equipment sold to customers who reside outside the Company's service area or may desire to make direct payment for purchased equipment. Supplier may accept personal checks or credit cards from customers. Supplier shall be responsible for collecting and remitting the appropriate sales tax, as required by applicable laws on such sales.
10. To ship all credit card and USOC billing orders within two (2) working days of the order being received by Supplier; and within five (5) working days of receipt of the subscriber's personal check. Supplier shall provide Company with monthly reports of all sales and shipping activity as required by Company, in a mutually agreed format.
11. Acknowledge the value of, the popularity of, and the good will associated with the Company's Marks and that said good will is a property right belonging to Company. Supplier also acknowledges that the Company is the owner of all trademark and other rights in said Marks worldwide. Supplier recognizes that nothing contained in this Agreement is intended as an assignment or grant to Supplier of any right, title or interest in or to said Marks or to any other marks of Company or the good will attached thereto. Any use of the Marks shall inure to the benefit of and be on behalf of Company and its Affiliated Companies, except Supplier may use and receive the benefit of the Marks as provided in this Agreement. Supplier further recognizes that this Agreement does not confer any right on Supplier to use the Marks in any manner outside of the United States, or to grant sub-licenses, and is not assignable. Supplier will do nothing inconsistent with Company's ownership of the Marks. Supplier acknowledges that in the event, after a thirty (30) day notice has been issued to Supplier and Supplier remains in breach of these terms and continues to act in any manner which materially and negatively impacts on the reputation of Company, its Marks or its Affiliated Companies, Company shall have the right to, (i) bring an action against Supplier at law or in equity to protect the Marks and to recover damages as the result of any misuse or unauthorized use thereof and/or; (ii) terminate this Agreement for any such misuse or unauthorized use by Supplier.
12. Upon termination, cancellation or expiration of this Agreement, to (i)

cease answering calls with the phrase "BellSouth Phones"; (ii) cease any uses of the Marks, and; (iii) cease its use of all materials and other tangible items bearing the Marks. Supplier shall certify compliance with this paragraph in writing to Company within thirty (30) days of the expiration, termination or cancellation date. Upon expiration, termination or cancellation of this Agreement, Supplier will be allowed to sell and/or rent the remaining equipment in its possession independently of this Agreement so long as the Marks used on or in connection with the sale and/or rental of the equipment are either (i) removed or (ii) comply with the graphic standards set forth in this Agreement.

13. Expend consideration, in amounts and forms to be mutually agreed upon, promoting the ongoing sales of said equipment. This promotion may take the form of additional

training or manufacturer's incentives for Company's customer service representatives or printed media advertising upon approval by Company representative.

14. To compensate Company under the "Part X" compensation plan as described in Appendix C, for the direct negotiation and/or referral of equipment rentals.
15. To compensate Company for all CPE units sold via credit card or direct payment as described in Appendix C "Credit Card Sales".
16. To accept returned merchandise under the "Thirty Day - Try and Buy" program and credit Company for said returns. The process for handling such returns shall be mutually agreed upon by Company and Supplier representatives.

APPENDIX C  
PRICES AND TERMS OF PAYMENT

PART X COMPENSATION

-----

Supplier shall compensate Company, for the rentals directly negotiated by Company's service representatives, using the following formula:

\* \* \*

AVERAGE NEGOTIATION TIME

The average time spent negotiating the sale of Caller ID and other display equipment is hereby established at \* \* \*. This average is subject to adjustment at any time during the term of this Agreement, based on the nature of the telecommunications equipment being sold.

COMPENSATION RATE

The per minute rate by which Company will be compensated by Supplier is established at \* \* \* per minute. This rate may be adjusted annually based on Company's employee compensation rates.

#### BILLING

Company will bill Supplier monthly based on the previous month's sales activity.

#### USOC BILLING PROCEDURES

-----

Supplier shall provide Company an invoice for all sales under the USOC billing system by the fifth (5th) working day of the succeeding month. The invoices shall be itemized by each type of CPE and include:

- Equipment Type
- Number of units sold
- Retail selling price of the unit
- Company cost for the unit
- Shipping charges
- Totals

Company and Supplier representatives shall mutually agree upon a format for the above report.

Company and Supplier representatives shall mutually agree, in writing, upon the retail selling price, cost price to Company and shipping charges for each item of CPE to be billed via the USOC system.

#### CREDIT CARD SALES

-----

Supplier shall compensate Company for all sales made via credit card according to the following formula:

\* \* \*

Supplier shall provide Company with a report of all credit card sales in a mutually agreed format by the tenth (10th) working day following the end of the month.

#### APPENDIX D NonDiscrimination Compliance Agreement

The term "Supplier" as used herein, shall also mean, when applicable, Supplier, Vendor, Supplier, Supplier or other defined term as used in the body of the Agreement.

Suppliers shall comply with the applicable provisions of the following:

FAR 19.704, 52.219-8 and 52.219-9, Exec. Order No. 12138, P. L. 95-507, Exec. Order No. 11246, Exec. Order No. 11625, Section 8 of the Small Business Act as amended, Railroad Revitalization and Regulatory Reform Act of 1976, Exec. Order No. 11701, Exec. Order No. 11758, Exec Order No. 12138, Section 503 of the Rehabilitation Act of 1973 as amended by PL93-516, Vietnam Era Veteran's Readjustment Assistance Act of 1974 and the rules, regulations and relevant Orders of the Secretary of Labor pertaining to the Executive Orders and Statutes listed above.

For contracts of or which aggregate to \$2,500 or more annually, the following table describes the clauses which are included in the contract:

1. Inclusion of the Equal Employment clause in all contracts and orders;
2. Certification of non-segregated facilities;
3. Certification that an affirmative action program has been developed and is being filed;
4. Certification that an annual Employers Information Report (EEO-1 Standard Form 100) is being filed;
5. Inclusion of the "Utilization of Minority and Women's Business Enterprises" clause in all contracts and orders;
6. Inclusion of the "Minority and Women's Business Enterprise Subcontracting Program" clause in all contracts and orders;
7. Inclusion of the "Listing of Employment Openings" clause in all contracts and orders;
8. Inclusion of the "Employment of the Handicapped" clause in all contracts and orders;

Contract Value	Clause(s) Required
\$ 2,500 to \$10,000	8
\$10,000 to \$50,000	1, 2, 5, 6, 7, 8
\$50,000 or more	1, 2, 3*, 4*, 5, 6, 7, 8

\* Applies only for businesses with 50 or more employees

#### 1. Equal Employment Opportunity Provisions

In accordance with Exec. Order No. 11246, dated September 24, 1965 and Part 60-1 of Title 41 of the codes of Federal Regulations (Public Contracts and Property Management, Office of Federal Contract Compliance, Obligations of Suppliers and Sub-contractors), as may be amended from time to time, the parties incorporate herein by this reference the regulations and contract clauses required by those provisions to be made a part of Government contracts and subcontracts.

## 2. Certification of Non-segregated Facilities

The Supplier certifies that it does not and will not maintain any facilities it provides for its employees in a segregated manner, or permit its employees to perform their services at any location under its control where segregated facilities are maintained and that it will obtain a similar certification prior to the award of any nonexempt subcontract.

## 3. Certification of Affirmative Action Program

The Supplier affirms that it has developed and is maintaining an affirmative action plan as required by Part 60-2 of Title 41 of the Code of Federal Regulations.

## 4. Certification of Filing of Employers Information Reports

The Supplier agrees to file annually, on or before the 31st day of March, complete and accurate reports on Standard Form 100 (EEO-1) or such forms as may be promulgated in its place.

## 5. Utilization of Minority and Women's Business Enterprises

- (a) It is the policy of the Government and BellSouth Corporation and its affiliates as a Government Supplier, that minority and women's business enterprises shall have the maximum practicable opportunity to participate in the performance of contracts.
- (b) The Supplier agrees to use his or her best efforts to carry out this policy in the award of his or her subcontracts to the fullest extent consistent with the efficient performance of this contract. As used in this contract, the term "minority or women's business enterprise" means a business with at least 51 percent of which is owned by minority or women group members or in case of publicly owned businesses at least 51 percent of the stock of which is owned by minority or women group members. For purposes of this definition, minority group members are Blacks, Hispanics, Asians, Pacific Islanders, American Indians, and Alaskan Natives. Suppliers may rely on written representation by Sub-contractors regarding their status as minority or women's business enterprises in lieu of an independent investigation. The Supplier shall inform its Sub-contractors that any who misrepresent their status as small, minority or women-owned business enterprises in order to obtain for themselves a contract are subject to substantial penalties under law.

## 6. Minority and Women's Business Enterprise Subcontracting Program

- (a) The Supplier agrees to establish and conduct a program which will enable minority and women's business enterprises (as defined in paragraph 5 above) to be considered fairly as Sub-contractors and suppliers under the contract. In this connection, the Supplier shall:

- (b) Designate a liaison officer who will administer the Supplier's minority and women's business enterprises program;
- (c) Provide adequate and timely consideration of the potentialities of known minority and women's business enterprises in all "make-or-buy" decisions;
- (d) Assure that known minority and women's business enterprises will have an equitable opportunity to compete for subcontracts, particularly by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participation of minority and women's business enterprises;
- (e) Maintain records showing (i) procedures which have been adopted to comply with the policies set forth in this clause, including the establishment of a source list of minority and women's business enterprises, (ii) awards to minority and women's business enterprises on the source list, and (iii) specific efforts to identify and award contracts to minority and women's business enterprises;
- (f) Include the Utilization of Minority and Women's Business Enterprises clause in subcontracts which offer substantial minority and women's business enterprises subcontracting opportunities;
- (g) Cooperate with the Government's Contracting Officer for BellSouth Corporation or its affiliates in any studies and surveys of the Supplier's minority and women's business enterprises procedures and practices that the Government's Contracting Officer may from time to time conduct;
- (h) Submit periodic reports of subcontracting to known minority and women's business enterprises with respect to the records referred to in subparagraph (4) above, in such form and manner and at such time (not more often than quarterly) as the Government's Contracting Officer for BellSouth Corporation or its affiliates may prescribe.
- (i) The Supplier agrees to provide assurances that the Supplier will include the clause in the contract entitled "Utilization of Small Business Concerns, Small Disadvantaged Business Concerns and Women's Business Enterprises" in all subcontracts that offer further subcontracting opportunities, and that the Supplier will require all subcontracts (except small business concerns) who receive subcontracts in excess of \$500,000 (\$1,000,000 for construction of any public facility), to adopt a plan similar to the plan agreed to by the Supplier.

## 7. List of Employment Openings for Veterans

In accordance with Exec. Order 11701, dated January 24, 1973, and Part 60-

250 of Title 41 of the Code of Federal Regulations, as it may be amended from time to time, the parties incorporate herein by this reference the regulations and contract clauses required by those provisions to be made a part of Government contracts and subcontracts.

## 8. Employment of the Disabled

In accordance with Exec. Order 11758, dated January 15, 1974, and Part 60-741 of Title 41 of the Code of Federal Regulations as may be amended from time to time, the parties incorporate herein by this reference the regulations and contract clauses required by those provisions to be made a part of Government contracts and subcontracts.

### APPENDIX E BELLSOUTH TELECOMMUNICATIONS, INC. STATEMENT OF POLICY ON DEALINGS WITH SUPPLIERS AND SUPPLIERS

BellSouth Telecommunications, Inc., and its affiliated companies (hereinafter "BellSouth") does business with many Suppliers and suppliers. It is a fundamental policy of BellSouth that such dealings shall be conducted on a fair and non-discriminatory basis, free from improper influences, so that all participating Suppliers and suppliers may be considered on the basis of the quality and cost of their product or service.

BellSouth's policy is to seek out and obtain technically suitable products and services at the lowest overall cost. Accordingly, BellSouth will not recognize any oral agreement; any conversations with BellSouth's employees or representatives shall not be construed to imply a commitment or obligation on behalf of BellSouth. Any information disclosed or made know to BellSouth shall be deemed as public and nonproprietary. Information shall not be received in confidence, unless a prior written agreement authorizing such exchange of information has been executed by an authorized representative of BellSouth.

BellSouth is committed to doing business with Suppliers and suppliers in an atmosphere in keeping with the highest standards of business ethics. Therefore, it is BellSouth's Policy that our employees shall not accept form customers; from suppliers of property, goods, or services; or from other persons, any gifts, benefits or unusual hospitality that may in any way tend to influence or have the appearance of influencing them in the performance of their jobs.

Those employees of BELLSOUTH authorized to make purchases or negotiate contracts are aware of this policy, and your cooperation is solicited in order to forestall any embarrassing situations.

AMENDED AND RESTATED  
 LOAN AND SECURITY AGREEMENT

BETWEEN

INNOTRAC CORPORATION,

AS BORROWER,

AND

SOUTHTRUST BANK, N.A.

AS LENDER

DATED AS OF JANUARY 25, 1999

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A.....	Collateral Locations
B.....	Additional Permitted Encumbrances
C.....	Form of Revolving Note
D.....	Trade Names and Trade Styles
E.....	Form of Secretary's Certificate

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT  
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THIS AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (hereinafter, as it may be modified, amended or supplemented from time to time, and together with all Exhibits attached hereto, called this "AGREEMENT"), made, entered into and

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effective as of the 25th day of January, 1999, by and between INNOTRAC CORPORATION, a Georgia corporation ("BORROWER"); as borrower; and SOUTHTRUST

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BANK, N.A., a national banking association ("LENDER"), as lender;  
-----

W I T N E S S E T H:  
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WHEREAS, Borrower and Lender are parties to that certain Amended and Restated Loan and Security Agreement, dated as of December 5, 1997, as heretofore amended (the "PRIOR LOAN AGREEMENT"), pursuant to which Lender has

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established for the benefit of the Borrower a revolving line of credit in the maximum aggregate principal amount of Twenty-Five Million Dollars (\$25,000,000); and

WHEREAS, Borrower has requested that Lender increase the maximum aggregate principal amount of such revolving line of credit to Thirty-Five Million Dollars (\$35,000,000);

WHEREAS, Borrower has also requested Lender to extend the maturity date of the revolving line of credit and to make certain other modification to the Prior Loan Agreement, and subject to the terms and conditions set forth herein, Lender is willing to do so; and

WHEREAS, Borrower and Lender wish to enter into this Agreement in order to memorialize their mutual understandings in respect to such revolving line of credit increase and the other financial accommodations made by Lender to the Borrower;

WHEREAS, Lender is willing to extend such financial accommodations to Borrower in accordance with the terms hereof upon the execution of this Agreement by Borrower, compliance by Borrower with all of the terms and provisions of this Agreement, and fulfillment by Borrower of all conditions precedent to Lender's obligations herein contained; and

NOW, THEREFORE, in consideration of the sum of TEN DOLLARS (\$10.00), the foregoing premises, to induce Lender to extend the financial accommodations provided for herein, and for other good and valuable consideration, the sufficiency and receipt of all of which are acknowledged, Borrower and Lender agree as follows:

1. DEFINITIONS, TERMS AND REFERENCES.  
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1.1 Certain Definitions.

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In addition to such other terms as elsewhere defined herein, as used in this Agreement and in any Exhibits, the following capitalized terms shall have the following meanings, unless the context requires otherwise:

"Accounts Receivable Collateral" shall mean all rights of Borrower to

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payment for goods sold or leased, or to be sold or to be leased, or for services rendered or to be rendered, howsoever evidenced or incurred, including, without limitation, all accounts, all contract rights, all instruments, all leases, rental contracts and other chattel paper and all general intangibles arising therefrom or relating thereto, all sales orders, all returned or repossessed goods and all books, records, computer tapes, programs and ledger books arising therefrom or relating thereto, all whether now owned or hereafter acquired or arising.

"Account Debtor" shall mean any Person who is or may become obligated

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on any of the Accounts Receivable Collateral of Borrower.

"Affiliate" shall mean, with respect to any Person, any other Person

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Controlling, Controlled by or under common Control with, such Person.

"Agreement" shall have the meaning given to such term in the foregoing

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recitals to this Agreement.

"Balances Collateral" shall mean all property of Borrower left with

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Lender or in its possession now or hereafter, all deposit accounts of Borrower now or hereafter opened with Lender, including, particularly, but without limitation, any Collateral Reserve Account required to be established with Lender pursuant to Section 3.1 hereof, all certificates of deposit issued by Lender to Borrower, and all drafts, checks and other items deposited in or with Lender by Borrower for collection now or hereafter.

"Bankruptcy Code" shall mean Title 11 of the United States Code, as

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amended from time to time.

"Base Rate" shall mean that interest rate so denominated and set by

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Lender from time to time as an interest rate basis for borrowings from Lender. The Base Rate is one of several interest rate bases which may be used by Lender. Lender lends at interest rates above and below the Base Rate. Any change in any rate of interest charged hereunder as a result of any change in the Base Rate shall become effective as of the opening of business on each date on which such change in the Base Rate occurs.

"Business Day" shall mean any day on which Lender is open for the

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conduct of banking business at its main office in Atlanta, Georgia.

"Capital Expenditures" shall have the meaning given to such term in

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accordance with GAAP, and shall specifically include, in any event, any current expenditure made by Borrower for the acquisition, construction, repair, maintenance or replacement of fixed or capital assets which, under GAAP, would be expected to be capitalized on the books of Borrower; provided, however, that

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the purchase or other acquisition of caller identification equipment or other telecommunications equipment used for sale, rental or lease purposes shall not be considered a Capital Expenditure for any purpose whatsoever under this Agreement or any of the other Loan Documents.

"Closing Date" shall mean that date on which the initial disbursement

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of funds being made available to Borrower under the Revolving Line of Credit.

"Collateral" shall mean the property of Borrower described in Article

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4, or any part thereof, as the context shall require, in which Lender has, or is to have, a security interest pursuant hereto, as security for payment of the obligations.

"Collateral Locations" shall mean (i) the Executive Office, (ii) those  
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locations specified in Exhibit "A" attached hereto and (iii) such other  
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locations of Collateral as to which Lender shall be notified hereafter by Borrower pursuant to Section 11.12.

"Collateral Reserve Account" shall mean, individually and  
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collectively, any non-interest bearing, demand deposit account (or series of such accounts, as the case may be) which is or may be required to open and maintain with Lender pursuant to the requirements of Section 3.1.

"Control," "Controlled," or "Controlling" shall mean, with respect to  
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any Person, the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities or otherwise; provided, however, that, in any event, any Person who owns directly  
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or indirectly twenty percent (20%) or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation shall be deemed to "control" such corporation for purposes of this Agreement.

"Debt" means all liabilities, obligations and indebtedness of Borrower  
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and its consolidated Subsidiaries to any Person, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise, and including, without in any way limiting the generality of the foregoing: (i) Borrower's or any such Subsidiary's liabilities and obligations to trade creditors; (ii) all Debt for borrowed funds; (iii) all obligations and liabilities of any Person secured by any Lien on Borrower's or any such Subsidiary's Property, even though Borrower or such Subsidiary shall not have assumed or become liable for the payment thereof; (iv) all accrued pension fund and other employee benefit plan obligations and liabilities; (v) all Guaranteed Obligations; and (vi) deferred taxes.

"Default Condition" shall mean the occurrence of any event which,  
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after satisfaction of any requirement for the giving of notice or the lapse of time, or both, would become an Event of Default.

"Default Rate" shall mean that interest rate per annum equal to two  
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percent (2%) plus the stated interest rate effective under each Note from time to time.

"EBITDA" shall mean the net earnings of Borrower and its consolidated  
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Subsidiaries for any fiscal period before interest, income taxes, depreciation and amortization expense for such period, determined under GAAP.

"Eligible Accounts" shall mean that portion of the Accounts Receivable  
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Collateral of Borrower consisting of the net billed dollar amount of accounts owing to Borrower by its Account Debtors subject to no counterclaim, defense, setoff or deduction, excluding, however, in any event, but without limitation,  
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unless otherwise waived in writing by Lender, any account: which is owing by any Account Debtor having any past due accounts with Borrower, except for commercial accounts of Borrower, and, in the case of commercial accounts of Borrower, any account of an Account Debtor which is either more than ninety (90) days past invoice date or as to which twenty-five percent (25%) or more of the accounts of any Account Debtor are more than ninety (90) days past invoice date; (ii) as to which Lender does not have a first priority security interest; or (iii) which has been excluded by Lender for purposes hereof, which it reserves the right to

do, in its sole discretion, exercised in a commercially reasonable manner.

"Eligible Installment Sales Orders" shall mean that portion of  
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Borrower's Accounts Receivable Collateral consisting of the net unbilled dollar amount of installment sales made by Borrower for its products or services to its Account Debtors subject to no counterclaim, defense, setoff or deduction, excluding, however, in any event, but without limitation, unless otherwise  
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waived in writing by Lender, any such purchase order: (i) which is owing by any Account Debtor having any past due accounts with Borrower, except for commercial accounts of Borrower, and, in the case of commercial accounts of Borrower, any account of an Account Debtor which is either more than ninety (90) days past invoice date or as to which twenty-five percent (25%) or more of the accounts of any Account Debtor are more than ninety (90) days past invoice date; (ii) as to which Lender does not have a first priority security interest; or (iii) which has been excluded by Lender for purposes hereof, which it reserves the right to do, in its sole discretion, exercised in a commercially reasonable manner.

"Eligible Inventory" shall mean the Inventory Collateral of Borrower,  
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provided that such Inventory Collateral (i) is located at one of the locations set forth on Exhibit A; (ii) is subject to a valid and perfected first priority security interest in favor of Lender; and (iii) is not obsolete, slow moving, a custom item, defective, irregular, discontinued good or "seconds."

"Employee Benefit Plan" shall mean any employee welfare benefit plan  
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or any employee pension benefit plan, as those terms are defined in Section 3(1) and 3(2) of ERISA, for the benefit of employees of Borrower or any Subsidiary or any other entity which is a member of a "controlled group" or under "common control" with Parent, as such terms are defined in Section 4001(a)(14) of ERISA.

4

"Equipment Collateral" shall mean all equipment of Borrower, or in  
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which it has rights, whether now owned or hereafter acquired, wherever located, including, without limitation, all machinery, fixtures, furniture, furnishings, leasehold improvements, rolling stock, motor vehicles, plant equipment, computers and other office equipment and office furniture, together with any and all attachments and accessions, substitutes and replacements, and tools, spare parts, and repair parts used or useful in connection therewith.

"ERISA" shall mean the Employee Retirement Income Security Act of  
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1974, as may be amended from time to time.

"Event of Default" shall mean any of the events or conditions  
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described in Article 14, provided that any requirement for the giving of notice or the lapse of time, or both, has been satisfied.

"Executive Office" shall mean the chief executive office of Borrower  
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which is located at 6655 Sugarloaf Parkway, Duluth, Gwinnett County, Georgia 30097.

"Fiscal Year" shall mean the fiscal year of Borrower concluding as of  
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December 31 in each calendar year.

"Fixed Charge Coverage Ratio" shall mean, for any fiscal period, on a  
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combined basis, the ratio which the sum of Net Income of Borrower and its consolidated Subsidiaries for such period plus total depreciation and  
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amortization expense, lease expense and interest expense of Borrower and its consolidated Subsidiaries for such period bears to the sum of total lease expense, interest expense, capitalized interest and the current maturities of the long-term debt of Borrower and its consolidated Subsidiaries for such period, all as determined under GAAP.

"GAAP" shall mean generally accepted accounting principles,

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consistently applied.

"Guaranteed Obligations" shall mean, with respect to any Person, all  
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obligations of such Person which in any manner directly or indirectly guarantee or assure, or in effect guarantee or assure, the payment or performance of any indebtedness, dividend or other obligation of any other Person or assure or in effect assure the holder of any such obligations against loss in respect thereof, including, without limitation, any such obligations incurred through an agreement, contingent or otherwise: (a) to purchase such obligations or any property constituting security therefor; (b) to advance or supply funds for the purchase or payment of such obligations or to maintain a working capital or other balance sheet condition; or (c) to lease Property or to purchase any debt or equity securities or other Property or services.

"Intangibles Collateral" shall mean all general intangibles of  
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Borrower, whether now existing or hereafter acquired or arising, including, without limitation, all copyrights, royalties, trademarks, trade names, tax refunds, rights to tax refunds, service marks, patent and

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proprietary rights, permits, licenses, sublicenses, leases, subleases, usufructs, trade secrets, diagrams and all customer lists.

"Interest Expense" for any fiscal period of Borrower, shall mean  
-----  
interest expense of Borrower during such period on that portion of the Debt of Borrower consisting of Debt for borrowed funds, including, without limitation, the Obligations.

"Interest Period" shall mean, in the case of the determination of any  
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LIBOR-based rate, a one-, two- or three-month period as determined by Borrower.

"Inventory Collateral" shall mean all inventory of Borrower, or in  
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which it has rights, whether now owned or hereafter acquired, wherever located including goods in transit, including, without limitation, all goods of Borrower held for sale or lease or furnished or to be furnished under contracts of service, all goods held for display or demonstration, goods on lease or consignment, returned or repossessed goods, all raw materials, work-in-process, finished goods and supplies used or consumed in Borrower's business, together with all documents, documents of title, dock warrants, dock receipts, warehouse receipts, bills of lading or orders for the delivery of all, or any portion, of the foregoing.

"Leverage Ratio" shall mean, for any fiscal period, as to the Borrower  
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on a consolidated basis, the ratio of the sum of total Debts minus Subordinated Debt to the sum of combined Tangible Net Worth plus Subordinated Debt, all as determined under GAAP.

"LIBOR" shall mean, for any Interest Period, the rate per annum at  
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which deposits in United States dollars for such Interest Period, and for the amount of the requested LIBOR Advance, are offered in the London interbank market at approximately 11:00 a.m. (London time) two Business Days before the first day of such Interest Period, as published or reprinted through the Reuter's Screen or such other recognized quote service as is acceptable to the Lender; provided, that, at the Lender's sole option, such rate may be adjusted by dividing such rate by a percentage equal to one (1) minus the then average stated maximum rate (stated as a decimal) of all reserve requirements applicable to any member of the Federal Reserve System in respect of Eurocurrency liabilities as defined in Regulation D of the Board of Governors of the Federal Reserve System (or any successor categories for such liabilities under such Regulation D).

"LIBOR Advance" shall mean any borrowing hereunder which bears  
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interest based on LIBOR.

"Lien" shall mean any deed to secure debt, deed of trust, mortgage or

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similar instrument, and any lien, security interest, preferential arrangement which has the practical effect of constituting a security interest, security title, pledge, charge, encumbrance or servitude of any kind, whether by consensual agreement or by operation of statute or other law, and whether voluntary or involuntary, including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof.

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"Loan Documents" shall mean this Agreement, any Notes, any financing

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statements covering the Collateral, and any and all other documents, instruments, certificates and agreements executed and/or delivered by a Borrower in connection herewith, or any one, more, or all of the foregoing, as the context shall require.

"Margin" shall mean an amount equal to the sum of (i) eighty-five

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percent (85%) of the face dollar amount, as at the date of determination, of Eligible Accounts of Borrower, plus (ii) seventy percent (70%) of the face

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dollar amount, as at the date of determination, of Eligible Installment Sales Orders of Borrower, plus (iii) the lesser of forty percent (40%) of the net book

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value of Eligible Inventory of Borrower or \$2,500,000.

"Margin Requirement" shall have the meaning ascribed to such term in

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Section 2.1(a).

"Margin Stock" shall have the meaning ascribed to such term in Section

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221.2(h) (or any successor provision) of Regulation U of the Board of Governors of the Federal Reserve System.

"MPPAA" shall mean the Multiemployer Pension Plan Amendments Act of

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1980, amending Title IV of ERISA.

"Multiemployer Plan" shall have the meaning set forth in Section

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4001(a)(3) of ERISA.

"Net Income" shall mean, for any fiscal period of any Person, the net

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income (or loss), after provisions for taxes (either actual, accrued or deemed, in the case of a pass-through entity determined as if the highest marginal individual income tax rate were applicable), of such Person on a consolidated basis for such period (taken as a single accounting period) determined in conformity with GAAP, minus (to the extent otherwise included therein and

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without duplication) (i) any gains or losses, together with any related provisions for taxes, realized by such Person upon any sale of its assets other than in the ordinary course of business, (ii) any other non-recurring gains or losses, and (iii) any income or loss of any other Person acquired prior to the date such other Person becomes a Subsidiary of the Person whose "Net Income" is being measured or is merged into or consolidated with the Person whose "Net Income" is being measured or all or substantially all of such other Person's assets are acquired by the Person whose "Net Income" is being measured.

"Notes" shall mean, collectively, the Revolving Note and any other

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promissory notes or other instruments at an time or from time to time evidencing any Obligations.

"Obligations" shall mean any and all Debts, liabilities and

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obligations of Borrower to Lender, including without limiting the generality of the foregoing, any indebtedness, liability or obligation of Borrower to Lender arising hereunder or as a result hereof, whether evidenced by the Notes, the other Loan Documents or otherwise, any and all extensions or renewals thereof in whole or in part; any indebtedness, liability or obligation of Borrower to

Lender under any later or future advances or loans made by Lender to Borrower, and any and all extensions or renewals thereof in whole or in part; any and all present and future indebtedness of Borrower to other creditors which is purchased by Lender from such other creditors; and any and all future or additional indebtedness, liabilities or obligations of Borrower to

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Lender whatsoever and in any event, whether existing as of the date hereof or hereafter arising, whether arising under a loan, lease, credit card arrangements, line of credit, letter of credit or other type of financing, and whether direct, indirect, absolute or contingent, as maker, endorser, guarantor, surety or otherwise, and whether evidenced by, arising out of, or relating to, a promissory note, bill of exchange, check, draft, bond, letter of credit, guaranty agreement, bankers, acceptance, foreign exchange contract, commitment fee, service charge or otherwise.

"PBGC" shall mean the Pension Benefit Guaranty Corporation.

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"Permitted Encumbrances" shall mean (i) Liens for taxes not yet due and

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payable or being contested as permitted by Section 11.8; (ii) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other, like Liens arising in the ordinary course of business, payment for which is not yet due or which are being contested in good faith and by appropriate proceedings; (iii) pledges or deposits in connection with worker's compensation, unemployment insurance and other social security legislation; (iv) deposits to secure the performance of utilities, leases, statutory obligations and surety and appeal bonds and other obligations of a like nature incurred in the ordinary course of business; (v) bankers, Liens arising by statute or under customary terms regarding depository relationships on deposits held by financial institutions; (vi) restrictions imposed by licenses and leases; (vii) any Liens in favor of Lender, whether in respect of the Collateral or otherwise; (viii) rights of rental and lease customers; (ix) purchase money Liens on purchase money Debt permitted hereunder; and (x) those other Liens (if any) described on Exhibit "B"

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attached hereto.

"Person" shall mean any individual, sole proprietorship, partnership,

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joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, entity, party or government (whether territorial, national, federal, state, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

"Plan" shall mean any employee benefit plan or other plan for any

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employees of Borrower and any employees of any Subsidiary or any other entity which is a member of a controlled group or under common control with Borrower, as such terms are defined in Section 4001(a)(14) of ERISA, and which is subject to the provisions of Title IV of ERISA.

"Property" shall mean any interest in any property or asset of any

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kind, whether real, personal or mixed, or tangible or intangible.

"Reportable Event" shall mean any of the events described in Section

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4043(b) of ERISA.

8

"Restricted Investment" means any acquisition of Property by Borrower

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in exchange for cash or other Property, whether in the form of an acquisition of stock, debt security, or other indebtedness or obligation, or the purchase or acquisition of any other Property, or by loan, advance, capital contribution, or subscription, except acquisitions of the following: (a) fixed assets to be used

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in the business of Borrower so long as the costs thereof constitute Capital Expenditures permitted hereunder; (b) goods held for sale or rental or to be used in the provision of services by Borrower in the ordinary course of

business; (c) current assets arising from the sale or rental of goods or the rendition of services in the ordinary course of business of Borrower; (d) direct obligations of the United States of America, or any agency thereof, or obligations guaranteed by the United States of America, provided, however, that

such obligations mature within one (1) year from the date of acquisition thereof; (e) certificates of deposit maturing within one (1) year from the date of acquisition, or overnight bank deposits, in each case issued by, created by, or with a bank or trust company organized under the laws of the United States or any state thereof having capital and surplus aggregating at least One Hundred Million Dollars (\$100,000,000); and (f) commercial paper given the highest rating by a national credit rating agency and maturing not more than two hundred seventy (270) days from the date of creation thereof.

"Revolving Advance" shall mean an advance made to Borrower by Lender

under the Revolving Line of Credit, which shall be evidenced by the Revolving Note.

"Revolving Line of Credit" shall refer to the committed revolving line

of credit opened by the Lender in favor of Borrower, pursuant to the provisions of Section 2.1.

"Revolving Note" shall mean the Amended and Restated Revolving

Promissory Note, dated of even date herewith, made by Borrower to the order of Lender, in the principal amount of the Revolving Line of Credit, evidencing the Revolving Line of Credit, together with any renewals or extensions thereof, in whole or in part, and any amendments, supplements, replacements or substitutions thereof. The Revolving Note shall be substantially in the form of Exhibit "C"

attached hereto.

"Subsidiary" shall mean any corporation, partnership, business

association or other entity (including any Subsidiary of any of the foregoing) of which Borrower owns at any time during the term of this Agreement, directly or indirectly, fifty percent (50%) or more of the capital stock or equity interest having ordinary power for the election of directors or others performing similar functions. Any representation, warranty or covenant contained in this Agreement which includes the term "Subsidiaries" shall mean and refer to any Subsidiary which was such as of the date of determination for purposes of such representation, warranty or covenant.

"Subordinated Debt" shall mean any Debt which has been subordinated,

in right of payment and claim, to the rights and claims of Lender in respect of the obligations in a form and substance satisfactory to Lender.

"Tangible Net Worth" shall mean the consolidated net worth of Borrower

and its consolidated Subsidiaries, determined as of the end of any fiscal period of Borrower under

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GAAP, minus, any and all assets, on a combined basis, of Borrower constituting (i) goodwill, patents, copyrights, trademarks, trade names and other intangible assets, (ii) write-ups of assets, (iii) unamortized debt discount and expense, (iv) long-term deferred charges, (v) any Debt owing by any Affiliate to Borrower (excluding, for this purpose, any Debt owing by Borrower to any other Borrower).

"Termination Date" shall mean May 1, 2000; provided, however, that, at

Lender's election, by the giving of written notice to Borrower to such effect prior to such termination date or, if such termination date is extended pursuant hereto, any subsequent anniversary of such termination date, Lender may extend the "Termination Date" from year-to-year, in which case the "Termination Date" shall be the termination date then in effect.

"UCC" shall mean the Uniform Commercial Code--Secured Transactions of

Georgia (O.C.G.A. Title 11, Article 9), as amended.

1.2 Use of Defined Terms.  
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All terms defined in this Agreement and the Exhibits shall have the same defined meanings when used in any other Loan Documents, unless the context shall require otherwise.

1.3 Accounting Terms.  
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All accounting terms not specifically defined herein shall have the meanings generally attributed to such terms under GAAP.

1.4 UCC Terms.  
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The terms "accounts", "chattel paper", "instruments", "general intangibles", "inventory", "equipment", "fixtures", "documents", "products" and "proceeds", as and when used in the Loan Documents, shall have the same meanings given to such terms under the UCC.

1.5 Terminology.  
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All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural, and the plural shall include the singular. Titles of Articles and Sections in this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement, and all references in this Agreement to Articles, Sections, Subsections, paragraphs, clauses, subclauses or Exhibits shall refer to the corresponding Article, Section, Subsection, paragraph, clause, subclause of, or Exhibit attached to, this Agreement, unless specific reference is made to the articles, sections or other subdivisions divisions of, or Exhibit to, another document or instrument. Each reference to any document, agreement, instrument or other paper shall be a reference to each such document, agreement, instrument or paper as it shall be amended, modified, supplemented, extended, renewed or replaced from time to time.

1.6 Exhibits.  
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All Exhibits attached hereto are by reference made a part hereof.

2. THE FINANCING.  
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Upon execution of this Agreement and compliance with its terms, including, without limitation, the conditions precedent set forth in Section 17.1 hereof, Lender agrees to make available to Borrower the Revolving Line of Credit on the following terms and conditions:

2.1 Revolving Line of Credit.  
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(a) Lender agrees to open a committed revolving line of credit (the "REVOLVING LINE OF CREDIT" or "REVOLVING CREDIT") in favor of Borrower in the -----  
maximum aggregate principal amount of Thirty-Five Million Dollars (\$35,000,000) so that during the period commencing on the date hereof and ending on the Termination Date or the earlier termination of the Revolving Line of Credit pursuant to Section 2.4 or Article 15 below, Borrower may borrow and repay and re-borrow Revolving Advances up to a maximum aggregate principal amount equal, in the aggregate, to Thirty-Five Million Dollars (\$35,000,000); subject, -----  
however, to the further requirement that at no time shall the aggregate -----  
principal amount of Revolving Advances owing by Borrower under the Revolving Line of Credit exceed the Margin (such requirement being referred to herein as

the "MARGIN REQUIREMENT"). If at any time hereafter the Margin Requirement is

not satisfied by Borrower, then Borrower agrees to repay immediately the then principal balance of the Revolving Advances owing by it by that amount necessary to satisfy the Margin Requirement applicable to it. The Debt arising from the disbursement of any and all Revolving Advances shall be evidenced by the Revolving Note, which shall be executed and delivered by Borrower simultaneously herewith. Each request for a Revolving Advance shall be made by Borrower to Lender in such manner as Lender may request from time to time hereafter (including, without limitation, by telephone or facsimile transmission), or, as Lender and Borrower, may mutually agree hereafter, by pre-approved automatic disbursement. Without limitation of the preceding provisions, the principal amount of the Revolving Note shall be due and payable from collections and other proceeds of Collateral in accordance with the provisions of Article 3 below and shall be due and payable in full on the Termination Date or on the date of any earlier termination of the Revolving Line of Credit pursuant to Section 2.4 or Article 15 below.

2.2 Interest and Fees.

Subject to Section 15.1 of this Agreement, interest and fees shall be charged on Revolving Advances (in each case computed based on a 360-day year and the actual number of days elapsed) in accordance with the following provisions:

(a) Interest. (i) All Revolving Advances shall bear interest at

a fluctuating rate per annum equal to the Base Rate, as in effect from time to time, calculated on the basis of a 360-day year and actual days elapsed; provided, however, that, so long as no Event of Default

then exists, Borrower may, by a written notice delivered to Lender not later than 10:00 a.m. (Atlanta, Georgia time) on the second (2nd) Business Day prior to the first (1st) day of each calendar month (commencing in January 1999) direct that interest accrue on the principal of any particular Revolving Advance outstanding from time to time during the Interest Period designated by the Borrower in such notice at a rate per annum equal to LIBOR plus the number of

basis points in excess thereof set forth below corresponding to the applicable Leverage Ratio requirement (the "LIBOR MARGIN") and for such Interest Period as

is selected by Borrower with respect to each such Revolving Advances:

<TABLE>	
<CAPTION>	
If Leverage Ratio Is:	Then the LIBOR Margin Is:
-----	-----
<S>	<C>
Greater than 1.75 to 1.0 but not greater than 2.0 to 1.0	200 basis points
Greater than 1.50 to 1.0 but not greater than 1.75 to 1.0	175 basis points
Greater than 1.25 to 1.0 but not greater than 1.5 to 1.0	150 basis points
Greater than 1.0 to 1.0 but not greater than 1.25 to 1.0	125 basis points
Up to 1.0 to 1.0	100 basis points
</TABLE>	

Each such designation by Borrower of the interest rate based on LIBOR and of an Interest Period shall be irrevocable and shall remain in effect throughout such Interest Period. In the event Borrower selects an Interest Period in excess of one (1) month in length, such Interest Period and the interest rate based on LIBOR related thereto shall remain in effect hereunder for each full calendar month thereafter which is covered by such Interest Period. Upon determining the interest rate based on LIBOR for an Interest Period requested by Borrower, Lender shall promptly notify Borrower by telephone (confirmed in writing) of such determination, and such determination shall, absent manifest error, be final, conclusive and binding for all purposes. Borrower's selection of the interest rate based on LIBOR for a particular Interest Period shall not affect Borrower's ability to borrow hereunder during such Interest Period, subject to the terms of this Agreement. Upon the expiration of an applicable Interest Period, the applicable Revolving Advance bearing a LIBOR-based rate shall thereafter bear interest at the Base Rate unless the Borrower provides other instructions to the Lender in accordance herewith.

(b) Payment of Interest. All interest payable on the Revolving

Advances shall be payable monthly in arrears on the first day of each month hereafter (for the preceding calendar month or portion thereof, as the case may be).

2.3 Method of Making Payments.

All payments owing under or pursuant to this Agreement, whether of principal, interest, fees or otherwise, shall be made without defense, set-off or counterclaim to Lender not later than 2:00 p.m. Atlanta, Georgia time on the date when due and shall be made in lawful money of the United States of America in immediately available funds at the head office of Lender in Atlanta, Georgia. If and to the extent that any such payment is not made by a Borrower when due or if Borrower and Lender then have mutually agreed to a pre-approved automatic advance to make such payment, Borrower hereby authorizes and directs Lender to charge any demand deposit account maintained by Borrower with Lender for the amount of such payment or, in lieu thereof or in addition thereto, as necessary, to debit any such payment as a Revolving Advance (whether

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or not an over-advance is created thereby). Whenever any payment to be made hereunder or pursuant hereto shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest thereon shall be payable at the applicable rate during such extension.

2.4 Prepayments; Early Termination.

(a) Revolving Advances may be repaid and, subject to borrowing availability, re-borrowed at any time and from time to time by Borrower up to, but not including, the Termination Date; provided, however, that if any

Revolving Advance is prepaid at a time when it bears interest at a LIBOR-based rate before the expiration of the applicable Interest Period, Borrower shall pay to Lender any and all reasonable costs which Lender must pay as a result of such prepayment which the Lender would not otherwise have paid if the Revolving Advance, as the case may be, were paid at the end of the applicable Interest Period.

(b) In addition to the foregoing, Borrower may at any time prior to the Termination Date, and whether or not a Default Condition or Event of Default then exists, terminate this Agreement; provided however, that: (1) any

such termination must be preceded by at least three (3) days written notice to the Lender; (2) Borrower shall be required to pay in full both (A) all outstanding Revolving Advances owing by it, together with all accrued and unpaid interest thereon and all accrued and unpaid fees and expense which are then due and payable by Borrower hereunder and under any other Loan Document and (3) notwithstanding such termination, no Collateral of Borrower shall be released and all Collateral of Borrower shall continue to secure all Obligations of Borrower then and thereafter outstanding unless and until all such Obligations of Borrower are fully paid and satisfied.

2.5 Use of Proceeds.

All proceeds of Revolving Advances shall be used for working capital purposes in the ordinary course of Borrower's business.

2.6 Increased Costs or Reduced Return.

If, due to either (a) the introduction of or any change in or in the interpretation of any U.S. law or regulation, or (b) the compliance with any guideline or request from any governmental authority, there shall be any increase in the cost to Lender of maintaining its commitments hereunder or agreeing to make or making, funding or maintaining Revolving Advances to Borrower, or any reduction in the rate of return on Lender's capital as a consequence of its obligations hereunder to a level below that which Lender

would have achieved but for such events described in clauses (a) and (b) above, Borrower shall, from time to time, upon demand by Lender, pay to Lender additional amounts sufficient to compensate Lender for such increased costs or reduced return within ten (10) Business Days of receipt of the receipt of the certificate referred to below. A certificate identifying with reasonable specificity the basis for and the amount of such increased costs or reduced return shall be submitted to

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Borrower by Lender and shall be conclusive and binding for all purposes, absent manifest error. In determining such amount, Lender shall use reasonable averaging and attribution methods.

## 2.7 Indemnification of Lender.

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At all times prior to and after the consummation of the transactions contemplated by this Agreement, Borrower agrees to hold Lender, its directors, officers, employees, agents, Affiliates, successors and assigns harmless from and to indemnify Lender and its directors, officers, employees, agents, Affiliates, successors and assigns against, any and all losses, damages, costs and expenses (including, without limitation, attorney's fees, costs and expenses) incurred by any of the foregoing, whether direct, indirect or consequential, as a result of or arising from or relating to any "Proceedings" (as defined below) by any Person, whether threatened or initiated, asserting a claim for any legal or equitable remedy against any Person under any statute, case or regulation, including, without limitation, any federal or state securities laws or under any common law or equitable case or otherwise, arising from or in connection with this Agreement, and any other of the transactions contemplated by this Agreement except to the extent such losses, damages, costs or expenses are due to the wilful misconduct or gross negligence of Lender. As used herein, "Proceedings" shall mean actions, suits or proceedings before any

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court, governmental or regulatory authority. Borrower further agrees to indemnify any Person to whom Lender transfers or sells all or any portion of its interest in the Obligations or participations therein on terms substantially similar to the terms set forth above. Lender shall not be responsible or liable to any Person for consequential damages which may be alleged as a result of this Agreement or any of the transactions contemplated hereby. The obligations of Borrower under this Section 2.7 shall survive the termination of this Agreement and payment of the Obligations but shall terminate upon expiration of the applicable statute or period of limitations.

## 3. COLLECTIONS.

### 3.1 Collateral Reserve Account; Lockbox Accounts.

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To the extent such has not been done prior to the Closing Date, then on the Closing Date, Borrower shall establish, and thereafter shall maintain, with Lender, a separate Collateral Reserve Account, or series thereof, as Lender may permit or require, into which Borrower shall be obliged to transfer and deliver all cash, checks, drafts, items and other instruments for the payment of money which Borrower has received or may at any time hereafter receive in full or partial payment for its Inventory Collateral or otherwise as proceeds of its Accounts Receivable Collateral and any other Collateral; and pending such transfer and delivery, Borrower shall be deemed to hold any such funds in trust for the benefit of Lender. All collected balances in Borrower's Collateral Reserve Account shall be applied by Lender on a daily basis in payment of Borrower's Revolving Advances. Borrower shall not be entitled to draw on its Collateral Reserve Account without the prior written consent of Lender; provided, however, that, at any time during which collected balances exist in

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the Collateral Reserve Account, if there are no Revolving Advances then owing by Borrower and no other Obligations are then due and payable

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by Borrower, and provided that no Default Condition or Event of Default is in existence, Borrower may withdraw such collected balances, or any portion thereof, therefrom for use in its business operations. Lender may, additionally, at any time after the occurrence and during the continuance of an Event of

Default, in its sole discretion, direct Account Debtors to make payments on the Accounts Receivable Collateral, or portions thereof, of one, or more, or Borrower directly to Lender, and the Account Debtors are hereby authorized and directed to do so by Borrower upon Lender's direction, and the funds so received shall also be deposited in Borrower's Collateral Reserve Account, and applied as aforesaid.

4. SECURITY INTEREST -- COLLATERAL.  
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As security for the payment of the Revolving Advances owing by it and all other obligations whatsoever of Borrower to Lender and the performance by Borrower of all covenants and requirements hereunder and under the other Loan Documents, Borrower hereby grants to Lender a continuing, general lien upon and security interest and title in and to the following described Property, wherever located, whether now existing or hereafter acquired or arising (herein, the "COLLATERAL"), namely: (a) the Accounts Receivable Collateral; (b) the Inventory

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Collateral; (c) the Equipment Collateral; (d) the Intangibles Collateral; (e) the Balances Collateral; and (f) all products and/or proceeds of any and all of the foregoing, including, without limitation, insurance or condemnation proceeds, all Property received wholly or partly in trade or exchange for any of the foregoing, and all rents, revenues, issues, profits and proceeds arising from the sale, lease, license, encumbrance, collection or any other temporary or permanent disposition of any of the foregoing or any interest therein.

5. REPRESENTATIONS, WARRANTIES AND COVENANTS APPLICABLE TO ACCOUNTS  
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RECEIVABLE COLLATERAL.  
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With respect to the Accounts Receivable Collateral, Borrower hereby represents, warrants and covenants to Lender as set forth in Section 5.1 through 5.4, inclusive.

5.1 Bona Fide Accounts.  
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Each item of the Accounts Receivable Collateral arises or will arise under a contract between Borrower and the Account Debtor, or from the bona fide sale, rental or delivery of goods to or performance of services for, the Account Debtor.

5.2 Good Title; No Existing Encumbrances.  
-----

Borrower has good title to its Accounts Receivable Collateral free and clear of all Liens thereon other than any Permitted Encumbrances, and no financing statement covering the Accounts Receivable Collateral is on file in any public office other than any evidencing Permitted Encumbrances.

5.3 Right to Assign; No Further Encumbrances.  
-----

Borrower has full right, power and authority to make this assignment of the Accounts Receivable Collateral and hereafter will not pledge, hypothecate, grant a security interest in, sell, assign, transfer, or otherwise dispose of the Accounts Receivable Collateral, or any interest therein.

5.4 Power of Attorney.  
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Borrower irrevocably designates and appoints Lender its true and lawful attorney either in the name of Lender or in the name of Borrower to ask for, demand, sue for, collect, compromise, compound, receive, receipt for and give acquittances for any and all sums owing or which may become due upon any items of the Accounts Receivable Collateral and, in connection therewith, to take any and all actions as Lender may deem necessary or desirable in order to realize upon the Accounts Receivable Collateral, including, without limitation, power to endorse in the name of Borrower, any checks, drafts, notes or other instruments received in payment of or on account of the Accounts Receivable Collateral, but Lender shall not be under any duty to exercise any such authority or power or in

any way be responsible for the collection of the Accounts Receivable Collateral. Lender hereby agrees that it will not exercise the foregoing power of attorney except after the occurrence of, and during the continuation of, an Event of Default.

6. REPRESENTATIONS, WARRANTIES AND COVENANTS APPLICABLE TO INVENTORY  
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COLLATERAL.  
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With respect to the Inventory Collateral, Borrower hereby represents, warrants and covenants to Lender as set forth in Sections 6.1 through 6.5, inclusive.

6.1 Sale of Inventory Collateral.  
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Borrower will not sell, lease, rent, exchange, or otherwise dispose of any of the Inventory Collateral without the prior written consent of Lender, except in the ordinary course of business for cash or on open account or on terms of payment ordinarily extended to its customers. Upon the sale, lease, exchange, rental or other disposition of any Inventory Collateral, the security interest and lien created and provided for herein, without break in continuity and without further

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formality or act, shall continue in and attach to any proceeds thereof, including, without limitation, accounts, contract rights, shipping documents, documents of title, bills of lading, warehouse receipts, dock warrants, dock receipts and cash or non-cash proceeds, and in the event of any unauthorized sale, shall continue in the Inventory Collateral itself.

6.2 Insurance.  
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Borrower agrees that it will obtain and maintain insurance on the Inventory Collateral, in such amounts and against such risks as Lender may reasonably request, with insurers having a Best's rating of at least "A-" (unless otherwise approved by Lender), with loss payable to Lender and reflecting Lender as an additional insured as its interest may appear. Such insurance shall not be cancelable by Borrower, unless with the prior written consent of Lender, or by Borrower's insurer, unless with at least thirty (30) days advance written notice to Lender.

6.3 Good Title; No Existing Encumbrances.  
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Except with respect to any Permitted Encumbrances, Borrower owns the Inventory Collateral free and clear of any Lien, and no financing statements or other evidences of the grant of a security interest respecting the Inventory Collateral exist on the public records as of the date hereof other than any evidencing any Permitted Encumbrances.

6.4 Right to Grant Security Interest; No Further Encumbrances.  
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Borrower has the right to grant a security interest in the Inventory Collateral. Borrower will pay all taxes and other charges against the Inventory Collateral, and Borrower will not use the Inventory Collateral illegally or allow the Inventory Collateral to be encumbered except for the security interest in favor of Lender granted herein and except for any Permitted Encumbrances.

6.5 Location of Inventory Collateral.  
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Borrower hereby represents and warrants to Lender that, as of the date hereof, the Inventory Collateral (except for certain portions thereof in transit or located upon the premises of a rental or lease customer) of Borrower is situated only at one or more of the Collateral Locations and Borrower covenants with Lender not to locate the Inventory Collateral at any location other than a Collateral Location or the premises of a rental or lease customer without at least thirty (30) days prior written notice to Lender. In addition, to the extent Borrower should warehouse any of the Inventory Collateral at any time

hereafter, Borrower acknowledges and agrees that such warehousing may be conducted only by Borrower or warehousemen who have been pre-approved by Lender and who, in any event, shall issue non-negotiable warehouse receipts in Lender's name to evidence any such warehousing of goods constituting Inventory Collateral. In any event, Borrower will not consign any Inventory Collateral to any Person other than Borrower except upon first obtaining Lender's prior written consent thereto.

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7. REPRESENTATIONS, WARRANTIES AND COVENANTS APPLICABLE TO EQUIPMENT  
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COLLATERAL.  
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With respect to the Equipment Collateral, Borrower hereby represents, warrants and covenants to Lender as set forth in Section 7.1 through 7.5, inclusive.

7.1 Sale of Equipment Collateral.  
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Borrower will not sell, lease, rent, exchange, or otherwise dispose of any of the Equipment Collateral other than in the ordinary course of Borrower's business without the prior written consent of Lender.

7.2 Insurance.  
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Borrower agrees that it will obtain and maintain insurance on its Equipment Collateral with such companies and in such amounts and against such risks as Lender may reasonably request, with loss payable to Lender and reflecting Lender as an additional insured as its interests may appear. Such insurance shall not be cancelable by Borrower, unless with the prior written consent of Lender, or by Borrower's insurer, unless with at least thirty (30) days advance written notice to Lender.

7.3 Good Title; No Existing Encumbrances.  
-----

Borrower owns its Equipment Collateral free and clear of any prior Lien thereon other than with respect to any Permitted Encumbrances and no financing statements or other evidences of the grant of a security interest respecting the Equipment Collateral exist on the public records as of the date hereof other than any evidencing any Permitted Encumbrances.

7.4 Right to Grant Security Interest; No Further Encumbrances.  
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Borrower has the right to grant a security interest in its Equipment Collateral. Borrower will pay all taxes and other charges against its Equipment Collateral. Borrower will not use any Equipment Collateral illegally or allow any Equipment Collateral to be encumbered except for the security interest in favor of Lender granted herein and except for any Permitted Encumbrances.

7.5 Location.  
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As of the date hereof, the Equipment Collateral is located only at one or more of the Collateral Locations or the premises of a rental or lease customer and, hereafter, Borrower

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covenants with Lender not to locate Equipment Collateral at any location other than a Collateral Location without at least thirty (30) days advance written notice to Lender.

8. REPRESENTATIONS, WARRANTIES AND COVENANTS APPLICABLE TO BALANCES  
-----  
COLLATERAL.  
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With respect to the Balances Collateral, Borrower hereby represents,

warrants and covenants to Lender as set forth in Section 8.1 through 8.2, inclusive.

8.1 Ownership.

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Borrower owns its Balances Collateral free and clear of any Liens, except in favor of Lender and except for Permitted Encumbrances.

8.2 Liens.

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Borrower will not incur, create or suffer to exist any Lien upon its Balances Collateral or sell, convey, hypothecate, pledge or assign its right, title or interest therein, without the prior written consent of Lender thereto other than for the Lien created hereunder and the Permitted Encumbrances.

9. REPRESENTATIONS, WARRANTIES AND COVENANTS APPLICABLE TO INTANGIBLES

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COLLATERAL.  
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With respect to the Intangibles Collateral, Borrower hereby represents, warrants and covenants to Lender as set forth in Sections 9.1 through 9.3, inclusive.

9.1 Ownership.

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Borrower owns its Intangibles Collateral free and clear of any Liens thereon other than with respect to any Permitted Encumbrances and no financing statements or other evidences of the grant of a security interest respecting the Intangibles Collateral exist on the public records as of the date hereof other than any evidencing any Permitted Encumbrances.

9.2 Liens.

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Hereafter, Borrower will not incur, create or suffer to exist any Lien upon the Intangibles Collateral, except for the security interest granted herein and except for any Permitted Encumbrances, or sell, convey, hypothecate, pledge or assign its right, title or interest therein.

9.3 Preservation.

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Hereafter, Borrower will take all necessary and appropriate measures to obtain, maintain, protect and preserve the Intangibles Collateral including, without limitation, registration thereof with the appropriate state or federal governmental agency or department.

10. GENERAL REPRESENTATIONS AND WARRANTIES.

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In order to induce Lender to enter into this Agreement, Borrower hereby represents and warrants to Lender (which representations and warranties, together with the representations and warranties of Borrower contained in Articles 5, 6, 7, 8 and 9 shall be deemed to be renewed as of the date of the making of each Revolving Advance and after giving effect to all transactions and actions permitted by this Agreement as set forth in Sections 10.1 through 10.17, inclusive.

10.1 Existence and Qualification.

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Borrower is a corporation duly organized and validly existing under, and has filed (or will file prior to the due date therefor) its certified statement of annual registration and paid all fees due for the current year under, the laws of the State of Georgia. Borrower has its principal place of business, chief executive office and office where it keeps all of its books and records at the Executive Office and is duly qualified as a foreign corporation in good standing in any other state wherein the conduct of its business or the ownership

of its Property requires such qualification and the failure to so qualify would result in a material forfeiture. Except as may be set forth on Exhibit "D"

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attached hereto, Borrower does not do business under any name or trade style other than the name first inscribed hereinabove in the recitals hereto.

10.2 Authority; Validity and Binding Effect.  
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Borrower has the power to make, deliver and perform under the Loan Documents, and to borrow hereunder, and has taken all necessary and appropriate corporate or partnership action to authorize the execution, delivery and performance of the Loan Documents. This Agreement constitutes, and the remainder of the Loan Documents, when executed and delivered for value received, will constitute, the valid obligations of Borrower, legally binding upon it and enforceable against it in accordance with their respective terms, except as may be limited by bankruptcy, insolvency or other, similar laws affecting the enforcement of creditor's rights generally. The undersigned officers or representatives of Borrower are duly authorized and empowered to execute, attest and deliver this Agreement and the remainder of the Loan Documents for and on behalf of Borrower, and to bind Borrower accordingly thereby.

10.3 No Material Litigation.  
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There are no proceedings pending or, so far as Borrower or its officers know, threatened, before any court or administrative agency which in Borrower's present opinion could reasonably be expected to materially and adversely affect the financial condition or operations of Borrower.

10.4 Taxes.  
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Borrower has filed or caused to be filed all tax returns required to be filed by it and have paid all taxes shown to be due and payable by it on said returns or on any assessments made against them.

10.5 Organization.  
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The articles of incorporation of and bylaws of Borrower are in full force and effect under the laws of the State of Georgia and all amendments (if any) thereto have been duly and properly made under and in accordance with all applicable laws.

10.6 Insolvency.  
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After giving effect to the funding of the initial Revolving Advances to be made on the Closing Date, and the other transactions contemplated by this Agreement and the uses by Borrower of the proceeds of the such loans and advances as provided hereunder, (a) the fair value and present fair saleable value of Borrower's assets are in excess of the total amount of Borrower's liabilities, including known contingent liabilities; (b) Borrower will not have incurred debts, nor will it intend to incur debts, beyond its ability to pay such debts as they mature; and (c) Borrower does not have unreasonably small capital to carry on Borrower's business as theretofore operated and all businesses in which Borrower is about to engage. As used in this Section 10.7, "debt" means any liability on a claim, and "claim" means (i) the right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured, or (ii) the right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured.

10.7 Title.  
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Borrower owns all of its Properties subject to no Lien of any kind except as otherwise disclosed in writing to Lender and, as to the Collateral, except

for the Permitted Encumbrances.

10.8 Margin Stock.

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No Borrower is engaged principally, or as one of its important activities, in the business of purchasing or carrying any Margin Stock and no part of the proceeds of any borrowing made pursuant hereto will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock, or be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation X of the Board of Governors of the Federal Reserve System. In connection herewith, if requested by Lender, Borrower will furnish to each Lender a statement in conformity with the requirements of Federal Reserve Form F.R. U-1 referred to in Regulation U of said Board to the foregoing effect.

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10.9 No Violations.

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The execution, delivery and performance by Borrower of this Agreement and the Loan Documents have been duly authorized by all necessary corporate or partnership action and do not and will not require any consent or approval of the shareholders or any partner of Borrower which will not have been obtained prior to the Closing Date, violate any provision of any material law, rule, regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System), order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to Borrower or of the articles of incorporation or bylaws of Borrower, or result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which Borrower is a party or by which it or its properties may be bound or affected; and Borrower is not in default under any such material law, rule, regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument.

10.10 ERISA.

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Borrower is in substantial compliance with the requirements of ERISA with respect to each Employee Benefit Plan. No fact, including, but not limited to, any Reportable Event exists in connection with any Plan which, more likely than not, would constitute grounds for the termination of any such Plan by the PBGC or for the appointment by the appropriate United States district court of a trustee to administer any such Plan. Borrower does not maintain or contribute to any Plan which has an "accumulated funding deficiency" (as defined in Section 412 of the Internal Revenue Code). Borrower does not maintain or contribute to any Plan which has incurred any material liability to the PBGC (other than for premium payments due in the ordinary course of business, which premiums will be paid when due and payable). Borrower does not maintain or contribute to any Plan which has insufficient assets to qualify for a standard termination pursuant to Section 4041 of ERISA. Borrower is not required pursuant to the terms of any applicable collective bargaining agreement to pay or accrue any contributions with respect to any Plan which is a Multiemployer Plan and there has been no complete or partial withdrawal by Borrower from any such Multiemployer Plan within the contemplation of MPPAA. Except as concurrently herewith disclosed to Lender in writing, (A) Borrower does not maintain or contribute to any Employee Benefit Plan which provides medical benefits, life insurance benefits or other welfare benefits as defined in Section 3(1) of ERISA (excluding severance pay and benefits required under Section 601 of ERISA) for former employees of Borrower, and (B) Borrower does not maintain or contribute to any non-qualified, unfunded deferred compensation plan. Neither Borrower nor any fiduciary with respect to any Employee Benefit Plan has engaged in a "Prohibited transaction" within the meaning of Section 4975 of the Internal Revenue Code or Section 406 of ERISA with respect to any Employee Benefit Plan.

10.11 Financial Statements.

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The audited financial statements of Borrower for its most recently completed fiscal year and the unaudited financial statements of Borrower for the most recently completed fiscal quarter, copies of which have heretofore been furnished to Lender, are complete and accurately

and fairly represent the financial condition of Borrower, the results of its operations and the transactions in its equity accounts as of the date and for the periods referred to therein, and have been prepared in accordance with GAAP throughout the period involved. There is no material Debt of Borrower as of the date of such financial statements which is not reflected therein or in the notes thereto. There has been no material adverse change in the financial conditions or operations of Borrower since the respective dates of the balance sheets contained in such financial statements.

10.12 Purchase of Collateral.  
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Borrower has not purchased any of the Collateral in a bulk transfer or in a transaction which was outside the ordinary course of the business of Borrower's seller.

10.13 Pollution and Environmental Control.  
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Borrower has obtained all permits, licenses and other authorizations which are required under, and is in material compliance with all Environmental Laws the noncompliance with which would or might have a material adverse effect on its business, financial condition or Property.

10.14 Possession of Franchises, Licenses, Etc.  
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Borrower possesses all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities, and all patents, trademarks, service marks, trade names, copyrights, licenses and other rights, free from burdensome restrictions, that are necessary for the ownership, maintenance and operation of any of its material Property and assets, and Borrower is not in violation of any thereof which would or might have a material adverse effect on its business, financial condition or Property.

10.15 Disclosure.  
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To Borrower's knowledge, neither this Agreement nor any other document, certificate or statement furnished to Lender by or on behalf of Borrower in connection herewith contain any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. To Borrower's knowledge, there is no fact peculiar to Borrower which materially adversely affects or in the future may (so far as Borrower can now reasonably foresee) materially adversely affect the business, Property or assets, or financial condition of Borrower which has not been set forth in this Agreement or in the other documents, certificates and statements furnished to Lender by or on behalf of Borrower prior to the date hereof in connection with the transactions contemplated hereby, when taken as a whole.

10.16 Subsidiaries.  
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Borrower has no Subsidiaries.

10.17 Year 2000 Readiness.  
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Borrower represents and warrants that it has developed, or will have developed by June 30, 1999, a comprehensive plan (the "Y2K Plan") for insuring that Borrower's computer hardware, software and related systems will be Y2K compliant. Borrower represents and warrants that it has taken or will take all required actions to meet each Y2K Plan milestone such that all computer hardware, software and related systems will be Year 2000 compliant in accordance with its Y2K Plan. "Y2K compliant" shall mean that all applicable computer hardware, software and related systems used by Borrower in its business operations will (i) handle date information involving any and all dates before, during or after January 1, 2000, including accepting input, providing output and

performing date calculations in whole or in part, (ii) operate accurately without interruption on or in respect of any and all dates before, during or after January 1, 2000 and without any change in performance, (iii) respond to and process two digit year input without creating any ambiguity as to the century, and (iv) store and provide date input information without creating any ambiguity as to the century.

11. GENERAL AFFIRMATIVE COVENANTS.  
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Borrower covenants to Lender that from and after the date hereof, and until such time as Lender shall have terminated this Agreement in writing, Borrower will comply with and cause each Subsidiary to comply with the covenants set forth in Sections 11.1 through 11.18, inclusive.

11.1 Records Respecting Collateral.  
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All records of Borrower with respect to the Collateral will be kept at the Executive Office (as it may be changed pursuant to Section 11.12) and will not be removed from such address without the prior written consent of Lender.

11.2 Further Assurances.  
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Borrower shall duly execute and/or deliver (or cause to be duly executed and/or delivered) to Lender any instrument, invoice, document, document of title, dock warrant, dock receipt, warehouse receipt, bill of lading, order, financing statement, assignment, waiver, consent or other writing which may be reasonably necessary to Lender to carry out the terms of this Agreement and any of the other Loan Documents and to perfect its security interest in and facilitate the collection of the Collateral, the proceeds thereof, and any other property at any time constituting security to Lender. Borrower shall perform or cause to be performed such acts as Lender may reasonably request to establish and maintain for Lender a valid and perfected Lien on the Collateral, free and clear of any Liens other than in favor of Lender and other than the Permitted Encumbrances.

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11.3 Right to Inspect.  
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Lender (or any person or persons designated by it) shall, in its sole discretion, have the right to call at any place of business of Borrower or any of its Subsidiaries at any reasonable time during normal business hours upon advance notice reasonable under the circumstances), and, without hindrance or delay, inspect the Collateral and inspect, audit, check and make extracts from Borrower's or such Subsidiary's books, records, journals, orders, receipts and any correspondence and other data relating to the Collateral, to Borrower's or its Subsidiaries, business or to any other transactions between the parties hereto. Without limiting the foregoing, Lender shall be entitled to perform periodic field audits of Borrower's operations. Lender shall hold in confidence Borrower's and its Subsidiaries' confidential or proprietary information obtained pursuant to this Agreement and shall not disclose the same to any third party, except: (i) as required by law or by judicial or administrative process

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or to appropriate regulatory authorities and (ii) to Lender's attorneys and accountants, who have previously or contemporaneously therewith been advised of the confidential and proprietary nature of such information, and who have agreed to maintain the confidential nature thereof.

11.4 Reports.  
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Borrower shall within forty-five (45) days after the end of each fiscal quarter furnish or cause to be furnished to Lender a status report concerning Borrower's Accounts Receivable, certified by a duly authorized officer on behalf of Borrower in such form as is reasonably acceptable to Lender. Additionally, Lender may, at any time, request that Borrower verify the individual account balances of the individual Account Debtors by such means as Borrower and Lender then mutually agree, provided that, after any Event of Default has continued and while it is continuing Lender shall have the further right to verify such balances directly. In any event, upon request from Lender, made at any time

hereafter, Borrower shall furnish Lender with a then current Account Debtor address list.

11.5 Settlement Sheets.  
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To the extent requested by Lender, by the twentieth (20th) day of each calendar month for the calendar month just ended, or more frequently if requested by Lender, Borrower shall prepare and deliver to Lender a settlement report with respect to satisfaction of the Margin Requirement as of the date of report submission (to include a calculation of Eligible Accounts) to be in such form as Lender may deliver for such purpose to Borrower from time to time hereafter, the statements in which, in each instance, shall be certified as to truth and accuracy by a duly authorized officer on behalf of Borrower.

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11.6 Periodic Financial Statements of Borrower.  
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Borrower shall, as soon as practicable, and in any event within forty-five (45) days after the end of each fiscal quarter, furnish to Lender, unaudited financial statements of Borrower and its consolidated Subsidiaries, on a consolidating basis, including balance sheets and income statements, for the fiscal quarter then ended, and for the fiscal year to date, certified as to truth and accuracy by Borrower's chief executive officer or chief financial officer.

11.7 Annual Financial Statements of Borrower.  
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Borrower shall, as soon as practicable, and in any event within one hundred twenty (120) days after the end of each Fiscal Year, furnish to Lender the annual audit report of Borrower and its consolidated Subsidiaries, on a combined basis, including a balance sheet, and statement of cash flow, as appropriate (but, for the current fiscal year being a balance sheet only), certified without material qualification, by Arthur Andersen, LLP or such other independent certified public accountants selected by Borrower but acceptable to Lender, and prepared in accordance with GAAP. Borrower shall cause said accountants to furnish Lender, together with the aforesaid audit report, a statement that, in the normal course of making their examination of such financial statements, they obtained no knowledge of any Event of Default or Default Condition relating to this Agreement or the Notes, or, in lieu thereof, a statement specifying the nature and period of existence of any such Event of Default or Default Condition disclosed by their examination.

11.8 Payment of Taxes.  
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Borrower shall pay and discharge all taxes, assessments and governmental charges upon its income and its Property the non-payment of which could reasonably be expected to have a material adverse effect on Borrower's financial condition or business operations prior to the date on which penalties attach thereto, unless and to the extent only that (x) such taxes, assessments and governmental charges are being contested in good faith and by appropriate proceedings by Borrower or its applicable Subsidiary and (y) Borrower maintains reasonable reserves on its books therefor in accordance with GAAP.

11.9 Maintenance of Insurance.  
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In addition to and cumulative with any other requirements imposed herein or in any Loan Document on Borrower with respect to insurance, Borrower shall maintain insurance with responsible insurance companies on such of its Property, in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity, but in any event to include public liability, worker's compensation, loss, damage, flood, windstorm, fire, theft, extended coverage and product liability insurance in amounts reasonably satisfactory to Lender, which such insurance shall not be cancellable by Borrower, unless with the prior written consent of Lender, or by Borrower's insurer, unless with at least thirty (30) days advance written

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notice to Lender thereof. Borrower shall file with Lender on or before the Closing Date and annually upon Lender's request thereafter copies of insurance policies, certified by an officer of Borrower's insurance company, to Lender's satisfaction, of such insurance then in effect stating the names of the insurance companies, the amounts and rates of insurance, the date of expiration thereof, the properties and risks covered thereby and the insured with respect thereto, and, within thirty (30) days after notice in writing from Lender, obtain such additional insurance as Lender may reasonably request.

11.10 Maintenance of Property.  
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Borrower shall maintain its Properties in good working condition, ordinary wear and tear excepted.

11.11 Certificate of No Event of Default; Compliance Certificate;  
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Notice of Default.  
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Borrower shall, on a quarterly basis not later than forty-five (45) days after the close of each of its first three (3) fiscal quarters and not later than one hundred twenty (120) days after the close of its Fiscal Year, certify to Lender, in a statement executed by Borrower's chief executive officer or chief financial officer, as appropriate, that no Event of Default and no Default Condition exists or has occurred and is existing, or, if an Event of Default or Default Condition exists, specifying the nature and period of existence thereof and setting forth the action which Borrower proposes to take with respect thereto. Such certificate shall be accompanied by the certificate of such officer on behalf of Borrower showing, in reasonable detail, compliance with Sections 12.1 through 12.3, inclusive, by Borrower for the immediately preceding fiscal quarter. In addition, promptly upon its becoming aware of the occurrence of any Default Condition or Event of Default, Borrower will notify Lender thereof in writing, specifying the nature and period of existence thereof and the action which Borrower proposes to take with respect thereto.

11.12 Change of Principal Place of Business, Etc.  
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Borrower hereby understands and agrees that if, at any time hereafter, it elects either (i) to move its Executive Office, (ii) to change its name, identity or its structure to other than a corporate structure, or (iii) to add any Collateral Location, Borrower will notify Lender in writing at least thirty (30) days prior thereto and take such action in regard thereto as Lender may reasonably request to continue the perfection of the Lender's security interest in the Collateral in respect of such change.

11.13 Waivers.  
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With respect to each of the Collateral Locations, Borrower will obtain such waivers of lien, estoppel certificates or subordination agreements as Lender may reasonably require to insure the priority of its security interest in that portion of the Collateral situated at such locations.

11.14 Preservation of Corporate Existence.  
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Borrower shall preserve and maintain its corporate existence, rights, franchises and privileges in its jurisdiction of incorporation, and qualify and remain qualified as a foreign corporation or partnership (if applicable) in each Collateral Location state and each jurisdiction in which such qualification is necessary or desirable in view of its business and operations or the ownership of its Property to avoid a material forfeiture.

11.15 Compliance with Laws.  
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Borrower shall comply in all material respects with the requirements of all applicable laws, rules, regulations and orders of any governmental authority, noncompliance with which would materially adversely affect its business or

credit. Without limiting the foregoing, Borrower shall obtain and maintain all permits, licenses and other authorizations which are required under, and otherwise comply with, all Environmental Laws (as defined in Section 11.18(a)(i)), and all laws pertaining to consumer credit, privacy and telephonic transmissions.

11.16 ERISA.

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Borrower shall: (i) make prompt payments of contributions required by the terms of each Employee Benefit Plan or to meet the minimum funding standards set forth under ERISA with respect to each Employee Benefit Plan to which such standards apply; (ii) notify Lender immediately of any fact, including, but not limited to, any Reportable Event, arising in connection with any Plan which, more likely than not, would constitute grounds for the termination thereof by the PBGC or for the appointment by the appropriate United States district court of a trustee to administer the Plan; (iii) notify Lender immediately of Borrower's or any Subsidiary's intent to terminate any Plan; (iv) notify Lender immediately of the adoption of an amendment to any Plan (or of any other Event) which causes any Plan to fail to have sufficient assets to qualify for a standard termination under Section 4041 of ERISA; (v) notify Lender immediately if the aggregate unfunded liability with regard to all Plans increases to an amount in excess of One Hundred Thousand Dollars (\$100,000); (vi) notify Lender immediately such if Borrower obtains information indicating that the aggregate withdrawal liability with regard to all Plans increases to an amount in excess of One Hundred Thousand Dollars (\$100,000); (vii) notify Lender immediately of any filing of a request for a waiver of the minimum funding standard with regard to any Employee Benefit Plan to which such standard applies; (viii) promptly after receipt thereof, furnish to Lender a copy of any notice received by Borrower or any of its Subsidiaries from the PBGC relating to the intention of the PBGC to terminate any Plan or to appoint a trustee to administer any Plan; (ix) promptly after receipt thereof furnish to Lender a copy of any notice received by Borrower or any Subsidiary of Borrower from the Internal Revenue Service relating to the intention of the Internal Revenue Service to disqualify any Employee Benefit Plan or to refuse to grant a favorable determination letter with regard to any Employee Benefit Plan; (x) notify Lender immediately of any lawsuit, claim for damages or administrative proceeding in which an Employee Benefit Plan or a fiduciary with respect thereto is a defendant, wherein the amount of damages claimed exceeds, either alone or in the aggregate with all other such lawsuits, claims and administrative proceedings, One Hundred Thousand

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Dollars (\$100,000); and (xi) furnish to Lender, promptly upon its request therefor, such additional information concerning each and every Employee Benefit Plan, including, but not limited to, the annual report required to be filed under ERISA, as may be reasonably requested.

11.17 Litigation.

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Promptly, upon its receipt of notice or knowledge thereof, Borrower will report to Lender any lawsuit or administrative proceeding in which Borrower or any of its Subsidiaries is a defendant wherein the amount of damages claimed against Borrower or any of its Subsidiaries exceeds One Hundred Thousand Dollars (\$100,000).

11.18 Environmental Compliance.

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(a) Definitions. The following definitions shall apply for

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purposes of this Section 11.18:

(i) "Environmental Law" shall mean any federal, state or local

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statute, regulation or ordinance or any judicial or administrative decree or decision now or hereafter promulgated with respect to any "Hazardous Substance" (as hereinafter defined), drinking water, ground water, landfills, open dumps, storage tanks, underground storage tanks, solid waste, waste water, storm water runoff, waste emissions, or wells. Without limiting the generality of the foregoing, the term Environmental Law shall encompass each of the following statutes, as may be amended from time to time, and all regulations from time to time promulgated thereunder: the

Comprehensive Environmental Response, Compensation and Liability Act of 1980 (codified in scattered sections of 26 U.S.C.; 33 U.S.C.; 42 U.S.C. and 42 U.S.C. (S) 9601 et seq.), the Clean Water Act of 1977 (33 U.S.C. (S)

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1251 et seq.), the Clean Air Act (42 U.S.C. (S) 7401 et seq.), the Resource  
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Conservation and Recovery Act of 1976 (42 U.S.C. 9 6901 et seq.), the Safe  
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Drinking Water Act (21 U.S.C. (S) 349; 42 U.S.C. (S)(S) 201 and 300f  
through 300j-9) and the Toxic Substances Control Act (15 U.S.C. (S) 2601 et  
seq.).  
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(ii) "Release" shall mean any spilling, leaking, pumping,

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emitting, emptying, discharging, injecting, storing, escaping, leaching,  
dumping, or discharging, burying, abandoning, or disposing into the  
environment by Borrower or any Subsidiary or any predecessor in interest of  
Borrower.

(iii) "Hazardous Substance" shall mean each and every element,

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compound, chemical mixture, petroleum and gas product, substance,  
contaminant, pollutant including, without limitation, substances which are  
toxic, carcinogenic, ignitable, corrosive or otherwise dangerous to human,  
plant or animal health or well-being, and any other substance defined as a  
"hazardous substance," "hazardous waste," "hazardous material," "toxic  
material," "toxic waste," or "special waste" under any Environmental Law  
and any other substance which by law requires special handling in its  
collection, storage, treatment or disposal.

(b) Indemnity for Liabilities. Borrower shall indemnify Lender and

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hold Lender harmless from and against any and all claims, demands, losses,  
liabilities, strict liabilities, damages, sanctions, penalties, fines, injuries,  
expenses, costs (including attorney's fees), settlements, or judgments of any  
and every kind whatsoever paid incurred or suffered by, or asserted against,  
Lender by any Person arising out of, in connection with or related in any way to  
(a) the Release or presence at, from, on, in or under any Collateral Location of  
any Hazardous Substance, or (b) any act, omission, condition, conduct,  
transaction or occurrence at, from, on or under any Collateral Location in  
violation of any Environmental Law, in each case, if and to the extent caused by  
or within the control of Borrower or any Subsidiary.

(c) Notice to Lender. If Borrower receives any notice of (i) Release

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of any Hazardous Substance, notification of which must be given to any  
governmental agency under any Environmental Law, or notification of which has,  
in fact, been given to any governmental agency, or (ii) any complaint, order,  
citation or notice with regard to air emissions, water discharges, or any other  
environmental health or safety matter affecting Borrower or any Collateral  
Location from any person or entity (including, without limitation, the  
Environmental Protection Agency), then Borrower shall immediately notify Lender  
orally and in writing of said Release, complaint, order, citation or notice.

(d) Environmental Audit. Lender shall have the right, after the

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occurrence of any event required to be reported to Lender pursuant to Section  
11.18(c) hereof which is caused by or within the control of Borrower, in its  
sole discretion, exercised in a commercially reasonable manner, to require  
Borrower to perform, at Borrower's expense using an environmental consultant  
selected by Borrower and acceptable to Lender, an environmental audit and, if  
deemed necessary by Lender, an environmental risk assessment, each of which  
must be satisfactory to Lender. Should Borrower fail to order any such  
environmental audit or risk assessment within thirty (30) days after Lender's  
written request, Lender shall have the right but not the obligation to retain an  
environmental consultant to perform any such environmental audit or risk  
assessment. All costs and expenses incurred by Lender in the exercise of such  
rights may be charged by Lender as Revolving Advances.

(e) Survival. Assignability, and Transferability. The indemnity set

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forth in subsection (a) of this Section 11.18 shall survive any exercise by Lender or Lender of any remedies under this Agreement or any Loan Document, including without limitation any power of sale, and shall not merge with any deed or bill of sale given by Borrower to Lender in lieu of foreclosure or any deed or bill of sale given pursuant to a foreclosure. It is agreed and intended by Borrower and Lender that the indemnity set forth above in subsection (a) of this Section 11.18 may be assigned or otherwise transferred by Lender to its successors and assigns and to any subsequent purchasers of all or any portion of any Collateral by, through or under Lender, without notice to Borrower and without any further consent of any other Person. To the extent consent to any such assignment or transfer is required by applicable law, advance consent to any such assignment or transfer is hereby given by Borrower in order to maximize the extent and effect of the warranties, representations, and indemnity given hereby.

12. FINANCIAL COVENANTS.  
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From and after the date hereof, and until such time as Lender shall have terminated this Agreement in writing, the covenants set forth in Sections 12.1 and 12.3, inclusive, shall apply to Borrower on a consolidated basis in respect of its financial condition and performance.

12.1 Debt/Tangible Net Worth Ratio.  
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Borrower shall have at all times a Leverage Ratio of not more than 2.5:1.

12.2 Tangible Net Worth.  
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The Tangible Net Worth of Borrower shall at all times be at least Thirty Million Dollars (\$30,000,000), all as determined under GAAP, and shall annually increase over the amount as of the year end of the prior Fiscal Year.

12.3 Fixed Charge Coverage Ratio.  
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Borrower shall maintain as of the end of each fiscal quarter in each Fiscal Year a Fixed Charge Coverage Ratio of at least 1.2:1, as determined under GAAP on a rolling four (4) quarters' basis.

13. NEGATIVE COVENANTS.  
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Borrower covenants to Lender that from and after the date hereof and until such time as Lender shall have terminated this Agreement in writing, Borrower will not, without the prior written consent of Lender, do or permit to be done by any Subsidiary any of the things or acts set forth in Sections 13.1 through 13.11, inclusive.

13.1 No Liens.  
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Create, assume, or suffer to exist any Lien of any kind in or on any of its Property except for Permitted Encumbrances.  
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13.2 Debt.  
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Incur, assume, or suffer to exist any Debt, except for: (i) the Obligations  
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and any other Debt for borrowed funds existing on the date of this Agreement; (ii) Debt for borrowed funds incurred pursuant to financial contractual agreements made and entered into, and disclosed in writing to Lender, prior to the date of this Agreement; (iii) Debt for borrowed funds owing to Lender, whether hereunder or otherwise; (iv) trade payables and contractual obligations to suppliers and customers incurred in the ordinary course of business; (v) accrued pension fund and other employee benefit plan obligations and liabilities (provided, however, that such Debt does not result in the existence of any Event

of Default or Default Condition under any other provision of this Agreement); (vi) deferred taxes; (vii) Debt resulting from endorsements of negotiable instruments received in the ordinary course of its business; (viii) Debt arising in respect of "Permitted Encumbrances"; (ix) Debt arising from the receipt of intercompany loans

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or advances from any Subsidiary; and (x) purchase money Debt not exceeding at any one time, in the aggregate, Five Hundred Thousand Dollars (\$500,000).

13.3 Contingent Liabilities.

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Guarantee, endorse, become surety with respect to or otherwise become directly or contingently liable for or in connection with the obligations of any other Person, except guarantees in favor of Lender and endorsements of negotiable instruments for collection in the ordinary course of business.

13.4 Distributions.

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Except as otherwise provided herein, pay any dividend, make any distribution or take any action which would have an effect equivalent to any of the foregoing; provided, however, that, notwithstanding the foregoing so long as

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no Event of Default then exists or would be caused by or result from the making of such payment, Borrower may pay dividends and make distributions from time to time in an amount not in excess of forty percent (40%) of Borrower's Net Income.

13.5 Stock Redemptions, Etc.

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Purchase, redeem, or otherwise acquire for value any shares of any class of capital stock if (i) any Event of Default then exists or would be caused by or result from the making of such payment or (ii) Borrower is then prohibited from doing so by applicable law.

13.6 Restricted Investment.

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Make any Restricted Investment, except that Borrower may make loans and advances to any of its Subsidiaries at any time or from time to time.

13.7 Merger, Transfer, Etc.

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Dissolve or otherwise terminate its corporate status; or enter into any merger, reorganization or consolidation; make any substantial change in the basic type of business conducted by it as of the date hereof; or sell, assign, lease or otherwise dispose of (whether in one transaction or a series of transactions) all, substantially all or a substantial part of its property or assets, other than sales in the ordinary course of business.

13.8 ERISA.

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Permit any Plan to become underfunded such that it would not have sufficient assets in order to qualify for a standard termination under Section 4041 of ERISA.

13.9 Transactions with Affiliates.

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Enter into, or be a party to, any transaction with any Affiliate of Borrower, except in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms that are no less favorable to Borrower or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person not an Affiliate or as otherwise may be approved in writing by Lender from time to time hereafter, upon full disclosure to Lender, or has been disclosed to Lender on or before the date hereof.

13.10 Fiscal Year.

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Change its Fiscal Year end from that in effect on the Closing Date, except that Borrower may change its Fiscal Year to December 31.

14. EVENTS OF DEFAULT.

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The occurrence of any events or conditions described in Sections 14.1 through 14.14 shall constitute an Event of Default hereunder, provided that any requirement for the giving of notice or the lapse of time, or both, has been satisfied.

14.1 Notes.

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Borrower shall fail to make any payment of principal of or interest on the Revolving Note within five (5) calendar days after the date when due.

14.2 Obligations.

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Borrower shall fail to make any payments of principal of or interest on any of the Obligations (other than the Notes) or any other Obligations to Lender, within five (5) calendar days after receipt of notice from Lender of such failure to make payment (or after satisfaction of any shorter or longer requirement for the giving of notice or the lapse of time, or both, contained in the applicable agreement pertaining to such Obligations).

14.3 Misrepresentations.

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Borrower shall make any representations or warranties in any of the Loan Documents or in any certificate or statement furnished at any time hereunder or in connection with any of the Loan Documents which, when taken as a whole, proves to have been untrue or misleading in any material respect when made or furnished.

14.4 Covenants.

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Borrower shall default in the observance or performance of any covenant or agreement contained herein or in any of the other Loan Documents (other than a failure described in Sections 14.1 or 14.2), unless such default is cured within ten (10) calendar days after Borrower's receipt of notice from Lender of such Default Condition.

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14.5 Damage, Loss, Theft or Destruction of Collateral.

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There shall have occurred material uninsured damage to, or loss, theft or destruction of, any part of the Collateral of Borrower, or Borrower considered as a whole, having a then current value in excess of One Hundred Thousand Dollars (\$100,000), unless such default is cured within ten (10) days after Borrower, receipt of notice from Lender of such Default Condition.

14.6 Other Debts.

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Borrower shall default in connection with any agreement evidencing, securing or relating to any other Debt to, or under any operating lease with, either Lender or, with respect to any Debt of One Hundred Thousand Dollars (\$100,000) or more with any creditor other than a Lender, unless such default is cured within thirty (30) days after Borrower's receipt of notice from Lender of such Default Condition.

14.7 Voluntary Bankruptcy.

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Borrower shall file a voluntary petition in bankruptcy or a voluntary petition or answer seeking liquidation, reorganization, arrangement,

readjustment of its debts, or for any other relief under the Bankruptcy Code, or under any other act or law pertaining to insolvency or debtor relief, whether state, federal, or foreign, now or hereafter existing; Borrower, shall enter into any agreement indicating its consent to, approval of, or acquiescence in, any such petition or proceeding; Borrower shall apply for or permit the appointment by consent or acquiescence of a receiver, custodian or trustee of Borrower for all or a substantial part of its Property; Borrower shall make an assignment for the benefit of creditors; or Borrower shall be unable or shall fail to pay its debts generally as such debts become due; or Borrower shall admit, in writing, its inability or failure to pay its debts generally as such debts become due.

14.8 Involuntary Bankruptcy.  
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There shall have been filed against Borrower an involuntary petition in bankruptcy or seeking liquidation, reorganization, arrangement, readjustment of its debts or for any other relief under the Bankruptcy Code, or under any other act or law pertaining to insolvency or debtor relief,, whether state, federal or foreign, now or hereafter existing, which has not been dismissed within ninety (90) days of the date the petition is filed; Borrower shall suffer or permit the involuntary appointment of a receiver, custodian or trustee of Borrower or for all or a substantial part of its Property; or Borrower shall suffer or permit the issuance of a warrant of attachment, execution or similar process against all or any substantial part of the Property of Borrower.

14.9 Judgments.  
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Final judgments or orders for the payment of money are rendered against Borrower the aggregate amount of One Hundred Thousand Dollars (\$100,000) or more (exclusive of amounts covered by insurance) which are not satisfied within sixty (60) days after their being rendered.

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14.10 ERISA.  
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The occurrence of any of the following events: (i) the termination of any Plan in a distress termination under Section 4041(c) of ERISA or an involuntary termination under Section 4042 of ERISA; (ii) the filing of a request for a waiver of the minimum funding standard with regard to any Employee Benefit Plan; (iii) the occurrence of any event which causes any Plan to cease to have sufficient assets at all times so as to qualify for a standard termination under Section 4041 of ERISA; (iv) the occurrence of any event which causes the unfunded liability with regard to all such Plans in the aggregate to become an amount in excess of One Hundred Thousand Dollars (\$100,000); (v) the occurrence of any event which causes the withdrawal liability with regard to all Plans to become an amount in excess of One Hundred Thousand Dollars (\$100,000); (vi) the appointment of a trustee by an appropriate United States district court to administer any Plan; or (vii) the institution of any proceedings by the PBGC to terminate any such Plan or to appoint a trustee to administer any such Plan; unless, in each case, such default is cured within thirty (30) days after Borrower's receipt of notice from Lender of such Default Condition.

14.11 Change of Control.  
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Scott Dorfman shall cease to own, beneficially and of record, with unlimited power to vote, at least fifty percent (50%) of the issued and outstanding capital stock of Borrower.

14.12 Material Adverse Change.  
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The occurrence of any material change in the business, financial condition or results of operations of Borrower which Lender reasonably determines, in good faith, materially and adversely affects the ability of Borrower to pay and perform its Obligations to Lender unless such default is cured within thirty (30) days after Borrower's receipt of notice from Lender of such Default Condition.

14.13 Change of Management.

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If Scott Dorfman shall cease to serve as the Chief Executive Officer of Borrower or, if another officer of Borrower is given such title, to hold a position with Borrower in which he would nevertheless be entitled to exercise the authority of the highest executive officer of Borrower.

15. REMEDIES.  
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Upon the occurrence and during the continuation of any Default Condition or Event of Default, Lender's obligation to extend financing under the Revolving Line of Credit shall immediately cease and the Revolving Line of Credit shall terminate; provided, however, that if such obligations have ceased and

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commitments terminated due to the occurrence of a Default Condition, and such Default Condition does not become an Event of Default due to its having been cured or waived before it has matured into an Event of Default, then such obligation shall be reinstated as of the date such Default Condition is cured or waived. Upon the occurrence or existence of any Event of Default, or at any time thereafter, without prejudice to the rights of Lender to enforce its claims against Borrower for damages for failure by Borrower to fulfill any of its obligations hereunder, subject only to prior receipt by Lender of payment in full of all Obligations then outstanding in a form acceptable to Lender, Lender shall have all of the rights and remedies described in Sections 15.1 through 15.4, inclusive, and Lender may exercise any one, more, or all of such remedies, in its sole discretion, without thereby waiving any of the others.

15. Acceleration of the Obligations.  
-----

Lender, at its option, may by written notice, effective upon receipt, declare all of the obligations (including but not limited to that portion thereof evidenced by any Notes) to be immediately due and payable (and in the event a voluntary or involuntary case is commenced under the Bankruptcy Code by or against Borrower as a debtor, all Obligations automatically will be due and payable without any notice or declaration by Lender), whereupon the same shall become immediately due and payable without presentment, demand, protest, notice of nonpayment or any other notice required by law relative thereto, all of which are hereby expressly waived by Borrower, anything contained herein to the contrary notwithstanding and, in connection therewith, Lender shall have the right to increase the rate of interest charged on the Notes, without further notice, to a rate per annum equal to the Default Rate. Thereafter, Lender, at its option, may, but shall not be obligated to, accept less than the entire amount of Obligations due, if tendered, provided, however, that unless then agreed to in writing by Lender, no such acceptance shall or shall be deemed to constitute a waiver of any Event of Default or a reinstatement of any commitments of Lender hereunder.

15.2 Remedies of a Secured Party.  
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Lender shall thereupon have the rights and remedies of a secured party under the UCC in effect on the date thereof (regardless of whether the same has been enacted in the jurisdiction where the rights or remedies are asserted), including, without limitation, the right to take the Collateral or any portion thereof into its possession, by such means (without breach of the peace) and through agents or otherwise as it may elect (and, in connection therewith, demand that Borrower assemble the Collateral owned by it at a place or places and in such manner as the Lender shall prescribe), and sell, lease or otherwise dispose of the Collateral or any portion thereof in its then condition or following any commercially reasonable preparation or processing, which disposition may be by public or private proceedings, by one or more contracts, as a unit or in parcels, at any time and place and on any terms, so long as the same are commercially reasonable. Lender may apply the proceeds of any such sale or disposition of Borrower's

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Collateral to any of the obligations of Borrower in such order as Lender, in its sole discretion, may elect. Lender shall give the affected Borrower written notice of the time and place of any public sale of the Collateral or the time

after which any other intended disposition thereof is to be made, except where the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market. The requirement of sending reasonable notice shall be met if such notice is given to Borrower pursuant to Section 16.9 at least ten (10) calendar days before such disposition. Expenses of retaking, holding, insuring, preserving, protecting, preparing for sale or selling or the like with respect to the Collateral shall include, in any event, reasonable attorneys' fees and other legally recoverable collection expenses, all of which shall constitute Obligations.

15.3 Set Off.  
-----

In addition to such other rights and remedies with respect to the Balances Collateral as may exist from time to time hereafter in favor of Lender, whether by way of setoff, banker's lien, consensual security interest or otherwise, upon the occurrence of any Event of Default hereunder, each Lender may charge any part or all of the obligations of such Lender to Borrower represented by items constituting the Balances Collateral in the possession and control of Lender against the Obligations of Borrower without prior notice to or demand upon Borrower.

15.4 Other Remedies.  
-----

Unless and except to the extent expressly provided for to the contrary herein, the rights of Lender specified herein shall be in addition to, and not in limitation of, Lender's rights under the UCC, as amended from time to time, or any other statute or rule of law or equity, or under any other provision of any of the Loan Documents, or under the provisions of any other document, instrument or other writing executed by Borrower or any third party in favor of Lender, all of which may be exercised successively or concurrently.

16. MISCELLANEOUS.  
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16.1 Waiver.  
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Each and every right granted to Lender under this Agreement, or any of the other Loan Documents, or any other document delivered hereunder or in connection herewith or allowed it by law or in equity, shall be cumulative and may be exercised from time to time. No failure on the part of Lender to exercise, and no delay in exercising, any right shall operate as a waiver thereof, nor shall any single or partial exercise by Lender of any right preclude any other or future exercise thereof or the exercise of any other right. No waiver by Lender of any Default Condition or Event of Default shall constitute a waiver of any subsequent Default Condition or Event of Default.

16.2 Governing Law.  
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This Agreement and the other Loan Documents, and the rights and obligations of the parties hereunder and thereunder, shall be governed by, and construed and interpreted in accordance with, the laws of the State of Georgia.

16.3 Survival.  
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All representations, warranties and covenants made herein shall survive the execution and delivery of all of the Loan Documents.

16.4 No Assignment by Borrower.  
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No assignment hereof shall be made by Borrower without the prior written consent of Lender. Lender may assign, or sell participations and undivided ownership interests in, its rights, title and interest herein and in the Loan Documents at any time hereafter with written notice to, but without necessity of consent from, Borrower.

16.5 Counterparts.

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This Agreement may be executed in two or more counterparts, each of which when fully executed shall be an original, and all of said counterparts taken together shall be deemed to constitute one. and the same agreement.

16.6 Reimbursement.

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Borrower agrees pay to the Lender on demand all reasonable out-of-pocket costs and expenses that Lender may pay or incur in connection with the negotiation, preparation, consummation, enforcement and termination of this Agreement and the other Loan Documents, including, without limitation: (a) reasonable attorneys, fees and disbursements; (b) costs and expenses (including reasonable attorneys, fees and disbursements) for any amendment, supplement, waiver, consent or subsequent closing in connection with the Loan Documents and the transactions contemplated thereby; (c) costs and expenses of lien and title searches and title insurance; (d) taxes, fees and other charges for recording any deeds to secure debt, deeds of trust, mortgages,, filing financing statements and continuations, and other actions to perfect, protect and continue the Lien of Lender in the Collateral; (e) sums paid or incurred to pay for any amount or to take any action required of Borrower under the Loan Documents that Borrower fails to pay or take; (f) costs of appraisals, inspections, and verifications of the Collateral, including, without limitation, reasonable costs of travel, lodging, and meals for inspections of the Collateral and Borrower's operations by Lender; (g) costs and expenses of preserving and protecting the credit or the Collateral; and (h) costs and expenses (including reasonable attorneys, and paralegals, fees and disbursements) paid or incurred to obtain payment of the Obligations, enforce the Lien in the Collateral, sell or otherwise realize upon the Collateral, and otherwise enforce the provisions of the Loan Documents or to defend any claims made or threatened against Lender or either Lender arising out of the transactions contemplated hereby. Borrower further agrees to reimburse Lender for its actual out-of-pocket costs and expenses incurred in conducting field examinations and inspections of Borrower and its Properties in addition to the foregoing. The foregoing shall not be construed to limit any other provisions of the Loan Documents regarding costs and expenses to be paid by Borrower. All of the foregoing costs and expenses may, in the discretion of Lender, be charged to Borrower's loan account as Revolving Advances. Borrower will also pay all expenses incurred by them in this transaction. In the event Borrower becomes a debtor under the Bankruptcy Code, Lender's secured claim in such case shall include interest on the Obligations and all fees, costs and charges provided for herein (including, without limitation, reasonable attorneys' fees) all for the extent allowed by the Bankruptcy Code.

16.7 Successors and Assigns.

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

16.8 Severability.

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If any provision of any of the Loan Documents or the application thereof to any party thereto or circumstances shall be invalid or unenforceable to any extent, the remainder of such Loan Documents and the application of such provisions to any other party thereto or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

16.9 Notices.

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All notices, requests and demands to or upon the respective parties hereto shall be deemed to have been properly given or made when personally delivered or five (5) calendar days after being deposited in the mail, registered or certified mail, return receipt requested, with sufficient postage prepaid, addressed as follows or to such other address as may be designated hereafter in writing by the respective parties hereto:

Borrower:

Innotrac Corporation  
6655 Sugarloaf Parkway  
Duluth, Georgia 30097  
Attn: Scott Dorfman, President

With a copy to:

Kilpatrick Stockton LLP  
Suite 2800  
1100 Peachtree Street  
Atlanta, Georgia 30309-4530  
Attn: Gregory K. Cinnamon, Esq.

Lender:

SouthTrust Bank, N.A.  
One Georgia Center  
27th Floor  
600 West Peachtree Street  
Atlanta, Georgia 30308  
Attn: Noble Jones, Vice President

With a copy to:

Smith, Gambrell & Russell, LLP  
Suite 3100, Promenade II  
1230 Peachtree Street, N.E.  
Atlanta, Georgia 30326  
Attn: L. Brett Lockwood, Esq.

except in cases where it is expressly provided herein or by applicable law that such notice, demand or request is not effective until received by the party to whom it is addressed in which instance rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed to be receipt of the notice, demand or request sent. By giving at least thirty (30) days written notice thereof, Borrower or Lender shall have the right

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time to time and at any time to change their respective addresses and each shall have the right to specify any other address within the continental United States of America.

16.10 Entire Agreement; Amendments.  
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This Agreement, together with the Loan Documents executed in connection therewith, collectively constitute the entire agreement between the parties hereto with respect to the subject matter hereof. Neither this Agreement or any Loan Document nor any provision hereof or thereof may be changed, waived, discharged, modified or terminated orally, but only by an instrument in writing signed by the party against whom enforcement is sought.

16.11 Time of the Essence.  
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Time is of the essence in this Agreement and the other Loan Documents.

16.12 Interpretation.  
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No provision of this Agreement shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured or dictated such provision.

16.13 Lender Not Joint Venturer.  
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Neither this Agreement nor any agreements, instruments, documents or transactions contemplated hereby (including the Loan Documents) shall in any respect be interpreted, deemed or construed as making Lender a partner or joint venturer with Borrower or as creating any similar relationship or entity, and Borrower agrees that it will not make any contrary assertion, contention, claim or counterclaim in any action, suit or other legal proceeding involving either Lender or Borrower.

16.14 Jurisdiction.  
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Borrower agrees that any legal action or proceeding with respect to this Agreement or any Loan Document may be brought in the courts of the State of Georgia or the United States District Court, Northern District of Georgia, Atlanta Division. By execution of this Agreement, Borrower hereby submits to each such jurisdiction, hereby expressly waiving whatever rights may correspond to it by reason of its present or future domicile. Nothing herein shall affect the right of Lender to commence legal proceedings or otherwise proceed against Borrower in any other jurisdiction or to serve process in any manner permitted or required by law.

16.15 Acceptance.  
-----

This Agreement, together with the other Loan Documents, shall not become effective unless and until delivered to Lender at its office in Atlanta, Georgia and accepted in writing by

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Lender thereafter at such office as evidenced by its execution hereof (notice of which delivery and acceptance is hereby waived by Borrower).

16.16 Payment on Non-Business Days.  
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Whenever any payment to be made hereunder or under any Note shall be stated to be due on a day which is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest hereunder or under the Notes.

16.17 UCC Terminations.  
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Borrower agrees that Lender shall not be required to execute any such UCC termination statements with respect to any Collateral unless and until all Obligations have been paid in full and Lender shall have terminated this Agreement in writing, which Lender shall do within a reasonable amount of time after the Obligations have been paid in full.

16.18 Cure of Default by Lender.  
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If, hereafter, Borrower defaults in the performance of any duty or obligation to Lender hereunder or under any Loan Document or to any other Person (including, without limitation, any lessor, licensor, vendor, processor, shipper, carrier or warehouseman), Lender may, at its option, but without obligation, in order to protect or preserve Lender's credit or the Collateral, Cure such default and any costs, fees and expenses incurred by Lender in connection therewith including, without limitation, for the purchase of insurance, the payment of taxes and the removal or settlement of liens and claims, shall be deemed to be Revolving Advances, made to Borrower, whether or not this creates an over-advance hereunder, and shall be payable in accordance with its terms.

16.19 Recitals.  
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All recitals contained herein are hereby incorporated by reference into this Agreement and made part thereof.

16.20 Attorney-in-Fact.  
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Borrower hereby designates, appoints and empowers Lender irrevocably as its attorney-in-fact, at Borrower's cost and expense, to do in the name of Borrower from and after the occurrence of, and during the continuation of, any Event of Default, any and all actions which Lender may deem reasonably necessary or advisable to carry out the terms hereof upon the failure, refusal or inability of Borrower to do so, and Borrower hereby agrees to indemnify and hold Lender harmless from any costs., damages, expenses or liabilities arising against or actually incurred by Lender in connection therewith, except those arising from the willful misconduct or gross negligence of Lender. This power of attorney, being coupled with an interest, shall be irrevocable, shall continue until all obligations have been satisfied in full and this Agreement has

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been terminated by Lender in writing and shall be in addition to Lender's other rights, powers and remedies.

16.21 Sole Benefit.  
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The rights and benefits set forth in this Agreement and in all the other Loan Documents are for the sole and exclusive benefit of the parties thereto and may be relied upon only by them.

16.22 Termination of this Agreement.  
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This Agreement, together with all Loan Documents, shall continue in full force and effect as to Borrower notwithstanding (i) the passage of the Termination Date, (ii) the early termination of this Agreement by any one Borrower pursuant to Section 2.4(b) or (iii) the termination of the Revolving Line of Credit pursuant to Article 15, unless and until Borrower has complied fully and in all respects with Section 2.4(b), in the case of any voluntary early termination of this Agreement by Borrower, or Borrower has made full payment and satisfaction of all Obligations of Borrower to Lender after termination of the Revolving Line of Credit, on or after the Termination Date or prior thereto in the case of any early involuntary termination. When Borrower has so complied with this Section, this Agreement will terminate.

16.23 Acknowledgment by Borrower. Borrower hereby acknowledges and  
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agrees that this Agreement is intended to be an integrated amendment and restatement of the Prior Loan Agreement, and this Agreement is not intended as a forgiveness or novation of the indebtedness heretofore outstanding under the Prior Loan Agreement, and that the Obligations under this Agreement are entitled in all respects to the benefit of the security intended to be afforded by the Collateral and the other Loan Documents whether heretofore executed or otherwise executed in connection with this Agreement.

17. CONDITIONS PRECEDENT.  
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17.1 Conditions to Initial Revolving Advance.  
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The conditions precedent set forth below shall constitute express conditions precedent to any obligation of Lender to make Revolving Advance hereunder.

(a) Resolutions and Incumbency Certificate of Borrower. Receipt by  
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Lender of resolutions and incumbency certificates from the Secretary or Assistant Secretary of Borrower, to be substantially in the form of Exhibit "E"  
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attached hereto.

(c) Opinion of Counsel. Receipt by Lender of an opinion of counsel  
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from legal counsel to Borrower, in form and substance acceptable to Lender.

(d) Loan Documents. Receipt by Lender of any and all other Loan  
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Documents, duly executed in form and substance acceptable to Lender.

(e) Other Documents. Receipt by Lender of any and all other

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documents, agreements and instructs that Lender may reasonably request in connection with the transactions contemplated by this Agreement.

(f) No Default. No Default Condition or Event of Default shall have

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occurred and be continuing.

(g) Representations and Warranties. All representations and

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warranties contained in the Agreement shall be true and correct in all material respects on the date of each Revolving Advance.

[SIGNATURES APPEAR ON FOLLOWING PAGES]

IN WITNESS WHEREOF, Borrower and Lender have set their hands, and Borrower has affixed its seal, all as of the day and year first above written.

"BORROWER"

INNOTRAC CORPORATION

(SEAL)

By: /s/ S. Dorfman

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Name: Scott Dorfman

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Title: President

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Attest: /s/ John H. Nichols III

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Name: John H. Nichols III

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Title: Vice President and Chief  
Financial Officer

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"LENDER"

SOUTHTRUST BANK, N.A.

By: /s/ Noble Jones

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Noble Jones, Vice President

Exhibit "A" - Collateral Locations [omitted]

Exhibit "B" - Additional Permitted Encumbrances [omitted]

Exhibit "C" - Form of Revolving Note

Exhibit "D" - Trade Names and Trade Styles [omitted]

Exhibit "E" - Form of Secretary's Certificate [omitted]

EXHIBIT "C"

FORM OF REVOLVING NOTE

COUNTY OF FULTON  
STATE OF GEORGIA

\$35,000,000  
January 25, 1999

AMENDED AND RESTATED  
REVOLVING PROMISSORY NOTE

1. FOR VALUE RECEIVED, INNOTRAC CORPORATION ("Borrower" OR THE "BORROWER") promises to pay to the order of SOUTHTRUST BANK, N.A., ("Lender"), at the principal office of Lender in Atlanta, Georgia, or at such other place as Lender hereafter may direct in writing, in legal tender of the United States of America, the principal sum of Thirty-Five Million Dollars (\$35,000,000), or so much thereof as may be disbursed to Borrower and remains outstanding from time to time hereafter under that certain "Revolving Line of Credit" opened by Lender in favor of Borrower pursuant to the terms of that certain Amended and Restated Loan and Security Agreement, dated as of January 25, 1999, as amended, between Lender and Borrower (hereinafter, as it may be further amended or supplemented from time to time, called the "Loan Agreement"), the terms and provisions of which are hereby incorporated herein by reference and made a part hereof, on the "Termination Date" (as defined in the Loan Agreement), with interest thereon (computed on the daily outstanding principal balance, for the actual number of days outstanding, on the basis of a 360 day year) on each advance evidenced hereby from date of advance until paid in full at the rate per annum prescribed therefor in the Loan Agreement. Accrued interest on the unpaid principal balance hereof from time to time outstanding shall be due and payable monthly, commencing on the first day of the calendar month succeeding the date hereof and continuing on the same day of each succeeding calendar month thereafter and at maturity. This Note does not represent a novation or forgiveness of any prior indebtedness evidenced by the Note.
2. Borrower agrees, in the event that this Note or any portion hereof is collected by law or through an attorney at law, to pay all costs of collection, including, without limitation, reasonable attorneys' fees.
3. This Note evidences borrowing under, is subject to and secured by, and shall be paid and enforced in accordance with, the terms of the Loan Agreement, and is the "Revolving Note" defined in Section 1.1 thereof.
4. Nothing herein shall limit any right granted to Lender by any other instrument or by law or equity.
5. Borrower hereby waives demand, protest, notice of demand, protest and nonpayment and any other notice required by law relative hereto, except to the extent as otherwise may be provided for in the Loan Agreement.
6. In no contingency or event whatsoever, whether by reason of advancement of the proceeds hereof or otherwise, shall the amount paid or agreed to be paid to Lender for the use,

forbearance or detention of money advanced hereunder exceed the highest lawful rate permissible under any law which a court of competent jurisdiction may deem applicable hereto; and, in the event any such payment is inadvertently paid by Borrower or inadvertently received by Lender, such excess sum shall be, at Borrower's option, returned to Borrower forthwith or credited as a payment of principal, but shall not be applied to the payment of interest. It is the intent hereof that Borrower not pay or contract to pay, and that Lender not receive or contract to receive, directly or indirectly in any manner whatsoever, interest in excess of that which may be paid by Borrower under applicable law.

IN WITNESS WHEREOF, Borrower has caused this Note to be signed and sealed as of the day and year first above written.

INNOTRAC CORPORATION (SEAL)

By: /s/ Scott Dorfman

-----  
Name: Scott Dorfman  
Title: President

Attest: /s/ John H. Nichols III

-----  
Name: John H. Nichols III  
Title: Vice President and Chief  
Financial Officer

Innotrac Corporation  
-----1999 Senior Executive Compensation Plan  
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The compensation for senior executives at Innotrac will consist of three elements: base salary, short term incentive bonus and a long-term incentive bonus (LTIP). The base salaries will be determined annually by the Compensation Committee of the Board of Directors ("Compensation Committee or Committee") or a subcommittee thereof.

Short Term Cash Bonus  
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The short-term bonuses will be calculated using a target percentage of the base salary as follows: CEO -- 100%, Sr. VPs. -- 60%, VPs. -- 50%, AVPs. -- 20%. Director level employees are typically at 10% (with certain individual exceptions) and the components of the director level plan are described in a separate document. For the purpose of determining the short-term bonus amounts for 1999 and future years, we will use a formula that is weighted 75% EBITDA actual versus budget and 25% revenue versus budget. Using this weighting will keep the focus on managing our growth profitably. The bonuses will be adjusted using a three up-three down formula for each percent that the company exceeds or misses the budgeted amounts up to a doubling of the targeted bonus amount. After the targeted bonus is doubled, the bonus factor will increase in one up increments. Using this method, if the bonus factor is less than .67, the individual bonus is \$0. This formula will be reviewed annually by the Compensation Committee and the individual bonuses will be subject to review by the Committee based on the individual's performance.

LTIP  
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The long-term bonus will consist of additional options for the individual executive, issued pursuant to the Company's Stock Option Plan. The amount of options available is calculated using a formula that takes the future price of the Company's stock price into effect from the beginning of the year over a five year time frame using a 20% annual compound growth rate. The end of year price is calculated and divided into the LTIP dollars to determine the number of options available. The LTIP dollars for each individual will be calculated using the same method as the short-term bonuses. The options granted will be rounded to the nearest 500 units, at the discretion of the compensation Committee. This

formula will be reviewed annually by the Compensation Committee and the individual bonuses will be subject to review by the Committee based on the individual's performance.

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AIRCRAFT LEASE

THIS AIRCRAFT LEASE is made and entered into as of the 19th day of February, 1998, by and between SD Holdings, Inc. a Georgia corporation ("LESSOR"), and Innotrac Corporation, a Georgia corporation ("LESSEE").

W I T N E S S E T H  
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WHEREAS, Lessor owns that certain Piper aircraft, aircraft serial number 4608030, registration number N213JP, together with one (1) engine, model number TSIO S50 C, and all propellers, radar, equipment, electronics equipment and attachments (collectively, the "AIRCRAFT"); and

WHEREAS, Lessee desires to lease the Aircraft from Lessor for proper business use by Lessee and its affiliates, and Lessor is willing to lease from the Aircraft from Lessor subject to the terms and conditions contained herein;

NOW, THEREFORE, for and in consideration of the mutual premises, covenants and agreements contained herein, the parties hereto agree as follows:

1. TERM: The initial term of this Lease shall commence on the date  
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the Aircraft is delivered to Lessee and will continue thereafter for a period of three (3) years until February 19, 2001, unless earlier terminated as hereinafter provided, and shall continue for successive one (1) year periods under the terms and conditions provided herein, unless written notice to the contrary is given by either party hereto to the other party at least thirty (30) days prior to the expiration of any such one-year period, unless sooner terminated as hereinafter provided.

2. RENT: The annual rent payable hereunder by Lessee to Lessor shall  
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be \$72,000.00, payable in equal monthly installments of \$6,000.00 on or before the first day of each calendar month during the term of this Lease. The monthly rental payments shall be paid to Lessor at Lessor's address, as provided in SECTION 15 below, or at such other address as Lessor may designate in writing to Lessee from time to time.

3. RECORDS AND HOME AIRPORT: Lessee shall maintain accurate aircraft  
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and engine log books and such other records, logs and books as the Federal Aviation Administration ("FAA") may from time to time require, showing the full

flight time of the Aircraft and shall keep such logs in the Aircraft and available for inspection by Lessor or its representatives at all reasonable times. During the term hereof, the Aircraft shall be permanently

based at Peachtree-DeKalb Airport (the "HOME AIRPORT"), the cost of which shall be paid by Lessee.

4. MAINTENANCE AND RETURN: (a) Except as set forth in SECTION 4(B)  
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below, Lessee shall at all times at Lessee's expense keep the Aircraft in a fully operative condition and completely airworthy in accordance with the manufacturer's standards, as announced from time to time, and requirements of the FAA or any other governmental or similar body having jurisdiction over the ownership, maintenance or operation of the Aircraft. Lessee shall permit the performance of all maintenance and repair work thereon only by or under the supervision of properly qualified and rated personnel and in compliance with FAA and other applicable governmental requirements. Any replacements or substitutions of parts or improvements to the Aircraft made by Lessee or Lessor shall become and remain the property of Lessor. Upon the expiration of the term hereof, Lessee shall return the Aircraft to Lessor at such reasonable place as may be designated by Lessor in the same condition as it was when received by Lessee, normal wear and tear excepted. Lessor shall have no obligation, but shall have the right, to perform any maintenance or repair work required by reason of Lessee's failure to perform such work, and all costs and expenses incurred by Lessor in connection therewith shall be immediately payable by Lessee to Lessor upon demand by Lessor.

(b) Lessor shall be responsible for the scheduled maintenance, as determined in accordance with applicable FAA requirements, of the engines and props and shall cause all such portions of the Aircraft to be maintained, rebuilt, repaired and/or replaced, in accordance with applicable requirements of the FAA.

5. WARRANTY: Lessee hereby acknowledges receipt of the Aircraft and  
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represents that the Aircraft has been examined and tested by Lessee. Lessor hereby assigns to Lessee all applicable manufacturer's and mechanics warranties with respect to the Aircraft to the extent that the same shall be assignable. LESSOR MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, WITH RESPECT TO THE AIRCRAFT, AND EXPRESSLY EXCLUDES, AND LESSEE ACKNOWLEDGES THE EXCLUSION OF, ANY AND ALL WARRANTIES OR REPRESENTATIONS, WHETHER OF MERCHANTABILITY, FITNESS FOR USE OR OTHERWISE.

6. INSURANCE: (a) Lessee, at its sole cost and expense, shall  
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procure and maintain in effect during the term hereof a satisfactory policy or policies of insurance with insurers satisfactory to Lessor providing full hull coverage of the Aircraft for the benefit of Lessor including all risk and foreign object damage, both in flight and not in flight, whether in possession of Lessee or Lessor, in an amount equal to at least the replacement value of the

Aircraft, but in no event less than \$375,000. The proceeds of such coverage shall be payable to Lessor.

(b) Lessee, at its sole cost and expense, shall procure and maintain in effect during the term hereof a satisfactory policy or policies of insurance with insurers satisfactory to

Lessor providing passenger liability, public liability, and property damage liability in a single amount not less than \$1,000,000, insuring Lessor and Lessee against claims for death or for injury to persons or loss of or damage to property in connection with the possession, use or operation of the Aircraft. The proceeds of such coverage shall be payable to Lessor and Lessee as their interests shall appear.

(c) Lessee shall deliver to Lessor a copy or copies of the policy or policies by which the foregoing coverage shall have been procured or a certificate of the carrier or other evidence satisfactory to Lessor that such insurance coverage is in effect; provided, however, that Lessor shall be under

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no duty either to ascertain the existence of, or to examine, such insurance, or to advise Lessee in the event such insurance shall not comply with the requirements hereof. Lessor shall have the right to approve the policy or policies effecting such insurance, but shall have no duty to do so. In the event of failure on the part of Lessee to provide insurance as aforesaid, Lessor may, at its option, procure such insurance and the cost thereof shall be payable to Lessor by Lessee upon demand.

(d) The policy or policies effecting the coverage required by this SECTION 6 shall expressly provide that the interests of Lessor thereunder shall not be affected by any breach by Lessee of any policy provision, and that such policy or policies shall be cancelable only upon at least thirty (30) days' prior written notice to Lessor. Every such policy shall contain a mortgagee endorsement in usual form in favor of any party having a security interest in the Aircraft.

7. LOSS OR DAMAGE TO OR TAKING OF AIRCRAFT: Lessee shall bear all

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risks of loss or damage to the Aircraft and of the taking, confiscation or requisition (of use or title) thereof by any governmental authority during the term hereof, provided, however, that if loss or damage is caused by the gross

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negligence of Lessor while Lessor is in possession of the Aircraft under SECTION 9 herein, then Lessor shall bear such loss or damage. In the event of loss or damage to the Aircraft while not in Lessor's possession, or the taking of the Aircraft, Lessee shall immediately report such loss or damage or taking to Lessor, to the carrier or carriers of all insurance thereon, and, as required by law, to governmental agencies, and shall furnish such information, execute such documents and do any and all other acts and things necessary to facilitate the

collection of the proceeds of any insurance policy or policies thereon, or awards for such taking. In the event of such loss, damage or taking, the rights, liabilities and obligations of the parties hereto shall be as follows:

(a) In the event that the Aircraft is lost or taken or is damaged beyond repair and the proceeds of any applicable insurance policy or policies payable as a result thereof, or awards for such taking, shall be less than \$100,000, then Lessee shall pay to Lessor an additional sum equal to the remainder after subtracting the amount of such proceeds or awards so payable from \$100,000. Upon the receipt by Lessor of all monies due under this subsection (a) in the event of such loss, damage or taking, this Lease shall terminate.

3

(b) In the event that the Aircraft is partially damaged, then this Lease shall remain in full force and effect, and Lessee shall, at its cost and expense, and in a timely manner, fully repair and restore the Aircraft to its condition prior to the occurrence of such damage, and this Lease shall thereupon continue in full force and effect. Such repair and restoration shall be effected only in accordance with plans and specifications approved in advance in writing by Lessor. Upon the completion of such repair and restoration, Lessor shall reimburse Lessee for the costs thereof to the extent of any proceeds of insurance received by Lessor and covering such damage, such reimbursement to be contingent upon the execution by Lessee of all documents and the doing by Lessee of any and all other acts and things required for the recovering of such insurance proceeds.

8. USAGE, FEES AND LIENS: Lessee shall use the Aircraft solely for  
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its own use or the use of its Affiliates (as defined below) in the ordinary course of business; provided, that Lessee may allow Scott Dorfman to make  
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personal use of the Aircraft. Lessee shall not, without prior written consent of Lessor, (i) sublease the Aircraft, (ii) enter into "time sharing agreements" or "interchange agreements" (as respectively defined in Sections 91.501(c)(1) and (2) of the FAA Regulations, 14 C.F.R. (S) 91.501(c)(1) and (2)), (iii) use the Aircraft for the purpose of "commuter" or "on-demand" operations (as respectively defined in Sections 119.3 of the FAA Regulations, 14 C.F.R. (S) 119.3), nor (iv) use the Aircraft to provide transportation of cargo and/or passengers for compensation or hire. Lessee shall not use the Aircraft in any manner which shall violate any provision of any policy of insurance thereon, or any law or regulation of any governmental authority, including but not limited to, the FAA, and any fine, penalty or forfeiture, whether resulting from any such violation or otherwise, shall be the sole responsibility of Lessee. Lessee shall pay when due all license fees and other fees and assessments necessary for the securing of all licenses, certificates of title and other permits required for the operation of the Aircraft. Lessee shall have no right to consent to any lien or liens on the Aircraft. Any liens (other than liens expressly permitted hereby or liens incurred by Lessor) shall be discharged at the sole cost and

expense of Lessee, who shall indemnify and save Lessor harmless against any such lien or liens. "AFFILIATES" shall mean Scott Dorfman and any natural person or entity directly or indirectly controlling Lessor, or controlled by or under common control with Lessor, whether through ownership of voting securities, by contract, or otherwise.

9. DEFAULT: Time is of the essence of this Lease. Default in the  
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payment of any rent hereunder or default in the making of any other payment or in the performance of any other obligation or covenant of Lessee under this Lease; the making of a general assignment for the benefit of creditors by Lessee; the suspension of business or the commission by Lessee of any act amounting to a business failure; any change in, or termination of, Lessee's corporate existence (except a merger, consolidation or reorganization in which the obligations of Lessee are assumed by the surviving corporation); the filing of a lien against Lessee, any of Lessee's property, or Lessee's interest in the Aircraft; or the institution of bankruptcy, reorganization, liquidation, receivership or similar proceedings by or against Lessee and, if instituted against Lessee, its consent thereto or the failure to cause such proceedings to be discharged or stayed

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within thirty (30) days thereafter, shall constitute an event of default hereunder and shall give rise to the rights on the part of Lessor described in SECTION 10 hereof.

10. RIGHTS OF LESSOR UPON DEFAULT OF LESSEE: Upon the occurrence of  
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any of the events of default described in SECTION 9 hereof Lessor may, in its discretion, do any one or more of the following:

(a) Terminate this Lease upon ten (10) days' written notice to Lessee.

(b) Whether or not the term of this Lease is terminated, take immediate possession of the Aircraft, wherever situated, and for such purpose enter upon any premises without liability for so doing. Lessor shall hold the Aircraft so repossessed free and clear of this Lease and of any of the rights of Lessee hereunder.

(c) Whether or not action has been taken under subsection (a) or (b) next above, sell, dispose of, hold, use or lease the Aircraft as Lessor, in its sole discretion, may decide, without any duty to account to Lessee with respect to such action or any proceeds thereof.

After default, Lessee shall be liable for, and Lessor may recover from Lessee, (i) all unpaid rent to the date of such delivery or repossession, (ii) all other sums payable by Lessee pursuant to the provisions of this Lease, (iii) all other losses and damages sustained by Lessor by reason of such default, and (iv) all

costs and expenses incurred by Lessor by reason of such default.

11. PREVENTION OF DEFAULT: Any provision of this Lease to the  
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contrary notwithstanding, Lessor shall exercise no right upon default by Lessee of other than a monetary default until ten (10) days after the giving of notice by Lessor to Lessee of such default and the failure of Lessee to cure such default prior to the expiration of such 10-day period.

12. INDEMNITY: Lessee shall indemnify and hold Lessor harmless from  
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and against any and all claims, demands, liabilities, losses, damages or injuries of whatever kind and nature (including attorneys' fees), however caused, resulting directly or indirectly from or pertaining to Lessee's possession, use, operation, maintenance or condition of the Aircraft. The foregoing indemnity shall not be affected by any termination of this Lease.

13. TAXES: Lessee agrees to pay, and to indemnify and hold Lessor  
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harmless from, all license and registration fees and all taxes, including without limitation, income, withholding, franchise, sales, use, ad valorem, value added, personal property, stamp or other taxes, levies, imposts, duties, charges or withholdings of any nature (together with any penalties, fines or interest thereon) imposed against any such party or the Aircraft by any federal, state or local government or taxing authority in the United States or by any foreign government or any subdivision thereof upon or with respect to the Aircraft (excluding, however, federal, state and local taxes on, or measured by, the net income of Lessor) unless, and to the extent only, that any such tax, levy, impost, duty, charge or withholding is being contested by Lessee in good

faith and by appropriate proceedings so long as such proceedings do not involve any danger of the sale, forfeiture or loss of the Aircraft or any interest therein. In case any report or return is required to be made with respect to any obligation under this SECTION 13, Lessee will either (after notice to Lessor) make such report or return in such manner as will show the ownership of the Aircraft in Lessor and send a copy of such report or return to Lessor or will notify Lessor of such requirement and make such report or return in such manner as shall be satisfactory to Lessor. All amounts payable to Lessor by Lessee pursuant to this SECTION 13 shall be payable on written demand by Lessor. All of the indemnities contained in this SECTION 13 shall continue in full force and effect notwithstanding the expiration or other termination of this Lease and are expressly made for the benefit of, and shall be enforceable by, Lessor, its successors and assigns.

14. MISCELLANEOUS:  
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(a) Inspection. Lessor shall have the right to inspect the Aircraft

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at any time upon 24 hours prior notice.

(b) Late Payments. Lessee shall pay to Lessor interest at the rate of

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fifteen percent (15%) per annum, or the maximum amount permitted by applicable law, whichever is lesser, on all sums not paid by Lessee to Lessor when due and owing under any provision of this Lease from the date of delinquency until paid.

(c) Rights and Remedies. Lessor's rights and remedies in respect of

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any of the terms and conditions of this Lease shall be cumulative and not exclusive, and shall be in addition to all other rights and remedies in its favor.

(d) Non-waiver. No party hereto shall, by act, delay, omission or

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otherwise, be deemed to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by the waiving party. A waiver by either party of any of its rights or remedies hereunder shall not be construed as a waiver of any succeeding breach or default in the same or any other term or condition hereof.

(e) Modifications In Writing. Any change or modification to this

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Lease must be in writing and must be executed by the party against whom such amendment is sought to be enforced.

(f) Entire Agreement. This Lease supersedes all prior agreements,

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oral or written, and all other communications regarding the subject matter hereof.

(g) Headings. The headings used herein are for reference and

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convenience only and shall not enter into the interpretation hereof.

(h) Governing Law. The validity, construction and performance of this

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Lease shall be governed by the laws of the State of Georgia, exclusive of choice of law provisions.

(i) Severability. If any provision of this Lease is held by a court

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of competent jurisdiction to be unenforceable, the remaining provisions of this Lease will remain in full force and effect.

(j) Survival. All amounts due hereunder, together with SECTIONS 5,

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10, 11 AND 13 shall survive the expiration or termination of this Lease for any reason.

(k) Accession. All equipment, engines, radios, accessories,

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instruments and parts now or hereafter used in connection with the Aircraft shall become part of the Aircraft by accession.

15. NOTICE: If, under this Lease, one party is required to give

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notice to the other, such notice shall be deemed given if sent by certified or registered mail, national overnight courier, or telecopy, provided it is properly addressed or directed, to the intended recipient at recipient's address or telecopy number set forth below:

TO LESSOR: Scott Dorfman  
c/o Innotrac Corporation  
1828 Meca Way  
Norcross, Georgia 30093

TO LESSEE: Innotrac Corporation  
1828 Meca Way  
Norcross, Georgia 30093  
Attn:Chief Financial Officer

telecopy: (770) 717-2111

telecopy: (770) 717-2111

Any such notice or communication will be deemed to have been duly given immediately if given or made in person or by telecopy (confirmed by the recipient), or one day after delivery by national courier, or three days after mailing (if given or made by mail), and in proving same it will be sufficient to show that the envelope containing the same was delivered to the delivery or postal service and duly addressed, or that receipt of a facsimile was confirmed by the recipient as provided above. Any party entitled to notice may change the address or telecopy number to which notices or other communications to such party will be delivered, mailed or transmitted by giving notice thereof to the parties hereto in the manner provided in this section.

16. COMPLIANCE WITH FAA REGULATIONS SECTION 91.25: Lessee covenants

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that, in compliance with Section 91.25 of the FAA Regulations (14 C.F.R. (S) 91.25), Lessee shall:

(a) mail a copy of this Lease to:

Aircraft Registration Branch  
P.O. Box 25724  
Oklahoma City, OK 73125

within 24 hours of the execution of this Lease; and

(b) carry a copy of the Lease in the Aircraft, and the copy shall be

available to the Federal Aviation Administrator or any person to whom he has delegated his authority in the matter concerned; and

(c) at least 48 hours prior to the first flight of the Aircraft under this Lease, notify (by telephone or in person) the FAA Flight Standards Office nearest the airport where such flight will originate to inform the FAA of (i) the location of the airport of departure, (ii) the departure time, and (iii) the registration number of the Aircraft.

17. TRUTH IN LEASING STATEMENT: In compliance with Section 91.54 of -----  
the FAA Regulations (14 C.F.R. (S) 91.54) the parties hereby acknowledge and agree as follows:

(a) THE AIRCRAFT HAS BEEN MAINTAINED AND INSPECTED UNDER CHAPTER I OF THE FEDERAL AVIATION ADMINISTRATION'S REGULATIONS (14 C.F.R. (S) 1.1 ET SEQ.) WITHIN THE 12-MONTH PERIOD IMMEDIATELY PRECEDING THE DATE OF THE EXECUTION OF THIS LEASE. LESSEE CERTIFIES THAT OPERATIONS OF THE AIRCRAFT UNDER THIS LEASE WILL COMPLY WITH THE APPLICABLE MAINTENANCE AND INSPECTION REQUIREMENTS OF PART 91 OF THE FEDERAL AVIATION ADMINISTRATION'S REGULATIONS.

(b) LESSEE SHALL BE RESPONSIBLE FOR THE OPERATIONAL CONTROL OF THE AIRCRAFT UNDER THIS LEASE AND ANY EXTENSION HEREOF EXCEPT AS PROVIDED IN SECTION 9 HEREOF FOR USE OF THE AIRCRAFT BY LESSOR. LESSEE CERTIFIES THAT IT UNDERSTANDS ITS RESPONSIBILITIES FOR COMPLIANCE WITH APPLICABLE FEDERAL AVIATION REGULATIONS.

SIGNATURE: /s/ John H. Nichols, III

NAME: Innotrac Corporation

ADDRESS: 1828 Meca Way, Norcross, Georgia 30093

LESSOR CERTIFIES THAT IT UNDERSTANDS ITS RESPONSIBILITIES FOR COMPLIANCE WITH APPLICABLE FEDERAL AVIATION REGULATIONS.

SIGNATURE: /s/ Scott Dorfman

NAME: SD Holdings, Inc.

ADDRESS: c/o 1828 Meca Way, Norcross, Georgia 30093

(c) AN EXPLANATION OF FACTORS BEARING ON OPERATIONAL CONTROL AND PERTINENT FEDERAL AVIATION REGULATIONS CAN BE OBTAINED FROM THE NEAREST FAA FLIGHT STANDARDS DISTRICT OFFICE.

18. TERMINATION OF PRIOR LEASE: That certain Airplane Lease -----

Agreement, effective March 1, 1996, by and between Innotrac Corporation and Scott Dorfman, is hereby terminated in its entirety and shall be of no further force and effect from and after the date hereto.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

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IN WITNESS WHEREOF, the parties hereto have executed this Lease under seal as of the day and year first above written.

SD HOLDINGS, INC.

By: /s/ Scott Dorfman

-----  
Scott Dorfman, President

INNOTRAC CORPORATION

By: /s/ John H. Nichols, III

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John H. Nichols, III  
Chief Financial Officer

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## EXHIBIT 13.1

## SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the Company. The selected historical statements of operations data for each of the years ended December 31, 1998, 1997 and 1996 and the selected historical balance sheet data for the periods then ended have been derived from the Consolidated Financial Statements that have been audited by Arthur Andersen LLP, independent public accountants.

	1998	1997	1996	1995	1994
	( in 000's, except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Results for year:					
Revenues, net .....	\$139,673	\$87,978	\$71,297	\$44,886	\$17,380
Cost of revenues (1) .....	108,785	67,986	55,519	30,658	11,274
Gross profit .....	30,888	19,992	15,778	14,228	6,106
Operating expenses:					
Selling, general and administrative Expenses .....	15,642	12,572	10,391	6,510	2,289
Depreciation and Amortization (1) .....	943	631	429	293	214
Total operating expenses .....	16,585	13,203	10,820	6,803	2,503
Operating income .....	14,303	6,789	4,958	7,425	3,603
Other (income) expense:					
Interest expense .....	956	1,788	1,457	1,090	622
Other .....	35	118	94	(73)	67
Total other expense .....	991	1,906	1,551	1,017	689
Income before income Taxes .....					
Taxes .....	13,312	4,883	3,407	6,408	2,914
Income tax benefit (provision) .....	(3,743)	77	(212)	(793)	(356)
Net income .....	9,569	4,960	3,195	5,615	2,558
Pro forma net income.....	8,186	3,003	2,095	3,941	1,573
Pro forma net income per share-basic .....	1.01	0.46	0.32	0.61	0.24
Pro forma net income per share-diluted .....	1.00	0.46	0.32	0.61	0.24
Year-end financial position:					
Current assets.....	\$ 66,416	\$24,330	\$37,845	\$21,156	\$ 8,270
Current liabilities.....	39,563	22,809	38,887	21,772	7,033
Working capital .....	26,853	1,521	(1,042)	(616)	1,237
Property and equipment, net .....	7,463	7,609	10,939	9,099	5,059
Total assets .....	73,992	32,497	49,037	30,414	13,548
Long-term obligations .....	135	3,944	4,779	4,729	4,278
Total liabilities.....	39,698	26,753	43,666	26,501	11,311
Shareholders' equity .....	34,294	4,827	4,540	3,195	1,624
Common Stock Information:					
Average number of common shares					
Outstanding.....	8,096	6,500	6,500	6,500	6,500
Common stock price per share:					
High.....	24 3/8	N/A	N/A	N/A	N/A
Low.....	5 3/4	N/A	N/A	N/A	N/A
Year-end.....	18 1/8	N/A	N/A	N/A	N/A
Book value per common share.....	4.24	0.74	0.70	0.49	0.25
Other Data:					
Capital expenditures.....	\$ 5,739	\$ 6,937	\$ 7,972	\$ 6,568	\$ 4,729

(1) Cost of revenue includes \$2,900, \$3,711, \$3,005, \$1,750 and \$620 for the years ended December 31, 1998, 1997, 1996, 1995 and 1994, respectively, related to depreciation on rental equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the results of operations and financial condition of the Company should be read in conjunction with the Consolidated Financial Statements and Notes thereto. This discussion may contain certain forward-looking statements that are beyond the control of the Company. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ include, but are not limited to, the reliance on a small number of major clients; risk associated with product-based marketing support services; risks of entering new lines of businesses; reliance on the telecommunications industry; ability to continue and manage growth; the impact of the trend toward outsourcing; dependence on labor force; risks associated with rapidly changing technology and the Company's conversion to new software; risk associated with competition; risks associated with fluctuations in operating and quarterly results; dependence on key personnel; risk associated with Year 2000 compliance; compliance with government regulation; difficulties of completing and integrating acquisitions and other factors discussed in more detail under "Business" in the Company's annual report or Form 10-K.

Overview

Since its formation in 1984, the Company has expanded its business and facilities to offer distribution and management services, and inbound teleservices in response to the needs of clients in a variety of industries and to capitalize on market opportunities. In 1987, the Company began providing marketing support services to BellSouth. In 1991, the Company initiated a fulfillment program to sell (either outright or in four to six month installments) or rent to BellSouth customers Caller ID hardware, phone sets and other equipment, and in 1993, began billing the charges on customers' telephone bills. As part of this program, Innotrac acquires the Caller ID and other telecommunications equipment from third party manufacturers, thereby assuming inventory and credit risk. In November 1998, the Company entered into a new contract with BellSouth. Under the contract, the Company provides Caller ID hardware and other equipment to BellSouth customers. The Company bills BellSouth, rather than BellSouth customers, for the items, thereby reducing the Company's bad debt exposure. Upon receipt of an order, the Company ships the product, tracks inventory levels and sales and marketing data and maintains teleservicing operations to handle customer service and technical support. From time to time, rather than acquiring units and selling or leasing them to BellSouth customers, the Company distributes, for a fee, Caller ID hardware that BellSouth has purchased from various third-party manufacturers.

To leverage its experience and infrastructure investment related to the BellSouth marketing support program, the Company entered into an agreement with Pacific Bell in June 1996 to sell Pacific Bell's Caller ID equipment. The Company also provides marketing support services to US West and seeks other telecommunications companies for whom it can provide similar marketing support services. In June 1998, the Company entered into an agreement with a vendor to Southwestern Bell to fulfill Caller ID related telecommunications equipment. The Company exchanged its exclusive arrangement with Pacific Bell in California to become a fulfillment vendor for Southwestern Bell, Pacific Bell and Nevada Bell. Under the Company's programs with Southwestern Bell and Pacific Bell, the Company bills the respective company directly for the Caller ID units that are sold to their end users. Southwestern Bell or Pacific Bell is then responsible for billing and collecting from the consumer. As a result, the Company expects unit prices and top line margin in future periods to be lower than historical levels. This will be offset by lower bad debt expenses which are included in general and administrative expenses.

The Company has experienced significant growth in revenue in recent years primarily due to the growth in Caller ID market penetration and service improvements by the Company with respect to product-based marketing support services. Industry sources indicate that at the end of 1995 BellSouth's Caller ID penetration was approximately 13%. BellSouth indicates that through the end of January 1999 its Caller ID penetration had

increased to approximately 36%. Services provided to BellSouth and its customers accounted for 59%, 85% and 82% of the Company's net revenues for the years ended December 31, 1998, 1997 and 1996, respectively.

Management believes that growth in revenues from Caller ID marketing support services will remain constant for the next several years as market penetration increases and new Caller ID services that require enhanced equipment are introduced. Sales are expected to level off as the market matures. According to industry sources, market penetration of Caller ID services in the U.S. as of December 31, 1998 was approximately 29% and is expected to peak at approximately 75% by 2007. Management intends to offset the eventual maturity of its Caller ID business by diversifying its client base and expanding the scope of marketing support services it renders to its clients by cross-selling its other services to existing clients. Additionally, the Company contacts previous purchasers of Caller ID products to promote new enhanced Caller ID products.

Revenues are recognized on the accrual basis as services are provided to customers or as units are shipped (including installment sales) or rentals are provided. Revenues are reduced for an estimate of product returns and allowances. This provision is calculated based on the Company's historical experience applied to current sales.

The largest component of the Company's expenses is its cost of revenues, which includes the product costs of telecommunications equipment, depreciation on Caller ID rental equipment, the costs of labor associated with marketing support services for a particular client, telecommunications services costs, information technology support, materials and freight charges, and directly allocable facilities costs. Most of these costs are variable in nature. A second component of the Company's expenses includes selling, general and administrative ('SG&A') expenses. This expense item is comprised of labor and other costs associated with marketing, financial, human resources and administrative functions that are not allocable to specific client services, as well as bad debt expense. Bad debt expense represents a provision for installments and rentals that will be deemed uncollectible based on the Company's historical experience, as well as billing adjustments from telecommunications providers. SG&A expenses tend to be fixed in nature, with the exception of bad debt, which is related to revenues.

#### Results of Operations

The following table sets forth summary operating data, expressed as a percentage of revenues, for the years ended December 31, 1998, 1997 and 1996. Operating results for any period are not necessarily indicative of results for any future period.

The financial information provided below has been rounded in order to simplify its presentation. However, the percentages below are calculated using the detailed information contained in the financial statements and notes thereto.

<TABLE>  
<CAPTION>

	Years Ended December 31, -----		
	1998 ----	1997 ----	1996 ----
<S>	<C>	<C>	<C>
Revenues, net .....	100.0%	100.0%	100.0%
Cost of revenues .....	77.9	77.3	77.9
Gross profit .....	22.1	22.7	22.1
Selling, general and administrative expenses .....	11.2	14.3	14.6
Operating income .....	10.2	7.7	7.0
Interest expense .....	0.7	2.0	2.0
Income before income taxes .....	9.5%	5.6%	4.8%

</TABLE>

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

**Revenues.** The Company's net revenues increased 58.8% to \$139.7 million for the year ended December 31, 1998 from \$88.0 million for the year ended December 31, 1997. The increase in revenues during 1998 was primarily due to a 61.3% increase in Caller ID units sold in 1998. During 1998, the Company fulfilled 2.9 million units as it increased its percentage of units sold to 62.3% of total unit volume. During 1997, the Company fulfilled 1.8 million units or 56.9% of total unit volume. The 1998 increase was offset by a decrease in average per unit prices of Caller ID units. The Company's reserve for returns and allowances increased from \$6.3 million (7.2% of net revenues) for the year ended December 31, 1997 to \$11.1 million (7.9% of net revenues) for the year ended December 31, 1998.

**Cost of Revenues.** The Company's cost of revenues increased 60.0% to \$108.8 million for the year ended December 31, 1998 compared to \$68.0 million for the year ended December 31, 1997. This was primarily due to an increase in cost of equipment associated with the increase in units sold by the Company as described above offset by a \$1.3 million decrease from 1997 in rental equipment losses to \$3.2 million and a \$1.6 million write-down on Caller ID equipment in the year ended December 31, 1997. The writedown resulted from obsolescence issues related to the regulatory-delayed start-up of the Pacific Bell program.

**Gross Profit.** For the year ended December 31, 1998, the Company's gross profit increased 54.5% to \$30.9 million or 22.1% of revenues as compared to \$20.0 million or 22.7% of revenues for the year ended December 31, 1997. The increase in gross profit was primarily due to the increase in revenues. The decrease in gross margin was due primarily to the increasing percentage of business derived from Southwestern Bell and Pacific Bell where the Company does not assume the bad debt risk, as described above. Therefore, it is able to charge lower unit prices to Southwestern Bell and Pacific Bell, and as a result, the Company experiences lower gross margins. This is offset by lower bad debt expenses. During the fourth quarter of 1998, BellSouth sales were switched over to a similar program. The Company expects its gross margins in future periods to be reduced from historical levels, which will be offset by lower bad debt expenses.

**Selling, General and Administrative Expenses.** SG&A expenses for the year ended December 31, 1998 were \$15.6 million or 11.2% of revenues compared to \$12.6 million or 14.3% of revenues for the year ended December 31, 1997. The Company's bad debt expense, most of which was associated with sales of Caller ID and other telecommunications equipment to BellSouth and Pacific Bell customers, was \$8.2 million (5.9% of net revenue) for the year ended December 31, 1998 as compared to \$7.8 million (8.8% of net revenue) for the year ended December 31, 1997. The decrease in bad debt expense as a percentage of revenue was primarily due to the Company's new sales approach on new business where the client assumes the bad debt risk in exchange for a lower sales price. Other SG&A expenses increased over prior year due to increased sales and marketing efforts, increased insurance and benefits expenses and administrative costs to support the Company's growth.

**Interest Expense.** Interest expense decreased from \$1.8 million for the year ended December 31, 1997 to \$1.0 million for the year ended December 31, 1998. The decrease is primarily due to repayment of a note payable from a bank and subordinated note payable to a shareholder from the proceeds received from the initial public offering and lower bank borrowings under the Company's line of credit from the previous year ended.

**Income Taxes.** The Company's effective tax rates for the years ended December 31, 1998 and 1997 were 28.2% and (1.6)%, respectively. The change from 1997 to 1998 was primarily the result of a lower level of income attributable to the pass-through entities involved in the Consolidation prior to the consolidation. As a result of the Consolidation, the Company expects its effective tax rate in future periods to increase to statutory levels.

#### Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

**Revenues.** The Company's net revenues increased 23.4% to \$88.0 million for the year ended December 31, 1997 from \$71.3 million for the year ended December 31, 1996, primarily due to increased sales of Caller ID units to BellSouth and Pacific Bell customers. The growth was partially offset by a decrease in net revenues during the year ended December 31, 1997 compared to the prior year

resulting from the conclusion of a fulfillment program performed by the Company in connection with the 1996 Olympic Games and an increase in the Company's reserve

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for returns and allowances from \$3.5 million (4.9% of net revenues) for the year ended December 31, 1996 to \$6.3 million (7.2% of net revenues) for the year ended December 31, 1997. In addition, the Company's sales to Pacific Bell customers during 1997 and 1996 were less than expected due to regulatory issues affecting Pacific Bell that delayed the rollout of Caller ID services by Pacific Bell and a low level of promotion of Caller ID services by Pacific Bell. See "Business--Government Regulation."

**Cost of Revenues.** The Company's cost of revenues increased 22.5% to \$68.0 million for the year ended December 31, 1997 compared to \$55.5 million for the year ended December 31, 1996. This increase was due to increased revenue volume including a \$1.9 million increase from 1996 in rental equipment losses to \$4.5 million and a \$1.6 million write-down on Caller ID equipment purchased for the start-up of the Pacific Bell program that could not be sold above their cost due to Pacific Bell's regulatory delays that resulted in product obsolescence issues. The increase in cost of revenues was also associated with the Company's new call center.

**Gross Profit.** For the year ended December 31, 1997, the Company's gross profit increased 26.6% to \$20.0 million or 22.7% of revenues as compared to \$15.8 million or 22.1% of revenues for the year ended December 31, 1996. The increase in gross margin was due to increased sales along with the impact of a price increase for Caller ID units with enhanced features. This was partially offset by the \$1.6 million inventory writedown and the costs associated with the new call center, along with the impact of introductory promotional prices on certain Caller ID units which were lower than regular prices.

**Selling, General and Administrative Expenses.** SG&A expenses for the year ended December 31, 1997 were \$12.6 million or 14.3% of revenues compared to \$10.4 million or 14.6% of revenues for the year ended December 31, 1996. The decrease in SG&A expenses as a percentage of revenues was due to improved economies of scale. This was slightly offset by an increase in the Company's bad debt expense, most of which was associated with sales of Caller ID and other telecommunications equipment to BellSouth and Pacific Bell customers. Bad debt expense was \$7.8 million (8.8% of net revenues) for the year ended December 31, 1997 as compared to \$5.8 million (8.1% of net revenues) for the year ended December 31, 1996. The increase in bad debt expense and the allowance for doubtful accounts (inclusive of the reserve for returns and allowances) (22.1% of gross accounts receivable) was primarily due to the Company's higher revenue volume and higher Caller ID market penetration, which the Company believes results in an increase in sales of Caller ID units to consumers having higher credit risks. The Company believes that higher credit risk customers result in larger write-offs for nonpayment due to increased chargebacks by telecommunications companies to suppliers of nonregulated services when customers do not pay for these services.

**Interest Expense.** Interest expense increased to \$1.8 million for the year ended December 31, 1997 from \$1.5 million for the year ended December 31, 1996. The increase was primarily due to increased borrowings under the Company's line of credit to fund working capital, consisting primarily of accounts receivable and inventory necessary to support increases in revenues. This increase was slightly offset by lower interest on the Company's subordinated debt in 1997 compared to 1996 due to a repayment of such debt by the Company in September 1996.

**Income Taxes.** The Company's effective tax rates for the years ended December 31, 1997 and 1996 were (1.6%) and 6.2%, respectively. The change from 1996 to 1997 was primarily the result of a higher level of income attributable to the pass-through entities involved in the Consolidation. As a result of the Consolidation, the Company expects its effective tax rate in future periods to increase to statutory levels. See "The Consolidation."

#### Liquidity and Capital Resources

Prior to its initial public offering, the Company had funded its operations and capital expenditures primarily through cash flow from operations and borrowings from banks and shareholders. The Company had cash and cash equivalents of approximately \$3.4 million and \$554,000 at December 31, 1998 and

1997, respectively. The Company maintains a \$35.0 million revolving line of credit with a bank, maturing in May 2000, which was increased from \$25.0 million in January 1999. Borrowings under the line of credit bear interest at the Company's option at the bank's prime rate, as adjusted from time to time, or LIBOR plus up to 225 basis points. At December 31, 1998, the interest rate was 6.75%. In May 1998, the Company repaid a term loan with a bank that would have

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matured in July 1999 and bore interest at 8.95% per annum, along with a subordinated note payable to a shareholder, which would have matured in April 1999 and bore interest at a particular bank's prime rate, as adjusted from time to time, plus 8.0% per annum, with proceeds received from the initial public offering on May 11, 1998. At December 31, 1998, \$15.7 million was outstanding under the line of credit.

As of December 31, 1998, the Company had entered into various operating leases in the ordinary course of business and an operating lease for a new distribution facility and corporate office into which the Company moved in October 1998. As a result of the new facility lease, rental expense will increase approximately \$400,000 per year through 2008. In addition, the Company entered into an agreement with a related party to acquire from him by the end of 1998 all of his interest in a subsidiary of the Company and one entity involved in the Consolidation for an aggregate of \$984,000. As a part of the agreement, during the year ended December 31, 1998, the Company acquired these interests.

During the year ended December 31, 1998, the Company used \$9.1 million in cash flow from operating activities compared to the generation of \$18.9 million and \$88,000 in cash flow from operating activities for the years ended December 31, 1997 and 1996, respectively. The decrease in cash flow from operating activities in 1998 was due to higher working capital requirements resulting from increases in accounts receivable (principally installment receivables and receivables from Pacific Bell and Southwestern Bell) and inventory due to the increased sales volume during the twelve months of 1998 as compared to the same period in 1997. The increase in cash flow from operating activities in 1997 was due to lower working capital requirements resulting from decreased accounts receivable due to shorter installment periods as the Company changed the length of its installment sales from generally one year to four to six months and reduced inventory as the Company utilized inventory purchased in 1996 as part of the build-up for the rollout of the Pacific Bell program, which was delayed for various regulatory issues.

During the years ended December 31, 1998, 1997 and 1996, net cash used in investing activities was \$5.7 million, \$6.9 million and \$8.0 million, respectively. This decrease in 1998 was primarily due to a decrease in the number of purchases of Caller ID units for rent, partially offset by expenditures associated with the Company's software upgrade and new furniture and equipment for new corporate facility and expansion of its call center to service new clients. The decrease in 1997 was primarily due to a decrease in the number of purchases of telecommunications equipment for rent.

During the year ended December 31, 1998, the net cash provided by financing activities was \$17.7 million compared to \$13.4 million used in financing activities in the same period in 1997. During the year ended December 31, 1996, the net cash provided by financing activities was \$9.8 million. During the year ended December 31, 1998, the Company received \$26.7 million in the initial public offering completed on May 11, 1998, net of fees associated with the initial public offering. The Company used a portion of the proceeds to repay \$4.6 million of long-term debt, \$7.5 million in distributions of undistributed earnings to shareholders of affiliated flow through entities that were merged into the Company in conjunction with the initial public offering, and reduced its borrowings under the line of credit by \$13.8 million. Subsequent to the initial public offering, the Company has made periodic borrowings against the line of credit to fund short term working capital needs, resulting in a net increase in borrowings on the line of credit of \$7.2 million for the year ended December 31, 1998. The use of cash for financing activities for the year ended December 31, 1997 reflects repayments under the line of credit and term loan.

The Company estimates that its cash and financing needs through 1999 will be met by cash flows from operations and its line of credit facility. However, any increase in the Company's growth rate, shortfalls in anticipated revenues, increases in anticipated expenses, or significant acquisitions could have a material adverse effect on the Company's liquidity and capital resources and would require the Company to raise additional capital from public or private

equity or debt sources in order to finance operating losses, anticipated growth and contemplated capital expenditures. If such sources of financing are insufficient or unavailable, the Company will be required to modify its growth and operating plans in accordance with the extent of available funding. The Company may need to raise additional funds in order to take advantage of unanticipated opportunities, such as acquisitions of complementary businesses or the development of new products, or otherwise respond to unanticipated competitive

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pressures. There can be no assurance that the Company will be able to raise any such capital on terms acceptable to the Company or at all.

#### Year 2000 Compliance

The efficient operation of the Company's business is dependent in part on its computer software programs and operating systems. These programs and systems are used in inventory management, pricing, sales, shipping and financial reporting, as well as in various administrative functions. Management believes that the Company's information technology ("IT") systems, including the existing systems and programs that will be replaced as a part of an upgrade of the Company's system architecture, and other non IT systems are either Year 2000 compliant or will be compliant by June 30, 1999 after applying vendor supplied patches, or upgrades to these systems. The cost of the upgrades, excluding the new information system described above is expected to be approximately \$ 85,000. Approximately \$20,000 of which has been incurred through February 1999. The Company does not anticipate additional material expenditures for Year 2000 compliance issues.

The Company's Year 2000 compliance efforts for both IT and non-IT systems include three major phases: (1) inventory all systems, assess whether there are any Year 2000 issues, and develop a compliance plan for all systems; (2) remediate any Year 2000 problems; (3) test systems subsequent to remediation. The chart below shows the estimated completion status of each of these phases expressed as a percentage of completion as of December 31, 1998:

<TABLE>  
<CAPTION>

Phase:	I	II	III
<S>	<C>	<C>	<C>
IT Systems	97%	50%	10%
Non-IT Systems	100%	95%	95%

</TABLE>

The Company anticipates that the assessment and remediation phases will be complete as of June 30, 1999 and the testing will continue into the third quarter of 1999.

The Company is in the process of obtaining documentation from its suppliers, clients, financial institutions and others as to the status of their Year 2000 compliance programs and the possibility of any interface difficulties relating to Year 2000 compliance that may affect the Company. To date, no significant concerns have been identified; however, there can be no assurance that there will not be any Year 2000-related operating problems or expenses that will arise with the Company's computer systems and software or in connection with the Company's interface with the computer systems and software of its suppliers, clients, financial institutions and others. Because such third-party systems or software may not be Year 2000 compliant, the Company is in the process of developing contingency plans to address Year 2000 failures of these entities with which the Company interfaces. The Company's contingency plans are being developed to address such issues as: (1) The inability of the Company to receive customer order information electronically from its major clients; and (2) The inability of one or more of the manufacturers of the Caller ID products the Company sells to produce due to that company's Year 2000 failure. If the first scenario were to happen, the Company would be required to receive and enter this information manually into its order processing system which could increase the Company's labor costs. If the second scenario were to occur, the Company would be required to find alternate vendors and potentially incur additional costs to do so. The Company could be required to incur unanticipated expenses to remedy any problems, which could have a material adverse effect on the Company's business, results of operations and financial conditions.

Quantitative and Qualitative Disclosure About Market Risks

The Company believes its exposure to market rate fluctuations on its investments are immaterial due to the short-term nature of those investments. To the extent that the Company has borrowings outstanding under its credit facility, it has market risk relating to such amounts because interest rates under the credit facility are variable. Such exposure is immaterial due to the short-term nature of such borrowings. Currently, the Company has no plans to enter into any hedging arrangements with respect to such borrowings.

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Recent Accounting Pronouncements

The FASB has issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which must be adopted by the year 2000. This statement establishes accounting and reporting standards for derivative instruments -- including certain derivative instruments embedded in other contracts -- and for hedging activities. Adoption of this statement is not expected to have a material impact on the Company's financial statements.

In March 1998, the American Institute of Certified Public Accountants (AICPA) issued a new Statement of Position, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. This statement requires capitalization of certain costs of internal-use software. The Company adopted this statement in January 1999, and has not yet determined its impact on the financial statements.

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INDEX TO THE FINANCIAL STATEMENTS  
OF INNOTRAC CORPORATION

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Consolidated Statements of Partners', Members' and Shareholders' Equity for the Years Ended December 31, 1998, 1997 and 1996.....	F-13
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Innotrac Corporation:

We have audited the accompanying consolidated balance sheet of INNOTRAC CORPORATION (a Georgia corporation) as of December 31, 1998 and the combined balance sheet of INNOTRAC CORPORATION, IELC, INC. (a Georgia corporation), RENTEL #1, INC. (a Georgia corporation), SELLTEL #1, INC. (a Georgia corporation), HOMETEL SYSTEMS, INC. (a Georgia corporation), HOMETEL PROVIDERS, INC. (a Georgia corporation), RENTEL #2, LLC (a Georgia limited liability company), SELLTEL #2, LLC (a Georgia limited liability company) and HOMETEL PROVIDERS PARTNERS, L.P. (a Georgia limited liability partnership) (collectively referred to as the "Companies") as of December 31, 1997 and the related combined statements of operations, partners', members' and shareholders' equity and cash flows for the years ended December 31, 1998, 1997 and 1996. These combined financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain

reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Innotrac Corporation as of December 31, 1998 and the financial position of Innotrac Corporation, IELC, Inc., RenTel #1, Inc., SellTel #1, Inc., HomeTel Systems, Inc., HomeTel Providers, Inc., RenTel #2, LLC, SellTel #2, LLC and HomeTel Providers Partners, L.P. as of December 31, 1997 and the results of their operations and their cash flows for the years ended December 31, 1998, 1997 and 1996 in conformity with generally accepted accounting principles.

/s/ Arthur Andersen LLP

-----  
Arthur Andersen LLP

Atlanta, Georgia  
January 31, 1999

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INNOTRAC CORPORATION,  
CONSOLIDATED BALANCE SHEETS  
(In 000's)

<TABLE>  
<CAPTION>

	December 31,	
ASSETS	1998	1997
-----	-----	-----
	<C>	<C>
<S>		
Current assets:		
Cash and cash equivalents .....	\$ 3,379	\$ 554
Accounts receivable, net (Note 3).....	44,354	20,081
Inventories.....	14,381	2,936
Deferred tax assets (Note 6).....	2,866	386
Prepaid expenses and other current assets.....	1,436	373
	-----	-----
Total current assets.....	66,416	24,330
	-----	-----
Property and equipment:		
Rental equipment.....	6,891	10,433
Computer, machinery and transportation equipment.....	1,390	1,558
Furniture, fixtures and leasehold improvements.....	4,949	720
	-----	-----
	13,230	12,711
Less accumulated depreciation and amortization.....	5,767	5,102
	-----	-----
	7,463	7,609
	-----	-----
Other assets, net.....	113	558
	-----	-----
Total assets.....	\$73,992	\$32,497
	=====	=====

</TABLE>

<TABLE>  
<CAPTION>

LIABILITIES AND PARTNERS', MEMBERS',  
AND SHAREHOLDERS' EQUITY

December 31,  
-----  
1998      1997  
-----

Current liabilities:

	<C>	<C>
<S>		
Current portion of long-term debt (Note 4).....	\$ 68	\$ 738
Line of credit (Note 4).....	15,736	8,545
Accounts payable.....	9,387	4,766
Distributions payable (Note 2).....	70	1,007
Accrued expenses.....	12,336	7,435
Other.....	1,966	318
	-----	-----
Total current liabilities.....	39,563	22,809
	-----	-----
Noncurrent liabilities:		
Subordinated debt (Note 4).....	0	3,500
Long-term debt (Note 4).....	7	404
Deferred tax liabilities (Note 6).....	106	40
Other.....	22	0
	-----	-----
Total noncurrent liabilities.....	135	3,944
	-----	-----
Total liabilities.....	39,698	26,753
	-----	-----
Commitments and contingencies (Note 5).....		
Redeemable capital stock (Note 7).....	0	917
	-----	-----
Partners', members' and shareholders' equity (Note 8):		
Partners' capital.....	0	1,759
Members' deficit.....	0	(490)
Common stock.....	900	5
Additional paid-in capital.....	24,838	14
Retained earnings.....	8,556	3,539
	-----	-----
Total partners', members' and shareholders' equity.....	34,294	4,827
	-----	-----
Total liabilities and partners', members' and shareholders' equity.....	\$73,992	\$32,497
	=====	=====

</TABLE>

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

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INNOTRAC CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In 000's except data per share)

<TABLE>

<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues, net.....	\$139,673	\$87,978	\$71,297
Cost of revenues.....	108,785	67,986	55,519
	-----	-----	-----
Gross profit.....	30,888	19,992	15,778
	-----	-----	-----
Operating expenses:			
Selling, general and administrative			
Expenses.....	15,642	12,572	10,391
Depreciation and amortization.....	943	631	429
	-----	-----	-----
Total operating expenses.....	16,585	13,203	10,820
	-----	-----	-----
Operating income.....	14,303	6,789	4,958
	-----	-----	-----
Other (income) expense:			
Interest expense.....	956	1,788	1,457
Other.....	35	118	94

Total other expense.....	991	1,906	1,551
Income before income taxes.....	13,312	4,883	3,407
Income tax (provision)benefit.....	(3,743)	77	(212)
Net income.....	\$ 9,569	\$ 4,960	\$ 3,195
Unaudited Pro Forma Data:			
Income tax provision.....	\$ (5,126)	\$ (1,880)	\$ (1,312)
Pro forma net income.....	\$ 8,186	\$ 3,003	\$ 2,095
Pro forma net income per share-basic.....	\$1.01	\$0.46	\$0.32
Pro forma net income per share-diluted.....	\$1.00	\$0.46	\$0.32
Average Common Shares Outstanding			
Basic.....	8,096	6,500	6,500
Diluted.....	8,155	6,500	6,500

</TABLE>

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

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INNOTRAC CORPORATION  
CONSOLIDATED STATEMENTS OF PARTNERS', MEMBERS' AND SHAREHOLDERS' EQUITY  
(In 000's)

	Partners' Capital	Members' Deficit	Common Stock	Paid-In Capital	Retained Earnings	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1995.....	\$ 1,108	\$ 0	\$ 5	\$ 14	\$ 2,068	\$ 3,195
Member contributions	0	2	0	0	0	2
Net income.....	1,323	(39)	0	0	1,911	3,195
Distributions to shareholders, Members and partners.....	(529)	(235)	0	0	(977)	(1,741)
Accreted dividends on redeemable Capital stock.....	0	0	0	0	(111)	(111)
Balance, December 31, 1996.....	1,902	(272)	5	14	2,891	4,540
Net income (loss).....	3,541	(233)	0	0	1,652	4,960
Distributions to shareholders, Members and partners.....	(3,684)	15	0	0	(917)	(4,586)
Accreted dividends on redeemable Capital stock.....	0	0	0	0	(87)	(87)
Balance, December 31, 1997.....	1,759	(490)	5	14	3,539	4,827
Distributions to shareholders, Members and partners.....	(4,836)	(209)	0	0	(4,747)	(9,792)
Merger of companies	(461)	288	645	(1,667)	1,195	0
Record deferred taxes associated with merger.....	0	0	0	0	3,016	3,016
Proceeds from sale of common stock, net	0	0	250	26,491	0	26,741
Net income (loss).....	3,538	411	0	0	5,620	9,569
Accreted dividends on redeemable Capital stock.....	0	0	0	0	(67)	(67)
Balance, December 31, 1998.....	\$ 0	\$ 0	\$900	\$24,838	\$ 8,556	\$34,294

</TABLE>

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

INNOTRAC CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In 000's)

<TABLE>  
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income.....	\$ 9,569	\$ 4,960	\$ 3,195
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization.....	943	631	429
Depreciation--rental equipment.....	2,900	3,711	3,005
Loss on disposal of rental equipment.....	2,158	4,479	2,538
Subordinated debt accretion.....	0	0	164
Deferred income taxes.....	602	(537)	(107)
Decrease (increase) in accounts receivable.....	(24,273)	5,379	(6,753)
Decrease (increase) in inventories.....	(11,445)	7,085	(7,683)
Decrease in prepaid expenses and other assets.....	(734)	(485)	(327)
(Decrease) increase in accounts payable.....	4,621	(8,960)	3,611
Increase in accrued expenses.....	4,901	2,250	2,484
Other.....	1,670	369	(468)
Net cash provided by (used in) operating Activities.....	(9,088)	18,882	88
Cash flows from investing activities:			
Accrued equipment purchases.....	0	(1,595)	(272)
Purchases of property and equipment.....	(5,739)	(5,342)	(7,700)
Net cash used in investing activities.....	(5,739)	(6,937)	(7,972)
Cash flows from financing activities:			
Net (repayments) borrowings under lines of credit.....	7,191	(8,685)	13,169
Proceeds from long-term debt.....	0	0	2,096
Repayment of long-term debt.....	(1,067)	(702)	(328)
Repayment of subordinated debt.....	(3,500)	0	(1,000)
Loan commitment fees.....	0	(125)	(200)
Proceeds from members' contributions.....	0	0	2
Proceeds from initial public offering, net	26,741	0	0
Redemption of redeemable capital stock.....	(984)	0	0
Distributions to shareholders, members and Partners.....	(10,729)	(3,884)	(3,890)
Net cash (used in) provided by financing Activities.....	17,652	(13,396)	9,849
Net increase (decrease) in cash and cash equivalents.....	2,825	(1,451)	1,965
Cash and cash equivalents, beginning of period.....	554	2,005	40
Cash and cash equivalents, end of period.....	\$ 3,379	\$ 554	\$ 2,005
Supplemental cash flow disclosures:			
Cash paid for interest.....	\$ 1,006	\$ 1,788	\$ 1,207
Cash paid for income taxes, net of refunds received.....	\$ 1,493	\$ 86	\$ 892
Non cash transactions:			
Accreted dividends on Redeemable Capital Stock.....	\$ 67	\$ 87	\$ 111

</TABLE>

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

1. Organization

Innotrac Corporation ("Innotrac" or The "Company") is a full service provider of customized technology based marketing support services. The majority of the Company's operation is directly related to the sale and distribution of caller identification display devices (Caller ID units). Prior to May 6, 1998, Innotrac operated as eight separate affiliates: Innotrac, IELC, Inc., RenTel #1, Inc. ("RenTel"), SellTel #1, Inc. ("SellTel"), HomeTel Systems, Inc., HomeTel Providers, Inc., RenTel #2, LLC, SellTel #2, LLC and HomeTel Providers Partners, L.P. ("Providers L.P.") (collectively referred to herein as the "Companies"). The Companies were all owned 100% by one shareholder or his immediate family except for RenTel, SellTel, and Providers L.P. (which each had a 10% minority interest owned by one party). The minority interests of RenTel and SellTel were owned by a related party of the shareholder.

On May 6, 1998, Innotrac consolidated these eight entities (the "Consolidation"), effective simultaneously with, and as a condition to, the Company's initial public offering (the "Offering") of 2.5 million shares, at an initial public offering price of \$12.00 per share (See Footnote 8).

For accounting purposes, Providers, L.P. was deemed to be the acquiring entity and its balance sheet carried over at historical cost. Since the other entities that were parties to the Consolidation were wholly-owned by either the majority shareholder of Providers L.P. or his direct relatives, those entities were considered to be under common control, and the balance sheets of such entities also carried over at historical cost.

2. Significant Accounting Policies

Principles of Combination and Consolidation

Prior to the Consolidation, the accompanying combined financial statements include the accounts of the Companies and were prepared on the accrual basis of accounting. Significant intercompany accounts and transactions have been eliminated in the combination. Combined financial statements were presented since the Companies have similar ownership and interrelated activities. The financial information included herein may not necessarily reflect the financial position, results of operations, or cash flows of the Companies in the future or what the financial position, results of operations, or cash flows of the Companies would have been if they were combined as a separate, stand-alone company during the periods presented.

Subsequent to the Consolidation, the accompanying financial statements include the consolidated accounts of Innotrac. Significant intercompany accounts and transactions have been eliminated in the consolidation.

Pro Forma Net Income and Net Income per Share

In conjunction with the Consolidation, HomeTel Providers, Inc., Providers LP, RenTel #1, RenTel #2, and SellTel #2 lost their non C corporation status for tax purposes. Accordingly, the pro forma income taxes reflect income taxes at statutory rates applied to pro forma earnings. In addition the pro forma earnings per share reflect the Consolidation as if it had occurred at the beginning of each period presented.

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Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures 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.

#### Sources of Supplies

In accordance with their agreements with certain telecommunications companies, the Companies primarily use three providers for the supply of telecommunications equipment. However, if these vendors were unable to meet the Companies' needs, management believes that other sources for this equipment exist on commensurate terms and that operating results would not be adversely affected.

#### Concentration of Revenues

Revenues earned under the Companies' agreement with a major telecommunications company to sell and rent certain telecommunications equipment to the customers of this company accounted for approximately 59%, 85% and 82% of total revenues for the years ended December 31, 1998, 1997 and 1996, respectively. If this agreement were terminated, it could have a material adverse affect on the future operating results and liquidity of the Companies (Note 5).

#### Cash and Cash Equivalents

The Companies consider all short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents.

#### Inventories

Inventories, consisting primarily of telecommunications equipment, are stated at the lower of cost or market, with cost determined by the first-in, first-out method.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation is determined using straight-line methods over the following estimated useful lives:

<TABLE>	
<S>	<C>
Rental equipment .....	3-4 years
Computers .....	3 years
Machinery and transportation equipment .....	5-7 years
Furniture and fixtures .....	7 years
</TABLE>	

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#### INNOTRAC CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Leasehold improvements are amortized using the straight-line method over the shorter of the service lives of the improvements or the remaining term of the lease.

Rental equipment is written off at its net book value when it is no longer generating revenues or is not returned by the customer. Provisions are made for estimated equipment losses that have not yet been reported. Equipment rental losses were approximately \$2,158,000, \$4,479,000 and \$2,538,000 for the years ended December 31, 1998, 1997 and 1996 respectively, and are included in "Cost of revenues" in the accompanying statements of operations.

#### Long-Lived Assets

The Companies periodically review the values assigned to long-lived assets such as property and equipment to determine if any impairments are other than temporary. Management believes that the long-lived assets on the accompanying balance sheets are appropriately valued.

#### Stock-based Compensation Plans

The Company accounts for its stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). The Company has adopted the disclosure option of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation" ("SFAS 123"). SFAS 123 requires that companies which do not choose to account for stock-based compensation as prescribed by this statement, shall disclose the pro forma effects on earnings and earnings per share as if SFAS 123 had been adopted. Additionally, certain other disclosures are required with respect to stock compensation and the assumptions used to determine the pro forma effects of SFAS 123.

#### Income Taxes

Innotrac, as a C corporation, utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the difference between the financial and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Prior to the Consolidation, the shareholders of certain affiliated companies had elected to have the Companies treated as S corporations. The Internal Revenue Code of 1986, as amended (the "Code") and certain applicable state statutes provide that the income and expenses of an S corporation are not taxable separately to the corporation but rather accrue directly to the shareholders. In addition, other entities were limited liability companies which are not subject to federal and state income taxes. Accordingly, no provisions for federal and certain state income taxes related to these entities have been made in the accompanying financial statements.

Prior to the Consolidation, it was the policy of management to pay and accrue distributions primarily for income taxes that are required to be paid by the shareholders, members and partners due to the flow through of income of these entities. During the years ended December 31, 1998, 1997 and 1996, distributions of approximately \$2,292,000, \$4,586,000 and \$1,741,000, respectively, were recorded, of which approximately \$70,000 and \$1,007,000 were accrued and unpaid as of December 31, 1998 and 1997, respectively. Additionally, in conjunction with the consolidation (Note 1), the Company distributed \$7,500,000 of the undistributed earnings of approximately \$9,000,000 to the owners of certain pass-thru entities.

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#### INNOTRAC CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

#### Revenue Recognition

Revenues are recognized on the accrual basis as services are provided to customers or as units are shipped or rentals are provided. Revenues are reduced for an estimate of product returns and allowances (Note 3).

#### Fair Value of Financial Instruments

The carrying values of the Company's financial instruments approximate their fair values.

#### Advertising Costs

The Company expenses all advertising costs as incurred.

#### Recent Accounting Pronouncements

In 1998, the Company was subject to the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" and No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information". These statements had no impact on the Company's financial statements as it has no comprehensive income elements other than distributions to owners and returns on equity and its financial statements reflect how the

"key operating decisions maker" views the business. The Company will continue to review these statements over time to determine if any additional disclosures are necessary based on evolving circumstances.

### 3. Accounts Receivable

The Companies' accounts receivable include amounts that are billed in installments over a five to seven month period. Accounts receivable were composed of the following at December 31, 1998 and 1997 (in 000s):

	1998	1997
Billed receivables .....	\$32,081	\$15,812
Unbilled installment receivables .....	17,208	9,976
Total receivables .....	49,289	25,788
Less allowances .....	(4,935)	(5,707)
	\$44,354	\$20,081

Management believes that the allowances for doubtful accounts and returns reduce the gross accounts receivable to net amounts that will be collected.

INNOTRAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

### 4. Financing Obligations

Financing obligations as of December 31, 1998 and 1997 consisted of the following (in 000s):

	1998	1997
Borrowings under revolving credit agreement (up to \$25,000,000); the revolving advances owing by any one borrower cannot exceed an amount equal to the sum of 80% of the eligible accounts receivable plus 70% of the eligible installment receivables); interest payable monthly at rates equal to the prime rate (7.75% and 8.5% at December 31, 1998 and 1997, respectively), or at the Company's option, LIBOR plus a margin (6.75% at December 31, 1998), expires on November 15, 1999, secured by all assets of the Company.....	\$15,736	\$ 8,545
Subordinated note payable to the limited partner of Providers, L.P., due April 1999; interest payable monthly at a variable rate of prime plus 8% (16.5% as of December 31, 1998) and a fixed rate of 14% as of December 31, 1996; secured by accounts receivable, inventories, rental equipment and the personal guarantee of the sole shareholder of the general partner of Providers, L.P.; subordinated to the line of credit; note was paid in full in May 1998 .....	0	3,500
Note payable, due in monthly installments of principal of \$55,556, plus interest at 8.95%, through July 1999; secured by accounts receivable, inventories, equipment and the personal guarantee of Innotrac's sole shareholder; note was paid in full in May 1998 .....	0	1,056
Other .....	75	86
Current portion .....	15,811	13,187
	15,804	9,283
	\$ 7	\$ 3,904

Scheduled maturities of financing obligations are as follows (in 000s):

<TABLE>	
<S>	<C>
1999.....	15,804
2000.....	7
	-----
Total.....	\$15,811
	=====
</TABLE>	

The weighted average interest rate on the revolving line of credit agreement was 7.6% and 8.6% for the years ending December 31, 1998 and 1997, respectively.

The revolving line of credit agreement and the term note contain various restrictive financial and change of ownership control covenants. The Companies were in compliance with all covenants as of December 31, 1998.

In January 1999, the revolving credit agreement was increased to \$35,000,000 and expiration date extended to May 1, 2000.

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INNOTRAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

5. Commitments and Contingencies

Operating Leases

Innotrac leases office and warehouse space and equipment under various operating leases. The primary office and warehouse operating leases provide for escalating payments over the lease term. Innotrac recognizes rent expense on a straight-line basis over the lease term and accrues the differences each month between the amount expensed and the amount actually paid.

Aggregate future minimum lease payments under noncancellable operating leases with original periods in excess of one year as of December 31, 1998 are as follows (in 000s):

<TABLE>	
<S>	<C>
1999 .....	\$1,433
2000 .....	904
2001 .....	903
2002 .....	903
2003 .....	924
Thereafter .....	4,818
	-----
Total minimum lease payments .....	\$9,885
	=====
</TABLE>	

Rent expense under all operating leases totaled approximately \$1,231,000, \$1,121,000 and \$770,000 during the years ended December 31, 1998, 1997 and 1996, respectively.

Marketing Support Agreement

The Company has an agreement, which expires in September 2003, with a major telecommunications company to sell and rent certain telecommunications equipment to the customers of this company. The telecommunications company has agreed to provide billing, collection and referral services for the Companies. This agreement can be terminated (a) after March 15, 2000 by the telecommunications company without cause upon 120 days notice or (b) by the telecommunications company for cause upon 10 days notice; however, in the event of termination, the telecommunications company must continue to provide billing and collections services for existing customers for four years after the termination of the agreements.

Legal Proceedings

The Company is subject to legal proceedings and claims that arise in the ordinary course of business. There are no material pending legal proceedings to which the Company are a party.

INNOTRAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

6. Income Taxes

Details of the income tax (provision) benefit for the years ended December 31, 1998, 1997 and 1996 are as follows (in 000s):

<TABLE>  
<CAPTION>

	1998	1997	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Current .....	\$ (3,141)	\$ (460)	\$ (319)
Deferred .....	(602)	537	107
	-----	-----	-----
	\$ (3,743)	\$ 77	\$ (212)
	=====	=====	=====

</TABLE>

Deferred income taxes reflect the net effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities as of December 31, 1998 and 1997 are as follows (in 000s):

<TABLE>  
<CAPTION>

	1998	1997
	-----	-----
<S>	<C>	<C>
Noncurrent deferred tax (liabilities) assets:		
Property, plant, equipment basis differences .....	\$ (114)	\$ 43
Conversion from cash to accrual taxpayer method--long term .....	0	(83)
Other .....	8	0
	-----	-----
	(106)	(40)
	-----	-----
Current deferred tax assets (liabilities):		
Reserves for uncollectable accounts .....	2,372	524
Reserve for returns and equipment losses .....	526	0
Conversion from cash to accrual taxpayer method--current .....	(36)	(143)
Other .....	4	5
	-----	-----
	2,866	386
	-----	-----
Net deferred tax asset .....	\$2,760	\$ 346
	=====	=====

</TABLE>

Innotrac converted from the cash basis to the accrual basis for income tax purposes effective August 1995, with the accumulated difference to be added back to taxable income over a four-year period.

Effective with the Consolidation, the Company converted all of its entities that were non-C-corporations status for income tax reporting purposes to C-corporation status and recorded a one-time benefit of approximately \$3 million related to certain temporary differences at these entities.

A reconciliation of the income tax (benefit) provision computed at statutory rates to the income tax provision for the years ended December 31, 1998, 1997 and 1996 is as follows:

<TABLE>  
<CAPTION>

	1998	1997	1996
	-----	-----	-----

<S>	<C>	<C>	<C>
Federal statutory rate .....	35.0%	34.0%	34.0%
</TABLE>			

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<TABLE>			
<S>	<C>	<C>	<C>
Increase (reduction) in taxes resulting from:			
State income taxes, net of federal benefit .....	6.0	1.4	3.6
Income taxable directly to shareholders, partners and members			
(Note 2) .....	(13.3)	(37.9)	(31.8)
Other .....	0.5	0.9	0.4
	-----	-----	-----
	28.2%	(1.6)%	6.2%
	=====	=====	=====
</TABLE>			

INNOTRAC CORPORATION  
NOTES TO CONSOLIDATED STATEMENTS-(Continued)

7. Redeemable Capital Stock

In September 1993, the Company obtained \$1,000,000 of financing from a related party in the form of subordinated debt, in two entities that were involved in the Consolidation. The subordinated debt required monthly payments of interest, with principal maturing at 36 months. The subordinated debt was repaid in full in September 1996. Additionally, the related party received callable common stock representing 10% of the common stock of these entities. The terms of the callable common stock provided each of these entities the option to call the common stock at predetermined amounts on or before September 30, 1998 beginning in September, 1996. If the Company did not call the common stock interests, the Company was obligated to issue the related party an additional 10% common stock interest to redeem the common stock. Due to the related party nature of the transaction, the Company accounted for the callable common stock as redeemable equity.

The Company allocated the capital raised between "Subordinated Debt" and "Redeemable Capital Stock" on the accompanying balance sheets at the respective fair market values based on discounted cash flow analyses (approximately \$500,000 each to "Subordinated Debt" and "Redeemable Capital Stock") and then accreted to their redemption values over 36 months using the effective interest rate method (an approximate 30% return on both the subordinated debt and the callable common stock). The portion of the accretion attributable to Subordinated Debt is reflected as interest expense in the accompanying statements of operations. For the equity portion, the Companies have accreted through the recording of dividends to the estimated redemption amounts at each balance sheet date and reflected such redemption amounts as "Redeemable Capital Stock" on the accompanying balance sheets. These dividends represent a 16% effective rate through September 1996 (the first trigger date as defined) and 10% thereafter. In conjunction with the Offering (see Note 1), the Company redeemed the shares of one entity in February 1998 for \$390,000 and the shares of the other entity for \$594,000 in December 1998.

8. Shareholders' Equity

Innotrac has authorized 50,000,000 shares of Common Stock, \$0.10 par value, and 10,000,000 shares of Preferred Stock, \$0.10 par value. On December 12, 1997, Innotrac effected a 70.58823 for- 1 stock split resulting in 1,080,000 shares outstanding. Additionally, in exchange for their previous ownership interests, 5,420,000 shares of \$0.10 par value common stock were issued to the remaining entity owners pari-passu based on their relative value to the consolidated group except for the minority stockholder of one of the affiliated entities, whose ownership interests was repurchased as scheduled in the fourth quarter of 1998. After the Consolidation, there were an aggregate of 6,500,000 shares outstanding. As discussed in Note 1, on May 6, 1998 the Company completed an initial public offering of 2.5 million shares at a price of \$12.00 per share for net proceeds of approximately \$26,741,000. As of December 31, 1998, there were 9,000,000 shares of common stock outstanding.

Employees of Innotrac may participate in an employee retirement defined contribution plan. The plan covers all employees of the participating entities who have at least one year of service (six months if hired before January 1, 1997) and are 18 years of age or older. Participants may elect to defer up to 15% of compensation up to a maximum amount determined annually pursuant to IRS regulations. Innotrac has elected to provide matching employer contributions equal to 15% of contributions for less than five years of service, 25% of contributions for five to nine years of service, and 35% of contributions for over nine years of service. Total matching contributions made to the plan and charged to expense by Innotrac for the years ended December 31, 1998, 1997 and 1996 were not material.

INNOTRAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

10. Stock Based Compensation

In November 1997, the Company adopted a stock option plan (the "Stock Option Plan") to provide key employees, officers, directors, contractors, and consultants an opportunity to own Common Stock of the Company and to provide incentives for such persons to promote the financial success of the Company. Awards under the Stock Option Plan may be structured in a variety of ways, including as "incentive stock options" as defined in Section 422 of the Internal Revenue Code, as amended, non-qualified stock options, restricted stock awards, and stock appreciation rights ("SARs"). Incentive stock options may be granted only to full-time employees (including officers) of the Company and its subsidiaries. Non-qualified options, restricted stock awards, SARs, and other permitted forms of awards may be granted to any person employed by or performing services for the Company, including directors, contractors, and consultants. The Stock Option Plan provides for the issuance of options to purchase up to an aggregate of 800,000 shares of Common Stock.

Incentive stock options are also subject to certain limitations prescribed by the Code, including the requirement that such options may not be granted to employees who own more than 10% of the combined voting power of all classes of voting stock of the Company, unless the option price is at least 110% of the fair market value of the Common Stock subject to the option. The Board of Directors of the Company (or a committee designated by the Board) otherwise generally has discretion to set the terms and conditions of options and other awards, including the term, exercise price, and vesting conditions, if any; to select the persons who receive such grants and awards, and to interpret and administer the Stock Option Plan.

As of December 31, 1998, stock options to purchase an aggregate of 343,000 shares at \$9.10 per share of Common Stock had been granted under the Stock Option Plan. 55,000 of these options vested immediately at the date of grant; the remaining options vest 50%, 25% and 25% at two, three and four years, respectively, after the grant date and expire 10 years from the grant date. At December 31, 1998, 323,475 options were outstanding with a weighted average contractual life of 8.9 years. 55,000 options were exercisable at December 31, 1998 at \$9.10 per share.

Additionally, the Company granted stock options to purchase an aggregate of 40,000 shares on the effective date of the Offering to four non-employee members of the Board of Directors at \$12 (the initial public offering price) which vested immediately upon grant. 40,000 options were exercisable at December 31, 1998 at \$12.00 per share.

A summary of the status of the Company's Stock Option Plan and other options at December 31, 1998 is as follows (in thousands):

<TABLE>  
<CAPTION>

	Shares -----	Weighted Average Price -----
<S>	<C>	<C>

</TABLE>

<S>	<C>	<C>
Outstanding at December 31, 1996	0	\$ 0.00
Granted	343	9.10
Outstanding at December 31, 1997	343	9.10
Granted	40	12.00
Forfeited	(20)	9.10
	---	
Outstanding at December 31, 1998	363	9.42
	---	

</TABLE>

The remaining weighted average contractual life of the options outstanding at December 31, 1998 is 8.9 years and the weighted average price of the 95,000 exercisable options at December 31, 1998 is \$10.32.

INNOTRAC CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The total value of options granted during 1998 and 1997 was computed as approximately \$3,013,000 and \$2,172,000 which would be amortized on a pro forma basis over the vesting period of the options. Had compensation cost for stock options been determined under SFAS No. 123, the Company's net income and net income per share would have been the following pro forma amounts:

<TABLE>  
<CAPTION>

	Year ended December 31,	
	1998	1997
<S>	<C>	<C>
Net income		
Pro forma	\$8,186	\$3,003
Pro forma adjusted for the Impact of SFAS 123	\$7,402	\$2,686
Diluted net income per share		
Pro forma	\$ 1.00	\$ 0.46
Pro forma adjusted for the Impact of SFAS 123	\$ 0.91	\$ 0.41

</TABLE>

The Company has elected to account for its option plans under APB 25; however, the Company has computed for pro forma disclosure purposes the value of all options granted using the Black-Scholes option-pricing model as prescribed by SFAS 123 using the following weighted average assumptions:

<TABLE>  
<CAPTION>

	1998	1997
<S>	<C>	<C>
Risk-free interest rate .....	5.17%	5.17%
Expected dividend yield .....	0%	0%
Expected lives .....	2.7 Years	2.7 Years
Expected volatility .....	86.0%	106.0%

</TABLE>

CONSENT OF ARTHUR ANDERSEN LLP

As independent public accountants, we hereby consent to the incorporation by reference in the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on October 23, 1998 (No. 333-66045) of Innotrac Corporation of our reports, dated January 31, 1999, included in the December 31, 1998 Annual Report on Form 10-K of Innotrac Corporation.

/s/ ARTHUR ANDERSEN LLP

Atlanta, Georgia  
March 22, 1999

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF INNOTRAC CORPORATION FOR THE YEAR ENDED DECEMBER 31, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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[Innotrac Letterhead]

April 9, 1999

To Our Shareholders:

On behalf of the Board of Directors and management of Innotrac Corporation, I cordially invite you to the Annual Meeting of Shareholders to be held on May 11, 1999, at 9:00 AM, Eastern Time, at the Company's offices located at 6655 Sugarloaf Parkway, Duluth, Georgia 30097.

At the Annual Meeting, shareholders will be asked to consider and vote upon the election of two directors of the Company, each of whom is currently a director of the Company, and such other matters as may properly come before the meeting or any adjournment thereof. Information about the nominees and certain other matters is contained in the accompanying Proxy Statement. A copy of the Company's 1998 Annual Report to Shareholders, which contains financial statements and other important information about the Company's business, is also enclosed.

It is important that your shares of stock be represented at the meeting, regardless of the number of shares you hold. You are encouraged to specify your voting preferences by marking and dating the enclosed proxy card. However, if you wish to vote for re-electing the nominees for director specified herein, all you need to do is sign and date the proxy card.

Please complete and return the proxy card in the enclosed envelope, whether or not you plan to attend the meeting. If you do attend and wish to vote in person, you may revoke your proxy at that time.

I hope you are able to attend, and look forward to seeing you.

Sincerely,

Scott D. Dorfman  
President, Chairman of the Board and  
Chief Executive Officer

INNOTRAC CORPORATION  
6655 SUGARLOAF PARKWAY  
DULUTH, GEORGIA 30097

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 11, 1999

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To the Shareholders of  
Innotrac Corporation:

Notice is hereby given that the Annual Meeting of Shareholders of Innotrac Corporation will be held at 9:00 AM, Eastern Time, on Tuesday, May 11, 1999, at the Company's offices, 6655 Sugarloaf Parkway, Duluth, Georgia 30097, for the following purposes:

1. To elect two directors whose terms will expire in 2002; and
2. To consider such other matters as may properly come before the meeting and any adjournment or postponement thereof.

Only shareholders of record on March 26, 1999, are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof.

A Proxy Statement and a Proxy solicited by the Board of Directors are enclosed herewith. Please sign, date and return the Proxy promptly in the enclosed business reply envelope. If you attend the meeting you may, if you wish, withdraw your Proxy and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS,

John H. Nichols, III

WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE FILL IN, DATE, SIGN, AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED BUSINESS REPLY ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. THE PROXY MAY BE REVOKED AT ANY TIME PRIOR TO EXERCISE, AND IF YOU ARE PRESENT AT THE ANNUAL MEETING, YOU MAY, IF YOU WISH, REVOKE YOUR PROXY AT THAT TIME AND EXERCISE THE RIGHT TO VOTE YOUR SHARES PERSONALLY.

[INNOTRAC LOGO]

PROXY STATEMENT  
DATED APRIL 9, 1999  
FOR THE ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD MAY 11, 1999

This Proxy Statement is furnished to shareholders in connection with the solicitation of proxies by the Board of Directors of Innotrac Corporation ("Innotrac" or the "Company") for use at Innotrac's 1999 Annual Meeting of Shareholders ("Annual Meeting") to be held on Tuesday, May 11, 1999, including any postponement, adjournment or adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting. Management intends to mail this Proxy Statement and the accompanying form of proxy to shareholders on or about April 9, 1999.

Only shareholders of record at the close of business on March 26, 1998 (the "Record Date"), are entitled to notice of and to vote in person or by proxy at the Annual Meeting. As of the Record Date, there were 8,999,995 shares of common stock, \$.10 par value per share ("Common Stock"), of Innotrac outstanding and entitled to vote at the Annual Meeting. The presence of a majority of such shares is required, in person or by proxy, to constitute a quorum for the conduct of business at the Annual Meeting. Each share is entitled to one vote on any matter submitted for vote by the shareholders. The vote required for approval of each matter submitted to the shareholders is described with the discussion of that matter in this Proxy Statement.

Proxies in the accompanying form, duly executed and returned to the management of the Company, and not revoked, will be voted at the Annual Meeting. Any proxy given pursuant to this solicitation may be revoked by the shareholder at any time prior to the voting of the proxy by delivery of a subsequently dated proxy, by written notification to the Secretary of the Company or by personally withdrawing the proxy at the Annual Meeting and voting in person.

Proxies that are executed, but that do not contain any specific instructions, will be voted for the election of all the nominees for directors specified herein. The persons appointed as proxies will vote in their discretion on any other matter that may properly come before the Annual Meeting or any postponement, adjournment or adjournments thereof, including any vote to postpone or adjourn the Annual Meeting.

A copy of the Company's 1998 Annual Report to Shareholders is being furnished herewith to each shareholder of record as of the close of business on the Record Date. Copies of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 will be provided free of charge upon written request to:

INNOTRAC CORPORATION  
6655 SUGARLOAF PARKWAY  
DULUTH, GEORGIA 30097  
ATTN.: CHIEF FINANCIAL OFFICER

If the person requesting the Annual Report on Form 10-K for the year ended December 31, 1998 was not a shareholder of record on the Record Date, the request must include a representation that the person was a beneficial owner of Common Stock on that date. Copies of any exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 will also be furnished on request and upon payment of the Company's expenses in furnishing the exhibits.

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VOTING SECURITIES AND PRINCIPAL SHAREHOLDERS

The following table sets forth the information concerning the beneficial ownership of Common Stock, which is the only class of voting stock of the Company, at January 1, 1999, by (i) each person known to the Company to beneficially own more than 5% of the Common Stock, (ii) each director and designated highly compensated executive officer and (iii) all directors and executive officers of the Company as a group. Unless otherwise indicated below, the persons named below had sole voting and investment power with respect to all

shares of the Common Stock shown as beneficially owned by them.

BENEFICIAL OWNER	Number of Shares Beneficially Owned(1)	PERCENTAGE BENEFICIALLY OWNED
<S>	<C>	<C>
Scott D. Dorfman.....	6,075,667 (2) (3)	67.5%
SAFECO Corporation.....	917,600 (4)	10.2
SAFECO Asset Management Company.....	808,100 (5)	9.0
SAFECO Common Stock Trust.....	676,000 (6)	7.5
David L. Ellin.....	87,500 (7)	1.0
Larry C. Hanger.....	--	--
John H. Nichols, III.....	2,000	*
Don L. Colter.....	1,000	*
Bruce V. Benator.....	10,000 (8)	*
Martin J. Blank.....	12,000 (8)	*
Campbell B. Lanier, III.....	414,333 (8) (9) (10)	4.6
William H. Scott, III.....	396,333 (8) (9)	4.4
All directors and executive officers as a group (9 persons).....	6,615,500	72.7

\* Denotes less than 1%

- (1) For purposes of this table, a person or group of persons is deemed to have "beneficial ownership" of any shares that such person or group has the right to acquire within 60 days or with respect to which such person has or shares voting or investment power. For purposes of computing the percentages of outstanding shares held by each person or group of persons, shares which such person or group has the right to acquire within 60 days after such date are deemed to be outstanding for purposes of computing the percentage for such person or group but are not deemed to be outstanding for the purpose of computing the percentage of any other person or group. As of January 1, 1999, there were 8,999,995 shares of Common Stock outstanding.
- (2) Mr. Dorfman's address is 6655 Sugarloaf Parkway, Duluth, Georgia 30097.
- (3) Includes an aggregate of 148,037 shares owned by Mr. Dorfman's wife individually, as custodian for the benefit of his children and through trusts for the benefit of Mr. Dorfman's children.
- (4) The address of SAFECO Corporation ("SAFECO") is SAFECO Plaza, Seattle, Washington 98185. According to a joint Schedule 13G filed February 11, 1999, SAFECO is the parent holding company of SAFECO Asset Management Company ("SAFECO AMC") and disclaims beneficial ownership of the reported shares, which include the shares reported by SAFECO AMC and SAFECO Common Stock Trust ("SAFECO CST"). The reported shares are beneficially owned by (i) registered investment companies for which SAFECO AMC serves as investment adviser and (ii) employee benefit plans for which SAFECO serves as plan sponsor.
- (5) The address of SAFECO AMC is 601 Union Street, Suite 2500, Seattle, Washington 98101. SAFECO AMC is an investment adviser and disclaims beneficial ownership of the reported shares, which are beneficially owned by registered investment companies for which SAFECO AMC serves as investment adviser, and include the shares reported by SAFECO CST.
- (6) The address of SAFECO Common Stock Trust ("SAFECO CST") is 10865 Willows Road NE, Redmond, Washington 98052. SAFECO CST is an investment company for which SAFECO AMC serves as investment adviser.
- (7) Includes 55,000 shares subject to presently exercisable stock options.
- (8) Includes 10,000 shares subject to presently exercisable stock options.
- (9) Includes 383,333 shares owned of record by ITC Service Company, with respect to which Messrs. Lanier and Scott, as principal shareholders and officers of such entity, may be deemed the beneficial owner. Messrs. Lanier and Scott disclaim beneficial ownership of such shares.
- (10) Includes 1,000 shares owned by Mr. Lanier's wife.

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#### SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

A report on Form 3 reporting the beneficial ownership of the Company's Common Stock was due from each executive officer and director on the date of the initial public offering of the Company's Common Stock. The forms were inadvertently filed late by those officers and directors.

#### ELECTION OF DIRECTORS (ITEM NUMBER 1 ON THE PROXY CARD)

The Bylaws of Innotrak provide that the Board of Directors shall consist of not less than five nor more than eleven directors, with the exact number being set from time to time by the Board or the shareholders. The Board presently consists of seven directors, four of whom are independent directors. One current independent director, Campbell B. Lanier, III, has notified the Board

that he intends to resign shortly after the 1999 Annual Meeting of Shareholders due to schedule and time constraints. The Board does not currently intend to fill the vacancy that will be created by his resignation.

The Board of Directors is divided into three classes of directors serving staggered three-year terms. Two directors are to be elected at the meeting for a three-year term expiring in 2002. The Board has nominated Larry C. Hanger and Bruce V. Benator for those positions.

Directors are elected by a plurality of the votes cast by the holders of shares of Common Stock entitled to vote for the election of directors at a meeting at which a quorum is present. A quorum will be present for the Annual Meeting when the holders of a majority of the shares outstanding on the Record Date are present in person or by proxy. An abstention and a broker non-vote are included in determining whether a quorum is present, but will not affect the outcome of the vote for the election of directors. Unless otherwise indicated on a proxy, all duly executed proxies granted by the holders of Common Stock will be voted individually at the Annual Meeting for the election of each nominee. Each nominee has indicated that he will serve if elected, but if the situation should arise that any nominee is no longer able or willing to serve, the proxy may be voted for the election of such other person as may be designated by the Board of Directors.

The following information as of February 8, 1999 has been furnished by the nominees for director and the continuing directors. Except as otherwise indicated, the nominees and the continuing directors have been or were engaged in their present or last principal employment, in the same or a similar position, for more than five years.

Name (Age)	Information About the Nominees and the Continuing Directors
-----	-----

Nominees for Director at the Meeting and Whose Term Will Expire in 2002

<TABLE>

<S>

LARRY C. HANGER (44)

<C>

Mr. Hanger joined Innotrac in 1994, and has served as Vice President-Business Development since November 1997. He served as the Company's Department Manager of Business Development from 1994 to November 1997, and was responsible for the management of the telecommunication equipment marketing and service business. From 1979 to 1994, Mr. Hanger served as Project Manager-Third Party Marketing at BellSouth Corporation, where he managed the marketing program for BellSouth's network services.

BRUCE V. BENATOR (41)

Mr. Benator is the Managing Partner of Williams Benator and Libby, LLP, certified public accountants. He has been affiliated with the firm since 1984 and is the firm's Director of Accounting and Auditing Services. From 1979 to 1984, Mr. Benator was employed by Ernst & Young, LLP.

</TABLE>

Directors Whose Terms Expire in 2000

<TABLE>

<S>

MARTIN J. BLANK (52)

<C>

Mr. Blank has been a director since December 1997 and is a co-founder of Automobile Protection Corporation ("APCO"), a publicly held corporation engaged in the marketing of extended vehicle service contracts and warranty programs. Mr. Blank has served as Secretary and Director of APCO since its inception in 1984 and as Chairman of the Board and Chief Operating Officer since 1988. Mr. Blank's experiences prior to co-founding APCO include the practice of law and the representation of and financial management for professional athletes. Mr. Blank is admitted to the bar in the States of Georgia and California.

CAMPBELL B. LANIER, III (48)

Mr. Lanier has been a director since December 1997 and is Chairman of the Board and Chief Executive Officer of ITC Holding Company, Inc. ("ITC Holding"), the parent company of ITC Service Company. He has served as a director of ITC Holding since its inception in 1989. In addition, Mr. Lanier is an officer and director of several ITC Holding subsidiaries. He also is a director of KNOLOGY Holdings, Inc. ("KNOLOGY"), a broadband telecommunications services company currently operating in Alabama, Florida and Georgia (formerly known as CyberNet Holding, Inc.); MindSpring Enterprises, Inc. ("Mindspring"), an Internet service provider; K&G Men's Center, Inc., a discount retailer of men's clothing; Chairman of the Board of Powertel, Inc. (formerly InterCel, Inc.) ("Powertel"), a wireless telecommunications services company operating in the southeastern United States, and Chairman of the Board of ITC DeltaCom, Inc. ("ITC DeltaCom"), a full service telecommunications provider to business customers in the southeastern United States. He has served as a Managing Director of South Atlantic Private Equity Fund IV, Limited Partnership since 1997.

WILLIAM H. SCOTT, III (51)

Mr. Scott has been a director since December 1997 and has served as President and Chief Operating Officer of ITC Holding since 1991. He has been a director of ITC

Holding since 1989. From 1989 to 1991, he served as Executive Vice President of ITC Holding. Mr. Scott is a director of Powertel, KNOLOGY, ITC DeltaCom and MindSpring.

</TABLE>

Directors Whose Terms Expire in 2001

-----

<TABLE>

<S>

SCOTT D. DORFMAN (41)

<C>

Mr. Dorfman is the founder of Innotrac and has served as President, Chief Executive Officer and Chairman of the Board of the Company since its inception in 1984. Prior to founding the Company, Mr. Dorfman was employed by Paymaster Checkwriter Company, Inc. ("Paymaster"), an equipment distributor. At Paymaster, Mr. Dorfman gained experience in distribution, tracking and inventory control by developing and managing Paymaster's mail order catalog.

DAVID L. ELLIN (40)

Mr. Ellin joined Innotrac in 1986 and has served as Senior Vice President and Chief Operating Officer of the Company since November 1997. He served as the Company's Vice President from 1988 to November 1997. From 1984 to 1986, Mr. Ellin was employed by the Atlanta branch of WHERE Magazine, where he managed the sales and production departments. From 1980 to 1984, Mr. Ellin was employed by Paymaster, where he was responsible for Paymaster's sales and collections.

</TABLE>

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MEETINGS AND COMMITTEES OF THE BOARD

The Board of Directors of the Company meets on a regular basis to supervise, review, and direct the business and affairs of the Company. During the Company's 1998 fiscal year, the Board held two meetings. The Board of Directors has established an Executive Committee, an Audit Committee and a Compensation Committee to which it has assigned certain responsibilities in connection with the governance and management of the Company's affairs. The Company has no standing nominating committee or other committee performing similar functions.

Each of the directors attended 75% of the Board meetings and meetings of committees on which he served, except for Mr. Lanier who was absent at a meeting of the Audit Committee at which he was represented by Mr. Scott.

Executive Committee. The Executive Committee, pursuant to authority delegated by the Board, from time to time considers certain matters in lieu of convening a meeting of the full Board, subject to any restrictions in applicable law related to the delegation of certain powers to a committee of the Board. Messrs. Dorfman, Ellin and Benator comprise the members of the Executive Committee. The Executive Committee held seven meetings during fiscal 1998.

Audit Committee. The Audit Committee recommends the appointment of independent public accountants, reviews the scope of audits proposed by the independent public accountants, reviews internal audit reports on various aspects of corporate operations and periodically consults with the independent public accountants on matters relating to internal financial controls and procedures. Messrs. Benator, Blank and Lanier comprise the members of the Audit Committee. The Audit Committee held one meeting during fiscal 1998.

Compensation Committee. The Compensation Committee is responsible for the review and approval of compensation of employees above a certain salary level, the review of management recommendations relating to incentive compensation plans, the administration of the Company's stock option and senior executive compensation plans, the review of compensation of directors and consultation with management and the Board on senior executive continuity and organizational matters. Messrs. Dorfman, Blank and Scott comprise the members of the Compensation Committee. The Compensation Committee held no meetings during fiscal 1998 and one in January 1999.

DIRECTORS' COMPENSATION

The Company pays its outside directors an annual fee of \$10,000, and additional fees of \$250 and \$100, respectively, for each Board meeting and committee meeting attended. The Company reimburses all directors for their travel and other expenses incurred in connection with attending Board or committee meetings. In addition, on May 6, 1998 the Company granted each of Messrs. Benator, Blank, Lanier and Scott presently exercisable options to purchase 10,000 shares of Common Stock at an exercise price of \$12.

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EXECUTIVE COMPENSATION

The following table sets forth the total compensation paid or accrued by the Company for services rendered during the fiscal years ended December 31, 1998 and 1997, to or for the Company's chief executive officer and each of the

Company's four other most highly compensated executive officers (the "Named Executive Officers"). The total amount of perquisites, personal benefits and other annual compensation paid to the Named Executive Officers do not in any case exceed the lesser of \$50,000 or ten per cent of such officer's total salary and bonus.

SUMMARY COMPENSATION TABLE

<TABLE>  
<CAPTION>

NAME AND PRINCIPAL POSITION(S)	FISCAL YEAR	ANNUAL COMPENSATION		LONG-TERM COMPENSATION	
		SALARY	BONUS	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION
<S>	<C>	<C>	<C>	<C>	<C>
Scott D. Dorfman, President, Chairman of the Board and Chief Executive Officer	1998	\$356,855	\$250,000	--	\$ 26,218 (1)
	1997	226,179	25,000	--	9,526
David L. Ellin Senior Vice President and Chief Operating Officer	1998	145,000	87,000	--	10,241 (2)
	1997	137,692	70,000	155,000	--
Larry C. Hanger Vice President	1998	100,000	100,000	--	500 (2)
	1997	89,343	35,000	25,000	--
John H. Nichols, III Vice President, Chief Financial Officer and Secretary(3)	1998	125,000	75,000	-- 20,000	1,502 (2)
	1997	10,576	4,807		--
Don L. Colter Vice President	1998	92,606	46,300	--	3,4577 (2)
	1997	78,832	40,000	25,000	--

</TABLE>

(1) Includes (i) Company matching contribution to deferred compensation plan in the approximate amount of \$24,232 and (ii) the full dollar amount of premiums, \$1,986, paid by the Company with respect to split-dollar life insurance on the life of Mr. Dorfman.

(2) Represents Company matching contribution to deferred compensation plan.

(3) Mr. Nichols's employment by the Company commenced November 1997.

The Company did not grant any options to its Named Executive Officers during fiscal 1998, nor were any Company-granted options exercised by any Named Executive Officers. The following table sets forth the year-end value of unexercised options held by the Named Executive Officers at the fiscal year ended December 31, 1998.

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FISCAL YEAR-END OPTION VALUES

<TABLE>  
<CAPTION>

NAME AND PRINCIPAL POSITION(S)	NO. OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR END		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FISCAL YEAR END (1)	
	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
	<C>	<C>	<C>	<C>
Scott D. Dorfman, President, Chairman of the Board and Chief Executive Officer	--	--	--	--
David L. Ellin Senior Vice President and Chief Operating Officer	55,000 (2)	100,000 (3)	\$456,325	\$902,500
Larry C. Hanger Vice President	--	25,000 (3)	--	225,625
John H. Nichols, III Vice President, Chief Financial Officer and Secretary (1)	--	20,000 (3)	--	180,500

Vice President  
</TABLE>

- (1) As required by the rules of the Securities and Exchange Commission, the value of unexercised in-the-money options is calculated based on the closing sale price of the Company's Common Stock on the NASDAQ as of the last business day of its fiscal year, December 31, 1998, which was \$18.125 per share.
- (2) The option is presently exercisable.
- (3) The option becomes exercisable with respect to 50% of the underlying shares on November 24, 1999; with respect to an additional 25% of the underlying shares on November 24, 2000; and with respect to the remaining 25% of the underlying shares on November 24, 2001.

#### EMPLOYMENT AGREEMENTS

None of the Company's executive officers has an employment agreement with the Company.

#### CERTAIN TRANSACTIONS

#### FORMATION OR COMBINATION RELATED MATTERS

In connection with the consolidation on May 6, 1998 of the eight affiliated entities that previously conducted the business of the Company (the "Consolidation"), Mr. Dorfman, together with his children, and ITC Service Company ("ITC"), received distributions of \$7.1 million and \$400,000, respectively, from certain pass-through entities that were parties to the Consolidation. The distributions represented a portion of these entities' accumulated earnings. In addition, each of the entities reimbursed Mr. Dorfman and ITC for estimated tax payments with respect to their earnings for 1998. Two directors of the Company, Messrs. Lanier and Scott, are officers, directors and principal shareholders of ITC.

As a result of the Consolidation, and as consideration for their respective interests in the affiliated entities that were parties to the Consolidation, immediately after the Consolidation shares of Common Stock of the Company were owned as follows: Mr. Dorfman--6,116,667 shares (including 148,037 shares owned individually by his wife, as custodian for the children and through trusts for the benefit of his children and taking into account some subsequent dispositions) and ITC--383,333 shares.

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In February 1998, the Company redeemed for approximately \$390,000 from Arnold Dorfman, the father of Scott D. Dorfman, all of his shares in one of the entities that was a party to the Consolidation. In December 1998, the Company redeemed for approximately \$590,000 from Arnold Dorfman all of his shares in a second affiliated entity that was a party to the Consolidation.

The Company leases a single engine aircraft from a company wholly-owned by Scott D. Dorfman pursuant to a three-year lease that provides for annual rent of \$72,000. The Company is responsible for maintenance, insurance, taxes, fuel and other expenses associated with the aircraft.

In 1998, the Company paid \$94,000 in fees to Williams Benator & Libby, LLP, certified public accountants, for accounting and consulting services. Bruce V. Benator, a director of the Company, is a partner of Williams Benator & Libby, LLP.

#### POLICY RESPECTING RELATED PARTY TRANSACTIONS

On December 11, 1997, the Board of Directors adopted a policy that any transactions between the Company and any of its officers, directors, or principal shareholders or affiliates must be on terms no less favorable than those that could be obtained from unaffiliated parties in comparable situations and must be approved by the Audit Committee of the Board of Directors.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Messrs. Dorfman, Blank and Scott comprised the members of the Compensation Committee during fiscal 1998. While Mr. Dorfman is the President and Chief Executive Officer of the Company, neither Mr. Blank or Mr. Scott is an officer or former officer of the Company.

#### REPORT OF COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

This report sets forth the current components of the Company's compensation programs for its executive officers and describes the basis on which fiscal 1998 compensation determinations were made with respect to the executive officers of the Company, including Mr. Dorfman, the Chief Executive Officer and the other

Named Executive Officers of the Company. Mr. Dorfman does not participate as a member of the Committee in any deliberations or discussions regarding his compensation as an employee of the Company.

Because Innotrac, in its current configuration, was formed in May 1998, the Company's compensation programs were not fully implemented in fiscal 1998. Fiscal 1998 compensation decisions with respect to base salaries were made prior to the establishment of the Compensation Committee of the Board of Directors (the "Committee") in December 1997. In its January 1999 meeting, the Committee made decisions with respect to bonus payments approved for executive officers for fiscal 1998.

#### GENERAL COMPENSATION PHILOSOPHY

The programs and policies for the compensation of the Company's executive officers are designed to link the compensation of executive officers to the performance of the Company. These programs are intended to align the financial interests of the Company's executive officers with those of its shareholders.

The Company uses a combination of base salary, short-term performance bonuses and long-term incentive plans to tie executive compensation to increases in the Company's earnings and return on shareholders' equity. The Company's compensation programs consist of the following basic components:

- . Competitive base salaries,
- . Annual incentive cash bonuses,
- . Long-term incentive stock options, appreciation rights or bonuses and
- . Customary benefits.

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The Committee will review and determine the appropriateness of the compensation paid to each of the executive officers of the Company from time to time (and at least annually), with the philosophy described above as its basis. While promoting initiative and providing incentives for superior performance by executives on behalf of the Company for the benefit of its shareholders, the Committee also will seek to assure that the Company is able to compete for and retain talented personnel who will lead the Company in achieving levels of financial performance that will enhance shareholder value over the long-term as well as the short-term.

#### BASE SALARIES

The Company has established the current base salaries of its executive officers without reference to specific Company performance criteria. The base salaries for all executive officers during fiscal 1998 were determined prior to the constitution of the Committee. The Committee reviews salaries of the Company's executive officers on an annual basis.

#### STOCK INCENTIVE PLAN

In November 1997, the Company adopted the Stock Option and Incentive Award Plan ("Stock Incentive Plan") to provide key employees, officers, directors, contractors and consultants with incentives to promote the financial success of the Company. Under the Stock Incentive Plan, the Company may award incentive stock options, non-qualified stock options, restricted stock awards and stock appreciation rights. To date, the Company has issued incentive stock options and non-qualified stock options under the Stock Incentive Plan.

During fiscal 1998, the Company did not grant any options or other stock incentives to the Company's executive officers pursuant to its Stock Incentive Plan. The following Named Executive Officers were granted incentive stock options in the indicated number of shares in early 1999:

Ellin	6,000
Hanger	3,500
Nichols	5,000
Colter	3,500
	-----
Total:	18,000

No options were granted to Mr. Dorfman. The Company granted options to purchase 20,000 shares of Common Stock to Stephen J. Walden, who was recently hired by the Company as Vice President of Electronic Commerce.

#### SENIOR EXECUTIVE INCENTIVE COMPENSATION PLAN

For fiscal 1999, the Company will provide incentive compensation to executive officers and certain key employees of the Company through its Senior Executive Incentive Compensation Plan ("Executive Plan"). The Executive Plan is designed to offer compensation opportunities that are tied directly to Company performance. In addition, the Executive Plan is designed to foster equity ownership in the Company by its executive officers and other participants. Pursuant to the Executive Plan, the Committee (other than Mr. Dorfman with

respect to himself) will establish the specific criteria and performance measures each year that will be applicable to the Company's Named Executive Officers for the purpose of earning incentive compensation or bonuses for such year under the Executive Plan.

Under the Executive Plan, annual target cash bonus levels, expressed as a percentage of base salary, are assigned to each level of management. The actual amount of cash bonus awarded at the end of the fiscal year depends upon the application of a formula gauged to the financial performance of the Company. The formula is linked to the differences between projected and actual values for the Company's earnings before interest, income taxes, depreciation and amortization (EBITDA) and its net revenue for a fiscal year. The formula will be reviewed annually by the Committee and the individual bonuses based on such formula will be subject to review by the Committee based on the performance of individual officers.

The Executive Plan also provides for the granting of options to purchase shares of Company Common Stock. Share price targets are calculated over a five-year term using the initial public offering price as a base and

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compounding at a 20% annual growth rate. Officers will receive an option grant equal to their annual cash bonus target divided by the projected end-of-year share price, and rounded at the Committee's discretion to the next nearest 500 shares. This formula will also be reviewed annually by the Committee and the individual stock incentives based on such formula will be subject to review by the Committee based on the performance of individual officers.

BENEFITS

Executives also participate, on a voluntary basis, in the Company's regular employee benefit programs, including group medical and dental coverage, group life insurance and group long-term disability insurance. In addition, executive officers can participate in a deferred compensation plan with respect to which the Company provides matching contributions. The rate of match depends upon the officer's number of years in service, and ranges from 25% of a participant's contribution for less than 5 years of service to 100% for 10 years or more.

SECTION 162 (M)

Section 162(m) of the Internal Revenue Code of 1986, as amended, limits the deductibility of certain compensation paid to each of the chief executive officer and the four other most highly compensated executives of a publicly held corporation to \$1 million annually. In fiscal 1998, the Company did not pay "compensation" within the meaning of Section 162(m) to such executive officers in excess of \$1 million and does not believe it will do so in the near future. The Company's policy at this time is to maintain the tax deductibility of compensation to such officers under Section 162(m).

Scott D. Dorfman -- Martin J. Blank -- William H. Scott, III  
(Members of Committee during fiscal 1998)

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STOCK PERFORMANCE GRAPH

Set forth below is a line graph comparing the percentage change in the cumulative total shareholder return of the Company's Common Stock against the cumulative total return of The Nasdaq Stock Market (U.S.) Index and the Nasdaq Non-Financial Index for the period commencing on May 7, 1998 and ending on December 31, 1998.

<TABLE>  
<CAPTION>

<S>	CUMULATIVE TOTAL RETURN	
	<C> 5/7/98	<C> 12/31/98
INNORTRAC CORPORATION	100	138
NASDAQ STOCK MARKET (U.S.)	100	118
NASDAQ NON-FINANCIAL	100	120

</TABLE>

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INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors, upon recommendation of the Audit Committee, appoints each year the firm that will serve as the Company's independent public accountants. The Board has appointed Arthur Andersen LLP, which firm served as

independent public accountants for the Company during the past fiscal year, to serve as such accountants for the current fiscal year. Such appointment is not subject to ratification or other vote by the shareholders.

A representative of Arthur Andersen LLP is expected to be present at the Annual Meeting, with the opportunity to make a statement if he or she desires to do so, and is expected to be available to respond to appropriate questions.

#### SHAREHOLDERS' PROPOSALS FOR 2000 ANNUAL MEETING

Any shareholder who wishes to present a proposal appropriate for consideration at the Company's 2000 Annual Meeting of Shareholders must submit the proposal in proper form to the Company at its address set forth on the first page of this Proxy Statement no later than December 11, 1999 for the proposal to be considered for inclusion in the Company's proxy statement and form of proxy relating to such Annual Meeting. The Company must be notified of any other shareholder proposal intended to be presented for consideration at the 2000 Annual Meeting not later than February 24, 2000 or else proxies may be voted on such proposal at the discretion of the persons named in the proxy.

#### OTHER MATTERS

All of the expenses involved in preparing, assembling, and mailing this Proxy Statement and the materials enclosed herewith and soliciting proxies will be paid by the Company. It is estimated that such costs will be nominal. The Company may reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for expenses reasonably incurred by them in sending proxy materials to beneficial owners of stock. The solicitation of proxies will be conducted primarily by mail but may include telephone, telegraph or oral communications by directors, officers, or regular employees of the Company, acting without special compensation.

The Board of Directors is aware of no other matters, except for those incidental to the conduct of the Annual Meeting, that are to be presented to shareholders for formal action at the Annual Meeting. If, however, any other matters properly come before the Annual Meeting or any postponement, adjournment, or adjournments thereof, it is the intention of the persons named in the proxy to vote the proxy in accordance with their judgment.

Shareholders are urged to fill in, date and sign the accompanying form of proxy and return it to the Company as soon as possible.

BY ORDER OF THE BOARD OF DIRECTORS,

John H. Nichols, III  
Secretary

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#### COMMON STOCK OF INNOTRAC CORPORATION

THIS PROXY IS SOLICITED BY THE BOARD OF  
DIRECTORS FOR THE MAY 11, 1999  
ANNUAL MEETING OF SHAREHOLDERS.

The undersigned hereby appoints Scott D. Dorfman and John H. Nichols, III, and each of them, the proxy of the undersigned to vote the Common Stock of the undersigned at the Annual Meeting of Shareholders of INNOTRAC CORPORATION (the "Company") to be held on May 11, 1999, and any adjournment or postponement thereof.

#### 1. Election of directors

Larry C. Hanger  
Bruce V. Benator

\_\_\_\_\_ FOR all nominees for director listed above (except as marked to the contrary).

\_\_\_\_\_ WITHHOLD AUTHORITY to vote for all nominees listed above.

\_\_\_\_\_ WITHHOLD AUTHORITY to vote for an individual nominee. Write name(s) below.

#### 2. In accordance with their best judgment with respect to any other matters that may properly come before the meeting.

THE BOARD OF DIRECTORS FAVORS A VOTE "FOR" THE ELECTION AS DIRECTORS OF THE PERSONS NAMED IN THE PROXY AND ACCOMPANYING PROXY STATEMENT AND UNLESS INSTRUCTIONS TO THE CONTRARY ARE INDICATED IN THE SPACE PROVIDED, THIS PROXY WILL BE SO VOTED.

\_\_\_\_\_  
Please sign this Proxy exactly as name appears on the Proxy.

Note: When signing as attorney, trustee, administrator, or guardian, please give your title as such. In the case of joint tenants, each joint owner must sign.

Date: \_\_\_\_\_, 1999